IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER: (a) OUTSIDE OF THE UNITED STATES AND NOT US PERSONS (AS DEFINED IN REGULATION S) OR (b) QIBS (AS DEFINED BELOW)

IMPORTANT: You must read the following before continuing. The following applies to the attached Offering Circular (the "*Offering Circular*"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from (or on behalf of) the issuer as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OF AMERICA (WITH ITS TERRITORIES AND POSSESSIONS, ANY STATE OF THE UNITED STATES AND THE DISTRICT OF COLUMBIA, COLLECTIVELY THE "*UNITED STATES*") OR ANY OTHER JURISDICTION TO THE EXTENT THAT IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "*SECURITIES ACT*"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER UNITED STATES JURISDICTION AND SUCH SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("*REGULATION S*")) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, THEN YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities described therein, prospective investors must be either: (a) outside of the United States and not US persons (as defined in Regulation S) or (b) qualified institutional buyers within the meaning of Rule 144A under the Securities Act ("QIBs"). The Offering Circular is being sent at your request and by accepting this electronic distribution and accessing the Offering Circular, you will be deemed to have represented to the issuer that: (i) you and any customers you represent in connection herewith are either: (A) outside of the United States and not US persons and, if applicable, that the electronic mail address to which this electronic transmission has been delivered is not located in the United States or (B) QIBs, (ii) you consent to delivery of the Offering Circular by electronic transmission and (iii) you have understood and agree to the terms set out herein.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of the Offering Circular to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place to the extent that offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and an underwriter or any affiliate of an underwriter is a licensed broker or dealer in that jurisdiction, then the offering will be deemed to be made by such underwriter or such affiliate on behalf of the issuer in such jurisdiction.

The Offering Circular has been provided to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, none of BNP Paribas, Deutsche Bank AG, London Branch, Goldman Sachs International, Mitsubishi UFJ Securities International plc or Standard Chartered Bank, as initial purchasers of the Notes (the "*Initial Purchasers*"), the issuer or any person who controls any of them, nor any director, officer, employee, counsel nor agent of any of them or any affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from any of the Initial Purchasers.

You are responsible for protecting against viruses and other destructive items. Your use of this electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The Offering Circular is being distributed only to and directed only at: (a) persons who are outside the United Kingdom, (b) persons in the United Kingdom who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or (c) those persons in the United Kingdom to whom it may otherwise lawfully be distributed (all such persons together being referred to as "*relevant persons*"). In the United Kingdom, the Offering Circular is directed only at relevant persons and must not be acted on or relied upon by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which the Offering Circular relates is available only to relevant persons and will be engaged in only with relevant persons.

The Offering Circular is being distributed only to and directed at persons domiciled outside of Turkey.

TÜRKİYE GARANTİ BANKASI A.Ş.

TL 750,000,000 7.375% Notes due 2018

Türkiye Garanti Bankası A.Ş., a Turkish banking institution organized as a joint stock company registered with the Istanbul Trade Registry under number 159422 (the "*Bank*" or "*Issuer*"), is issuing TL 750,000,000 7.375% Notes due 2018 (the "*Notes*"). The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "*Securities Act*"), or the securities or "blue sky" laws of any state of the United States of America ("*United States*" or "*US*"), the United Kingdom or any other jurisdiction, and are being offered: (a) for sale (the "*US Offering*") to qualified institutional buyers only (each a "*QIB*") as defined in, and in reliance upon, Rule 144A under the Securities Act ("*Rule 144A*") and (b) for sale to non-US persons outside the United States (the "*International Offering*" and, with the US Offering, the "*Offering*") in reliance upon Regulation S under the Securities Act ("*Regulation S*"). For a description of certain restrictions on sale and transfer of investments in the Notes, see "Plan of Distribution," "Selling Restrictions" and "Transfer Restrictions" herein.

INVESTING IN THE NOTES INVOLVES RISKS. PROSPECTIVE INVESTORS SHOULD CONSIDER THE FACTORS SET FORTH UNDER "RISK FACTORS" BEGINNING ON PAGE 7 OF THIS OFFERING CIRCULAR.

Interest on the Notes will be paid in arrear on the 7th day of each March and September in each year; *provided* that if any such date is not a Business Day (as defined in Condition 7), then such payment will be made on the next Business Day. Principal of the Notes is scheduled to be paid on March 7, 2018 (the "*Maturity Date*"), but may be paid earlier under certain circumstances as further described herein. The Notes initially will be sold to investors at a price equal to 99.487% of the principal amount thereof. Payments of principal and interest on the Notes will be made in Turkish Lira except to the extent that a holder of a Note (or a beneficial interest therein) makes an irrevocable election to receive an individual forthcoming payment in US Dollars. For a more detailed description of the Notes, see "Conditions of the Notes."

This Offering Circular (this "*Offering Circular*") has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC ("*Prospectus Directive*") as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant member state of the European Economic Area). The Central Bank of Ireland only approves this Offering Circular as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on its regulated market (the "*Main Securities Market*"). Such approval relates only to the Notes that are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or that are to be offered to the public in any member state of the European Economic Area. References in this Offering Circular to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Application has been made to the Capital Markets Board of Turkey (the "*CMB*"), in its capacity as competent authority under Law No. 6362 (the "*Capital Markets Law*") of the Republic of Turkey ("*Turkey*") relating to capital markets, for the issuance and sale of the Notes by the Bank outside of Turkey. The Notes cannot be sold before the necessary approvals and the approved issuance certificate are obtained from the CMB. The CMB approval relating to the issuance based upon which the Offering will be conducted was obtained on February 22, 2013, and the CMB approval for the sale of the Notes and the approved issuance certificate is expected to be obtained from the CMB on or before the Issue Date (defined below) of the Notes.

Under current Turkish tax regulations, withholding tax at the rate of 0% applies to interest on the Notes. See "Taxation – Certain Turkish Tax Considerations."

The Notes are expected to be rated at issuance "BBB" by Fitch Ratings Ltd. ("*Fitch*") and "Baa2" by Moody's Investors Service Limited ("*Moody's*" and, together with Fitch and Standard & Poor's Credit Market Services Europe Limited ("*Standard & Poor's*"), the "*Rating Agencies*"). The Rating Agencies have also issued ratings in respect of the Bank, as set out on page 111 of this Offering Circular. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. As of the date of this Offering Circular, each of the Rating Agencies is established in the European Union and is registered under Regulation (EU) No 1060/2009, as amended.

The Notes are being offered under Rule 144A and Regulation S by each of BNP Paribas, Deutsche Bank AG, London Branch, Goldman Sachs International, Mitsubishi UFJ Securities International plc and Standard Chartered Bank (each an "*Initial Purchaser*" and, collectively, the "*Initial Purchasers*"), subject to their acceptance and right to reject orders in whole or in part. It is expected that delivery of the Notes will be made in book-entry form only through the facilities of Euroclear Bank S.A./N.V. ("*Euroclear*") and/or Clearstream Banking, *société anonyme*, Luxembourg ("*Clearstream, Luxembourg*"), against payment therefor in immediately available funds on March 7, 2013 (*i.e.*, the fifth Business Day following the date of pricing of the Notes (such date being referred to herein as the "*Issue Date*" and such settlement cycle being herein referred to as "*T+5*").

Joint Lead Managers

BNP PARIBAS **Deutsche Bank** **Goldman Sachs International** **Mitsubishi UFJ Securities** **Standard Chartered Bank**

The date of this Offering Circular is March 1, 2013.

This Offering Circular constitutes a prospectus for: (a) the purpose of Article 5 of the Prospectus Directive and (b) the purpose of giving information with regard to the Bank and the Notes that, according to the particular nature of the Bank and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Bank and of the rights attaching to the Notes. This Offering Circular is to be read in conjunction with the financial statements that form part of and are included in this Offering Circular (or are incorporated by reference herein).

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

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Bank or the Initial Purchasers to subscribe for or purchase, any Notes (or beneficial interests therein). This Offering Circular is intended only to provide information to assist potential investors in deciding whether or not to subscribe for or purchase Notes (or beneficial interests therein) in accordance with the terms and conditions specified by the Initial Purchasers. The Notes (and beneficial interests therein) may not be offered or sold, directly or indirectly, and this Offering Circular may not be circulated, in any jurisdiction except in accordance with legal requirements applicable to such jurisdiction.

The distribution of this Offering Circular and the offer or sale of the Notes (or beneficial interests therein) in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular may come are required by the Bank and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes (or beneficial interests therein) and on the distribution of this Offering Circular and other offering material relating to the Notes, see “Selling Restrictions” and “Transfer Restrictions.”

No person has been authorized in connection with the offering of the Notes (or beneficial interests therein) to give any information or make any representation regarding the Bank, the Initial Purchasers or the Notes other than as contained in this Offering Circular. Any such representation or information must not be relied upon as having been authorized by the Bank or the Initial Purchasers. The delivery of this Offering Circular at any time does not imply that there has been no change in the Bank’s affairs or that the information contained in it is correct as of any time subsequent to its date. This Offering Circular may only be used for the purpose for which it has been published.

No representation or warranty, express or implied, is made by the Initial Purchasers as to the accuracy or completeness of the information set forth in this Offering Circular, and nothing contained in this Offering Circular is, or should be relied upon as, a promise or representation, whether as to the past or the future, by the Initial Purchasers. None of the Initial Purchasers assumes any responsibility for the accuracy or completeness of the information set forth in this Offering Circular. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Bank and its own determination of the suitability of any such investment in light of its own circumstances, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment.

The Notes may not be suitable investments for all investors. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular or any applicable supplement,

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular circumstances, an investment in the Notes and the impact such investment will have on its overall investment portfolio,

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal and interest payments is different from the potential investor's currency,
- understand thoroughly the terms of the Notes and be familiar with the behavior of financial markets in which they participate, and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

None of the Bank, the Initial Purchasers or any of their respective counsel or other representatives is making any representation to any offeree or purchaser of the Notes (or beneficial interests therein) regarding the legality of any investment by such offeree or purchaser under applicable legal investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of an investment in the Notes.

GENERAL INFORMATION

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

In this Offering Circular "*Bank*" means Türkiye Garanti Bankası A.Ş on a stand-alone basis and "*Group*" means the Bank and its subsidiaries (and, with respect to accounting information, other consolidated entities).

The offering of the Notes has been authorized and (prior to the issue date) approved by the CMB in accordance with Article 15(b) of Decree 32 on the Protection of the Value of the Turkish Currency (as amended from time to time, "*Decree 32*"), the Banking Law No. 5411 and its related legislation (the "*Banking Regulations*") and the Capital Markets Law and its related legislation (the "*Turkish Capital Markets Regulations*"). The Notes (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the Banking Regulation and Supervision Agency (the "*BRSA*") letter to the Issuer dated February 7, 2013 and numbered 20008792.42.2-3288 and the CMB decision dated February 22, 2013 authorizing the offering of the Notes. The CMB has authorized the sale and offering of the Notes, whether in the primary or secondary markets, on the condition that no transaction that qualifies as a sale or offering of the Notes (or beneficial interests therein) by way of public offering or private placement in Turkey may be engaged in. Notwithstanding the foregoing, residents of Turkey may purchase the Notes (or beneficial interests therein) offshore on an unsolicited basis in accordance with Decree 32. The approved issuance certificate relating to the Notes is expected to be obtained from the CMB on or before the Issue Date. As stated in the BRSA's resolution No. 3875 dated September 30, 2010 and Article 4 of the Regulation on Deposits and Participation Funds that are Subject to Insurance and Premiums Collected by the Savings Deposit Insurance Fund (the "*SDIF*") monies paid for purchases of Turkish Lira-denominated notes (such as the Notes) are not protected by the insurance coverage provided by the SDIF.

Notes offered and sold to QIBs in reliance upon Rule 144A (the "*Rule 144A Notes*") will be represented by beneficial interests in a permanent global certificate in fully registered form without interest coupons (the "*Rule 144A Certificate*"). Notes offered and sold outside the United States to non-US persons pursuant to Regulation S (the "*Regulation S Notes*") will be represented by beneficial interests in a permanent global certificate in fully registered form without interest coupons (the "*Regulation S Certificate*" and, with the Rule 144A Certificate, the "*Global Certificates*").

The Global Certificates will be deposited on or about the Issue Date with a common depositary (the "*Common Depositary*") for Euroclear and Clearstream, Luxembourg, and will be registered in the name of the Common Depositary (or a nominee thereof). Except as described in this Offering Circular, beneficial interests in the Global Certificates will be represented through accounts of financial institutions acting on behalf of beneficial owners as accountholders in Euroclear and Clearstream, Luxembourg. Except as described in this Offering Circular, owners of beneficial interests in the Global

Certificates will not be entitled to have the Notes registered in their names, will not receive or be entitled to receive physical delivery of the Notes in definitive form and will not be considered holders of the Notes under the Notes and the agency agreement relating to the Notes to be dated the Issue Date (the "*Agency Agreement*").

An application has been made to the Irish Stock Exchange to admit the Notes to listing on the Official List and to have the Notes admitted to trading on the Main Securities Market; *however*, no assurance can be given that such application will be accepted.

In connection with the issue of the Notes, Deutsche Bank AG, London Branch (the "*Stabilizing Manager*") (or persons acting on behalf of the Stabilizing Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail; *however*, there is no assurance that the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) will undertake any stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Notes. Any stabilization action or over-allotment must be conducted by the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) in accordance with all applicable laws and rules. Notwithstanding anything herein to the contrary, the Bank may not (whether through over-allotment or otherwise) issue more Notes than have been authorized by the CMB.

Other than the approval by the CMB and the Central Bank of Ireland's approval under the Prospectus Directive, the Notes have not been approved or disapproved by the US Securities and Exchange Commission (the "*SEC*"), any state securities commission or any other US, Turkish, Irish or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this Offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary may be a criminal offense.

The distribution of this Offering Circular and the offering of the Notes (and beneficial interests therein) in certain jurisdictions may be restricted by law. Persons that come into possession of this Offering Circular are required by the Bank and the Initial Purchasers to inform themselves about and to observe any such restrictions.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy the Notes (or any beneficial interest therein) in any jurisdiction to the extent that such offer or solicitation is unlawful. In particular, there are restrictions on the distribution of this Offering Circular and the offer and sale of the Notes (and beneficial interests therein) in the United States, Turkey, the United Kingdom and numerous other jurisdictions.

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

RESPONSIBILITY STATEMENT

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

All of the information contained in this Offering Circular concerning the Turkish market and the Bank's competitors has been obtained (and extracted without material adjustment) from publicly available information. Where third-party information has been used in this Offering Circular, the source of such information has been identified. As far as the Bank is aware and able to ascertain from the information published by such third-party sources, this information has been accurately reproduced and no facts have been omitted that would render the reproduction of this information inaccurate or misleading. Without prejudice to the generality of the foregoing statement, third-party information in this Offering Circular, while believed to be reliable, has not been independently verified by the Bank or any other party.

The language of this Offering Circular is English. Certain legislative references and technical terms (*e.g.*, the titles of Turkish legislation and the names of Turkish institutions referenced herein) have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

All data relating to the Turkish banking sector in this Offering Circular have been obtained from the BRSA's website at www.bddk.org.tr, the Banks Association of Turkey's website at www.tbb.org.tr or the website of the Interbank Card Center (*Bankalararasi Kart Merkezi*), and all data relating to the Turkish economy, including statistical data, have been obtained from the website of the Turkish Statistical Institute (*Türkiye İstatistik Kurumu*) ("*TurkStat*") at www.turkstat.gov.tr, the website of the Central Bank of Turkey (*Türkiye Cumhuriyet Merkez Bankası*) (the "*Central Bank*") at www.tcmb.gov.tr, the Turkish Treasury's website at www.hazine.gov.tr or the European Banking Federation's website at www.ebf.fbe.eu. Data have been downloaded/observed on various days between the months of January 2013 and February 2013. Such data have been extracted from such websites without material adjustment, but may not appear in the exact same form on such websites or elsewhere. Such websites do not, and should not be deemed to, constitute a part of, or be incorporated into, this Offering Circular.

Except as required to comply with its regulatory obligations, the Bank does not have any intention or obligation to update forward-looking statements to reflect new information or future events or risks that may cause the forward-looking events discussed in this Offering Circular not to occur or to occur in a manner different from what the Bank currently expects.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED (THE "*RSA*") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE NEW HAMPSHIRE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE NEW HAMPSHIRE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

PRESENTATION OF FINANCIAL INFORMATION

Though the Group is not required by Turkish law to prepare financial statements in accordance with International Financial Reporting Standards ("*IFRS*") as promulgated by the International Accounting Standards Board ("*IASB*"), as international investors are generally unfamiliar with the Standards Accounting Practice Regulations as promulgated by the BRSA and also the generally accepted accounting principles under the Turkish Commercial Code and Turkish tax legislation (collectively, "*Turkish GAAP*"), the Group publishes financial statements in Turkish Lira that have been prepared and presented in accordance with IFRS. The consolidated IFRS financial statements included herein for the years ended December 31, 2011 (which includes financial information for the year ended December 31, 2010) and December 31, 2012 (collectively, the "*IFRS Financial Statements*") were audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of Deloitte Touche Tohmatsu Ltd) ("*Deloitte*"). The Bank's Board of Directors, in accordance with the requirement for the mandatory rotation of auditors every eight years under Turkish regulations, selected Deloitte to be its external audit firm, effective as of January 1, 2010.

The Group's audit reports for the years ended December 31, 2010, 2011 and 2012 were qualified with respect to general provisions that were allocated by the Group. The provisions were taken in accordance with the conservatism principle applied by the Group in considering the circumstances that may arise from any changes in the economy or market conditions. These general provisions amounted to TL 360,000 thousand, TL 450,000 thousand and TL 450,000 thousand recorded on the consolidated statements of financial position as of December 31, 2010, 2011 and 2012, respectively, of which TL 90,000 thousand was charged to the 2011 income statement, with the remaining amounts (all incurred before 2010) having been charged as an expense during the applicable periods. Although these provisions did not impact the Group's level of tax or capitalization ratios, if the Group had not established these provisions, then its net income might have been higher in such years. Deloitte has qualified its audit reports in respect of each such year because general provisions are not permitted under IFRS.

While the Group voluntarily prepares its IFRS Financial Statements, the Bank and its Turkish subsidiaries are required to maintain their books of account and prepare statutory financial statements in accordance with Turkish GAAP and to prepare regulatory financial statements in accordance with the requirements of the BRSA (the "*BRSA Financial Statements*"). The BRSA Financial Statements are filed with the Istanbul Stock Exchange (the "*ISE*") and are used for determinations of the Bank's and the Group's compliance with Turkish regulatory requirements established by the BRSA, including for the calculation of capital adequacy ratios. The BRSA Financial Statements are audited by Deloitte. The unconsolidated BRSA Financial Statements for the years ended December 31, 2011 (which includes the financial information for the year ended December 31, 2010) and 2012 have been incorporated by reference into this Offering Circular. See "Documents Incorporated by Reference."

Except to the extent stated otherwise, the financial data for the Group for the years ended December 31, 2010, 2011 and 2012 included herein have been extracted from the Group's IFRS Financial Statements without material adjustment. Potential investors in the Notes should note that this Offering Circular also includes certain financial information for the Bank only, which have been extracted from the unconsolidated BRSA Financial Statements without material adjustment. Such financial information is identified as being of "the Bank" in the description of the associated tables or information (rather than for the Group on a segmented basis). Such Bank-only financial information is (*inter alia*) presented in "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "The Group and its Business" and "Selected Statistical and Other Information."

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

NON-GAAP MEASURES OF FINANCIAL PERFORMANCE

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

For the Group, these non-GAAP measures include (without limitation): net interest margin, adjusted net interest margin, net yield, adjusted net interest income as a percentage of average interest-earning assets, cost-to-income ratio, cost-to-income ratio if income were calculated without subtracting impairment losses, operating expenses as a percentage of total average assets, liquid assets as a percentage of total deposits, non-performing loans to total gross cash loans, free capital ratio, allowance for probable loan losses to non-performing loans, return on average total assets, return on average shareholders' equity, average spread, the amount of net allowances charged to operating expenses, the increase of operating expenses if impairment losses and foreign exchange losses are excluded, average total assets, average shareholders' equity, average shareholders' equity as a percentage of average total assets, total interest income to gross operating income before deducting interest expenses and fee and commission expenses. Refer to the "Overview – The Group," "Summary Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Selected Statistical and Other Information" and "The Group and its Business" sections of this Offering Circular for an additional discussion of the specific adjustments applied in reconciliation to the directly comparable measures.

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

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

CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

Unless otherwise indicated, references to "*Turkish Lira*" or "*TL*" are references to the Turkish currency, references to "*US$*," "*$*," "*US Dollars*" or "*Dollars*" are to United States Dollars and references to "*Euro*" or "*€*" are to the single currency of the participating member states of the European Union (the "*EU*") that was adopted pursuant to the Treaty of Rome of March 27, 1957, as amended by the Single European Act of 1986 and the Treaty of European Union of February 7, 1992, as amended.

For the convenience of the reader, this Offering Circular presents translations of certain Turkish Lira amounts into Dollars at the Turkish Lira exchange rate for purchases of Dollars announced by the Bank (the "*TL/$ Exchange Rate*") (see "Exchange Rates"). This rate differs from the official cash buying rate for Dollars announced by the Central Bank as the TL/$ Exchange Rates are based upon the actual cash buying rates announced by the Bank on the relevant dates and used by the Group in preparing its IFRS Financial Statements. Unless otherwise stated, any balance sheet or income statement data in Dollars extracted from the IFRS Financial Statements as of and for the year ended December 31, 2012 have been translated from Turkish Lira into Dollars at the rate of TL 1.760 = US$1.00 (being the TL/$ Exchange Rate on December 31, 2012). See "Exchange Rates," which sets out certain historical information relating to the Turkish Lira exchange rate for purchases of US Dollars as announced by the Central Bank.

No representation is made that the Turkish Lira or Dollar amounts in this Offering Circular could have been or could be converted into Dollars or Turkish Lira, as the case may be, at any particular rate or at all. For a discussion of the effects on the Group of fluctuating exchange rates, see "Risk Factors – Risks Relating to the Group and its Business – Foreign Exchange and Currency Risk" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

DOCUMENTS INCORPORATED BY REFERENCE

The following documents that have previously been published and have been filed with the Central Bank of Ireland shall be incorporated in, and form part of, this Offering Circular:

- the independent auditors' audit report and audited unconsolidated BRSA Financial Statements of the Bank for the year ended December 31, 2012 (including comparative 2011), and
- the independent auditors' audit report and audited unconsolidated BRSA Financial Statements of the Bank for the year ended December 31, 2011 (including comparative 2010).

Any documents, websites and other sources themselves incorporated by reference in the documents incorporated by reference in this Offering Circular do not (and shall not be deemed to) form part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular are available on the Bank's website at www.garanti.com.tr/en/our_company/investor_relations/financials_and_presentations/annual_and_interim_reports.page. (such website is not, and should not be deemed to, constitute a part of, or be incorporated into, this Offering Circular).

AVAILABLE INFORMATION

THE BANK WILL UNDERTAKE IN A DEED POLL EXPECTED TO BE ENTERED INTO ON THE ISSUE DATE THAT, FOR SO LONG AS ANY NOTES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT, IT WILL, DURING ANY PERIOD IN WHICH IT IS NEITHER SUBJECT TO AND IN COMPLIANCE WITH SECTION 13 OR 15(D) OF THE UNITED STATES SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE "*EXCHANGE ACT*"), NOR EXEMPT FROM REPORTING PURSUANT TO RULE 12g3-2(b) THEREUNDER, FURNISH UPON REQUEST TO ANY HOLDER OR BENEFICIAL

OWNER OF NOTES, OR ANY PROSPECTIVE PURCHASER DESIGNATED BY ANY SUCH HOLDER OR BENEFICIAL OWNER, THE INFORMATION SPECIFIED IN, AND MEETING THE REQUIREMENTS OF, RULE 144A(d)(4) UNDER THE SECURITIES ACT.

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OVERVIEW

The Group

The following text should be read in conjunction with, and is qualified in its entirety by, the detailed information and the IFRS Financial Statements (including the notes thereto) appearing elsewhere in this Offering Circular.

The Group is a leading Turkish banking group with a significant market share in Turkey, offering its customers a broad range of financial products and services. The Group's customers are comprised mainly of large, midsize and small Turkish corporations, foreign multinational corporations with operations in Turkey and customers from across the Turkish consumer market.

The Group served approximately 11.7 million customers as of December 31, 2012 (10.2 million retail customers, 1.5 million small and medium enterprise ("*SME*") customers, 42,806 commercial customers and 1,846 corporate customers) by offering a broad range of products and services, many of which are tailored to identified customer segments. These products and services include deposits, corporate loans, project finance loans, leasing, factoring, foreign exchange transactions, investment and cash management products, consumer loans, mortgages, pension and life insurance, portfolio management, securities brokerage and trading, investment banking, payment systems (including credit and debit cards), and technology and data processing operations. The Group also acts as an agent for the sale of a number of financial products such as securities, insurance and pension contracts and leasing services. As of December 31, 2012, the Bank's services in Turkey were provided through a nationwide network of 926 domestic branches and offices as well as through sophisticated alternative delivery channels ("*ADCs*"), such as automated teller machines ("*ATMs*"), internet banking and mobile phone banking. The Bank also has seven foreign branches (one in Malta, one in the Grand Duchy of Luxembourg and five in Northern Cyprus (together with a Country Directorate in Northern Cyprus that has been established recently in order to comply with the legal requirements in Northern Cyprus)) and three international representative offices (one each in London, Düsseldorf and Shanghai), together with bank subsidiaries in the Netherlands (Garanti Bank International N.V.), Russia (Garanti Bank Moscow) and Romania (Garanti Bank SA).

As of (and for the year ended) December 31, 2012, according to financial information made publicly available by Turkey's banks, the Group was the second largest private banking group in Turkey in terms of net income and total assets as per its consolidated BRSA Financial Statements. Based upon the 2012 IFRS Financial Statements as of December 31, 2012, the Group had total assets of TL 177,499,535 thousand, total loans and advances to customers (which includes leasing and factoring receivables and income accruals, in each case for both performing and non-performing loans and advances to customers) (as used herein, "*cash loans*") of TL 102,260,080 thousand and shareholders' equity (including non-controlling interests) of TL 21,937,716 thousand. The Group's return on average equity was 17.0% for 2012 compared to 19.6% for 2011. The Bank's shares have been listed on the Istanbul Stock Exchange since 1990 and it listed global depositary receipts on the London Stock Exchange in 1993. In 2012, the Bank joined the top tier of the U.S. Over-the-Counter (OTC) market, OTCQX International Premier.

Organization

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

Principal Shareholders

The principal shareholders of the Bank are: (a) Doğuş Holding A.Ş. ("*Doğuş Holding*"), the holding company of the Doğuş Group of companies (the "*Doğuş Group*"), with the Doğuş Group holding a 24.89% interest in the Bank, and (b) Banco Bilbao Vizcaya Argentaria S.A. ("*BBVA*"), which holds a 25.01% interest in the Bank (including the additional 0.12%

of the shares of the Bank that BBVA acquired in a mandatory tender offer shortly following its acquisition of a 24.89% interest in the Bank from Doğuş Holding and GE Capital Corporation without changing the joint control and management principles agreed to between Doğuş Holding and BBVA). Doğuş Holding, Doğuş Nakliyat ve Ticaret A.S. and Doğuş Arastırma Gelistirme ve Musavirlik Hizmetleri A.S. (together, the "*Doğuş Shareholders*") and BBVA are parties to a shareholders' agreement pursuant to which they have agreed to act in concert, thereby enabling them to establish a significant voting block to control and manage the Bank. None of the Bank, GE Capital Corporation nor GE Araştırma ve Müşavirlik Limited Şirketi ("*GEAM*") are parties to the shareholders' agreement between the Doğuş Shareholders and BBVA.

Key Strengths

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

- a robust balance sheet and favorable capital adequacy ratios,
- strong liquidity ratios and proven access to funding, particularly deposits,
- a strong brand and market position as well as a reputation as a product and service innovator,
- a customer-centric and innovation-driven approach that focuses on customer satisfaction and retention rates and allows for greater cross-selling through the use of sophisticated customer segmentation models and advanced technological capabilities,
- a high-quality and dynamic employee base with an experienced management team,
- a history of significant growth while maintaining sound asset quality due to its focus on risk management and a disciplined credit approval process,
- conservative loan loss provisions with a sophisticated and efficient collection procedure,
- a strong operating platform, including a sophisticated proprietary IT platform that drives efficiency and is well-integrated with the Group's businesses, and
- broad geographic coverage through extensive branch network and leadership in ADCs.

Strategy

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

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

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

Risk Factors

Investing in the Notes entails certain risks. Before investing in the Notes, investors should carefully review "Risk Factors" below, which sets out certain risks relating to political, economic and legal circumstances, the Turkish banking industry, the Group and its business, the Group's relationship with the Bank's principal shareholders and the Notes themselves. Potential investors should not consider the factors discussed under "Risk Factors" to be a complete set of all potential risks or uncertainties of investing in the Notes.

The Notes

The following sets out certain information relating to the offering of the Notes, including the principal provisions of the terms and conditions thereof. The following is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular. See, in particular, "Conditions of the Notes."

Issue:	TL 750,000,000 principal amount of 7.375% Notes due 2018.
Interest and Interest Payment Dates:	The Notes will bear interest from and including the Issue Date (*i.e.*, March 7, 2013) at the rate of 7.375% *per annum*, payable semi-annually in arrear on the 7th day of each March and September (each an "*Interest Payment Date*"); *provided* that, as described in Condition 7.4, if any such date is not a Business Day (as defined in Condition 7.4), then such payment will be made on the next Business Day. The first interest payment (representing a full six months of interest) will be made on the first Interest Payment Date.
Maturity Date:	Unless previously redeemed or purchased and cancelled as provided in the Conditions, the Notes will be redeemed by the Bank at their principal amount on March 7, 2018.
Payment Currency:	Payments of principal and interest on the Notes will be made by the Bank in Turkish Lira; *however*, pursuant to Condition 7.2, each holder of a Note (or a beneficial interest therein) may make an irrevocable election to receive an individual forthcoming payment in US Dollars. In respect of any Notes for which such an irrevocable election has been made, the Fiscal Agent will make payment to the applicable investor's US Dollar account through the facilities of Euroclear and/or Clearstream, Luxembourg with such investor's *pro rata* portion of the US Dollars purchased with the applicable amount of Turkish Lira and converted into US Dollars at the Applicable Exchange Rate by the Fiscal Agent. Under the terms of the Agency Agreement, the Fiscal Agent will need to have received cleared funds from the Issuer on the Relevant Payment Date by no later than 10:00 a.m. (London time) in the case of a payment of interest becoming due or by 11:00 a.m. (London time) in the case of a payment of principal becoming due in order to make any payments to investors on such Relevant Payment Date. If the Fiscal Agent receives cleared funds from the Bank after such time on the Relevant Payment Date, then the Fiscal Agent will use reasonable efforts to pay the funds as soon as reasonably practicable thereafter. If it is not possible for the Fiscal Agent so to purchase US Dollars, then the corresponding payment will be made in Turkish Lira. None of the Bank or any Agent will be responsible for any related foreign exchange rate spreads, conversion fees or commissions. Each such election will be with respect to an individual payment only and each subsequent payment will be made in Turkish Lira unless an irrevocable election to receive such payment in US Dollars is made thereafter.

See "Conditions of the Notes – Condition 7.2."

Use of Proceeds:..	The net proceeds of the Offering will be used by the Bank for general corporate purposes.
Status:..	The Notes will be senior, direct, unconditional and (subject to the provisions of the negative pledge in Condition 4) unsecured obligations of the Bank and will rank at least *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Bank, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights. The Notes will be issued pursuant to the Turkish Commercial Code (Law No. 6102) and the Turkish Capital Markets Regulations.
Negative Pledge:	Subject to certain exceptions, so long as any Note remains outstanding, the Bank will not create or have outstanding any Security Interest (as defined in Condition 4) upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness unless the Bank, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that: (a) all amounts payable by it under the Notes are secured by the Security Interest equally and ratably with the Relevant Indebtedness, (b) such Security Interest is terminated or (c) such Security Interest is provided as is approved by an Extraordinary Resolution (which will be defined in the Agency Agreement as a resolution duly passed by not less than three-fourths of the votes cast) of the Noteholders. See "Conditions of the Notes – Condition 4."
Certain Covenants:	The Bank will agree to certain covenants, including covenants limiting transactions with affiliates. See "Conditions of the Notes – Condition 5."
***Taxation; Payment of Additional Amounts*:**...	All payments in respect of the Notes by or on behalf of the Bank will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("*Taxes*") imposed or levied by or on behalf of a Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Bank will (subject to certain exceptions) pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction will equal the respective amounts that would have been receivable in respect of the Notes in the absence of the withholding or deduction. Under current Turkish law, withholding tax at the rate of 0% applies on interest on the Notes. See "Taxation – Certain Turkish Tax Considerations." All payments in respect of the Notes will be made subject to any withholding or deduction required pursuant to FATCA, as provided in Condition 7.3; *it being understood* that, in accordance with Condition 9.1, no additional amount will be payable by the Bank in respect of any such withholding or reduction. See "Conditions of the Notes – Condition 9."

Optional Redemption for Taxation Reasons: .... The Notes may be redeemed at the option of the Bank in whole, but not in part, at any time at their principal amount (together with interest accrued to but excluding the date fixed for redemption) if:

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after February 28, 2013, on an Interest Payment Date, the Bank would be required to:

   (i) pay additional amounts as provided or referred to in Condition 9, and

   (ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the applicable prevailing rates on February 28, 2013, and

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

Events of Default: .... The Notes will be subject to certain Events of Default (as defined in Condition 11.1) including (among others) non-payment, breach of obligations, cross-acceleration and certain bankruptcy and insolvency events. See "Conditions of the Notes – Condition 11."

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

Interests in the Global Certificates will be subject to certain restrictions on transfer. See "Transfer Restrictions." Interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg (or their respective direct or indirect participants, as applicable).

Notes will be issued in denominations of TL 300,000 and integral multiples of TL 1,000 thereafter.

ERISA: .... Subject to certain conditions, the Notes may be invested in by an "employee benefit plan" as defined in and subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended ("*ERISA*"), a "plan" as defined in and subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "*Code*"), or any entity whose underlying assets include "plan assets" of any of the foregoing. See "Certain Considerations for ERISA and other US Employee Benefit Plans."

Governing Law: .... The Notes and the Agency Agreement will be governed by, and construed in accordance with, English law.

Listing:	An application has been made to the Irish Stock Exchange to admit the Notes to listing on the Official List and to have the Notes admitted to trading on the Main Securities Market; *however*, no assurance can be given that such application will be accepted.
Turkish Selling Restrictions:.................... .	The offer and sale of the Notes (or beneficial interests therein) are subject to restrictions in Turkey in accordance with applicable CMB and BRSA laws and regulations. See "Selling Restrictions-Notice to Residents of Turkey."
Other Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act or any state securities laws and beneficial interests therein may not be offered or sold within the United States or to, or for the account or benefit of, any US person (as defined in Regulation S under the Securities Act) except to QIBs in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The offer and sale of Notes (or beneficial interests therein) is also subject to restrictions in the United Kingdom. See "Selling Restrictions."
Risk Factors:...	For a discussion of certain risk factors relating to Turkey, the Bank and the Notes that prospective investors should carefully consider prior to making an investment in the Notes, see "Risk Factors."
Issue Price:..	99.487% of the principal amount.
Yield:	7.500% *per annum*.
Regulation S Notes Security Codes:.....	ISIN: XS0898745210 Common Code: 089874521
Rule 144A Notes Security Codes:	ISIN: XS0898746614 Common Code: 089874661
Representation of Noteholders:................	There will be no trustee.
Expected Ratings:	"BBB" by Fitch and "Baa2" by Moody's.
Fiscal Agent, Paying Agent and Transfer Agent:...	Citibank, N.A., London Branch
Registrar:...	Citibank Global Markets Deutschland

RISK FACTORS

Potential investors in the Notes should carefully consider the risks described below and all other information contained in this Offering Circular and reach their own view before making an investment decision. There is a wide range of factors that individually or together could result in the Bank becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Bank may not be aware of all relevant factors and certain factors that it currently deems not to be material may become material as a result of the occurrence of events outside the Bank's control. The following is a description of the principal risks associated with the Notes and the Group's business as of the date of this Offering Circular; *however*, the Bank does not represent that the risks set out in the statements below are exhaustive.

Political, Economic and Legal Risks relating to Turkey

Most of the Bank's and its Turkish subsidiaries' operations are conducted, and substantially all of their customers are located, in Turkey. In addition, much of the business of the Group's non-Turkish subsidiaries is related to Turkey. Accordingly, the Group's ability to recover on loans, and its general financial condition and results of operations, are substantially dependent upon the economic conditions prevailing in Turkey. The proportion of the Group's net income derived from its Turkish operations was 97.8%, 90.7% and 94.2% in 2010, 2011 and 2012, respectively.

Turkish Economy – The Turkish economy is undergoing continued transformation to a free market system, is subject to significant macro-economic risks and has been dependent upon the support of the IMF in times of economic crisis

Since the early 1980s, the Turkish economy has undergone a transformation from a highly protected and regulated system to a free market system. Although the Turkish economy has responded well in general to this transformation, it has experienced severe macro-economic imbalances and has frequently resorted to support from the International Monetary Fund (the "*IMF*"). While the Turkish economy has been significantly stabilized due, in part, to IMF support, Turkey may experience a further significant economic crisis in the future. If support from the IMF or similar support is not provided or available in any future crisis, then this lack of assistance could have a material adverse effect on the Group's business, financial condition and/or results of operations. Investors should note that notwithstanding the Turkish economy's past resort to the IMF in times of macro-economic imbalance, the government decided that IMF support was not required in connection with the recent global financial crisis.

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

Global Financial Crisis and Eurozone Crisis – The Group has been, and will likely continue to be, significantly negatively affected by the recent global financial crisis and continuing Eurozone crisis

The ongoing global financial crisis and related economic slowdown that has impacted the Turkish economy and economies around the world, including the principal external markets for Turkish goods and services may have a significant negative impact on the business, financial condition and/or results of operations of the Group. Factors such as levels of unemployment, inflation rates and the availability of credit have been significantly negatively affected by the crisis. The fiscal deterioration of Greece, Ireland, Italy, Portugal, Spain and other European countries, the recent credit rating downgrades of many other European countries and the development of broader concerns about the liquidity and even solvency of certain countries and their banking systems may accentuate the impact of the global financial crisis or increase the risk of economies entering further periods of downturn or recession.

During the global financial crisis, Turkey suffered reduced domestic consumption and investment and a sharp decline in exports, which led to an increase in unemployment. Turkey's GDP contracted by 7.0% in the fourth quarter of

2008 and declined 4.7% in 2009. In response to the financial crisis, the Turkish government announced stimulus measures, including tax cuts in the housing and automotive sectors, financial support to SMEs and export credits. In addition, the Central Bank cut interest rates, reducing its overnight reference interest rate in a number of steps from 15.0% as of December 31, 2008 to 6.5% as of December 31, 2009. Following the implementation of fiscal and monetary measures during 2009 and improvement in global financial markets, the Turkish economy began to recover in the fourth quarter of 2009. According to TurkStat, Turkey's real GDP grew by 9.2% in 2010 and by 8.5% in 2011. The Bank's management estimates that the Turkish economy grew by 2.7% in 2012 and expects the Turkish economy to grow by 4.8% in 2013. Despite weaker economic growth in 2012, exports performed strongly with external demand driving economic growth while contracting domestic demand led to a decline in imports. In 2013, however, the Bank's management expects domestic demand, assisted by the Central Bank's economic stimulus measures undertaken in the second half of 2012, to stimulate growth, which may lead to an increase in Turkey's current account deficit.

As a result of the global financial crisis and related economic volatility, the Group's ability to access the financial markets may be restricted at a time when it would need financing, which could have an impact on its flexibility to react to changing economic and business conditions. The continuing impact of the financial crisis and economic volatility could have a material adverse effect on the Group's customers as well as the Group and therefore could have a material adverse effect on the Group's business, financial condition and/or results of operations.

In addition, the Group operates in countries outside of Turkey (such as Romania and Russia). Such jurisdictions have been adversely impacted by the global financial crisis. The Group's intention is to continue growing its operations in such jurisdictions (particularly in Romania), and in the event there are further financial crises affecting such jurisdictions, this may result in the Group's foreign operations not growing or performing at the same rate or levels as they had prior to the recent global crisis. Should the Group's non-Turkish operations fail to grow at past rates, perform at past levels or meet growth expectations, the Group's business, financial condition and/or results of operations could be materially adversely affected.

Although there have been indications that the global economy has begun to recover from the economic deterioration of recent years, the recovery may not continue and concerns about the liquidity, the extent of budgetary deficits and, in some cases, even the solvency of countries such as Greece, Ireland, Italy, Portugal and Spain could adversely affect the global economic recovery. The possibility of a default and/or exit from the Euro by Greece, for example, has contributed to the weakening of the Euro, and although the Greek government, the EU and the IMF have proposed measures to resolve Greece's solvency concerns, such measures may not succeed in averting further restructuring of Greece's debt. A relapse in the global economy or continued uncertainty around the potential for such a relapse could have a material adverse effect on the Group's business, financial condition and/or results of operations. In addition, any significant changes to the structure of the European Monetary Union or any uncertainty as to whether such a withdrawal or change may occur may have a material adverse effect on the Group's business, financial condition and/or results of operations.

High Current Account Deficit – Turkey's high current account deficit may result in governmental efforts to decrease economic activity

In 2010, the Turkish current account deficit was US$46.6 billion, which increased to US$77.2 billion in 2011 before decreasing to US$48.9 billion in 2012, according to the Central Bank. Recently, TurkStat revised tourism statistics, resulting in a US$2.2 billion decrease in the 2012 current account deficit. As there is not yet an official revised 2012 current account deficit figure, the Bank's management estimates that the current account deficit for 2012 fell to US$46.7 billion in light of the changes to the tourism statistics. The decline in the growth of the current account deficit in 2012 was largely the result of coordinated measures initiated by the Central Bank, 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, the Minister of Finance has stated that bank-specific actions might be implemented. These measures are likely to reduce economic growth and 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. Turkey has diversified its export markets in recent years, but 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. In 2012, year-on-year imports into Turkey decreased by 2.0% due, in large part, to reduced domestic demand.

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. On June 18, 2011, the BRSA introduced new regulations to further control loan growth that will, among other things: (a) increase Turkish banks' general provision requirements in the event such banks': (i) total consumer loans to total loan amount exceed 20% or (ii) non-performing consumer loans (excluding auto and housing loans) to total consumer loans (excluding auto and housing loans) exceed 8%, and (b) increase the risk-weighting for certain consumer loans in calculating capital adequacy ratios. See "Turkish Regulatory Environment." Further regulations may be introduced by the BRSA or the Central Bank with respect to loan growth ratios that could have a material adverse effect on the Group's business, financial condition and/or results of operations.

The decline in the current account deficit experienced in 2012 is expected by the Bank's management to come to an end by early 2013 and, if so, financial stability in Turkey might erode. Financing the high current account deficit might be difficult in the event of a global liquidity crisis and/or declining interest of foreign investors in Turkey. Any such difficulties may lead the Turkish government to seek to raise additional revenue to finance the current account deficit or to seek to stabilize the Turkish financial system, and any such measures might adversely affect the Group's business, financial condition and/or results of operations.

Political Developments – International investors consider Turkey to be an emerging economy

Turkey has been a parliamentary democracy since 1923, although the military has in the past played a significant role in politics and the government, intervening in the political process through *coups d'état* in 1960, 1971 and 1980. Unstable coalition governments have been common and in the almost 90 years since its formation Turkey has had numerous, short-lived governments. National elections held on November 4, 2007 resulted in victory for the Justice and Development Party (*Adalet ve Kalkınma Partisi*) (the "*AKP*"), which is led by Prime Minister Recep Tayyip Erdoğan. The AKP, which has been in power since 2002, is the first party since 1987 to have a parliamentary majority and thus to be able to govern without reliance upon a coalition partner, and the party's continued strength was reflected in the 58% approval rate of the September 12, 2010 referendum on various amendments to Turkey's constitution. Turkey's most recent general election was held on June 12, 2011. The AKP won another absolute parliamentary majority that has supported a single party government. The distribution of votes (and number of seats) following the general election is as follows: AKP 49.80% (327), the Republican People's Party (*Cumhuriyet Halk Partisi*) 25.98% (135), the Nationalist Movement Party (*Milliyetçi Hareket Partisi*) 13.02% (52), and independents 6.59% (36). 29 independent members of parliament joined the Peace and Democratic Party (*Barış ve Demokrasi Partisi*).

While in recent years Turkey has undergone significant political and economic reform, which has sought to increase domestic political and economic stability and contributed to economic growth, Turkey is nonetheless considered by international investors to be an emerging market. In general, investing in the securities of issuers with substantial operations in emerging markets, like Turkey, involves a higher degree of risk than investing in the securities of issuers with substantial operations in the United States, the countries of the European Union or other similar jurisdictions. Accordingly, investors' perception of Turkey as an emerging economy and actual or perceived political instability 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. See also "Emerging Markets Risks."

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

Emerging markets such as Turkey are subject to greater risk of being perceived negatively by investors based upon external events than are more-developed markets, and financial turmoil in any emerging market (or global markets generally) could disrupt the business environment in Turkey. Moreover, financial turmoil in one or more emerging markets tends to adversely affect stock prices and the prices for debt securities in all emerging market countries as investors move their money to countries that are perceived to be more stable and economically developed. An increase in the perceived risks associated with investing in emerging economies could dampen capital flows to Turkey and adversely affect the Turkish economy. As a result, investors' interest in the Notes (and thus their price) may be subject to fluctuations that may not necessarily be related to economic conditions in Turkey or the financial performance of the Group.

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

Inflation Risk – Turkey’s economy has been subject to significant inflationary pressures

The Turkish economy has experienced significant inflationary pressures in the past with year-over-year consumer price inflation rates as high as 68.6% in the early 2000s; *however*, weak domestic demand and declining energy prices in 2009 caused the domestic year-over-year consumer price index to decrease to 6.4% at the end of 2010, the lowest level in many years. Consumer price inflation was 6.4%, 10.5% and 6.2% in 2010, 2011 and 2012, respectively, while producer price inflation was 8.9%, 13.3% and 2.5%, respectively, in the same periods. If the level of inflation in Turkey were to fluctuate or increase significantly, then this could have a material adverse effect on the Group’s business, financial condition and/or results of operations.

Terrorism and Conflicts – Turkey is subject to external and internal unrest and the threat of terrorism

Political uncertainty within Turkey and in certain neighboring countries, such as Iran, Iraq, Georgia, Armenia and Syria, has historically been one of the potential risks associated with investment in Turkish companies. Political instability in the Middle East and elsewhere remains a concern, most recently exemplified by the internal conflict in Syria and tensions between Iran and Israel. Turkey has also experienced problems with domestic terrorism and ethnic separatist groups. For example, Turkey has been in conflict for many years with the People’s Congress of Kurdistan, formerly known as the PKK (an organization that is listed as a terrorist organization by states and organizations including Turkey, the EU and the United States). The issue of civil rights for Kurdish citizens remains a potential source of political instability, which may be exacerbated by continuing instability in Iraq. On February 1, 2013, a suicide bomber attacked the U.S. Embassy in Ankara killing himself and others. Such circumstances and domestic terrorist attacks have had and could continue to have a material adverse effect on the Turkish economy and on the Group’s business, financial condition and/or results of operations.

Regional Risks – Recent developments in the Middle East and North Africa may create regional volatility affecting the Turkish economy

Turkey is located in a region that has been subject to ongoing political and security concerns, especially in recent years. Since December 2010, political instability has increased markedly in a number of countries in the Middle East and North Africa, such as Libya, Tunisia, Egypt, Syria, Jordan, Bahrain and Yemen. Unrest in those countries may affect Turkey’s relationships with its neighbors, have political implications in Turkey or otherwise have a negative impact on the Turkish economy, including through both financial markets and the real economy. For example, heightened tensions between Turkey and Iran could impact the Turkish economy, could lead to higher global energy prices and further negatively affect Turkey’s current account deficit.

Such impacts could occur (*inter alia*) through a lower flow of foreign direct investment into Turkey, capital outflows and increased volatility in the Turkish financial markets. In addition, certain sectors of the Turkish economy (such as construction, iron and steel) have operations in (or are otherwise active in) the Middle East and North Africa and may experience material negative effects. It is unclear what impact these recent activities may have on Turkey and thus on the Group’s business, financial condition and/or results of operations.

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

A significant portion of Turkey’s population and most of its economic resources are located in a first-degree earthquake risk zone and Turkey has experienced a large number of earthquakes in recent years, some quite significant in magnitude. As recently as October 2011, the eastern part of the country was struck by an earthquake measuring 7.2 on the Richter scale, causing significant property damage and loss of life.

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

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

The Group has a significant exposure to Turkish governmental and state-controlled entities. As of December 31, 2012, 87.5% of the Group's total securities portfolio (19.9% of its total assets and equal to 161.2% of its shareholders' equity) was invested in securities issued by the Turkish government. In addition to any direct losses that the Group might incur, a default, or the perception of increased risk of default, by the Turkish government in making payments on its securities or the possible downgrade in Turkey's credit rating would likely have a significant negative impact on the value of the government securities held in the Group's securities portfolio and the Turkish banking system generally and may have a material adverse effect on the Group's business, financial condition and/or results of operations.

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 Turkey to make progress in implementing its action plan. In particular, Turkey is required to make sufficient progress in: (a) adequately criminalizing terrorist financing and (b) implementing an adequate legal framework for identifying and freezing terrorist assets. If not completed, the FATF has advised that it may 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 on Combating the Financing of Terrorism on February 16, 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 February 22, 2013, due to the implementation of the CFT Law, the FATF decided not to suspend Turkey from the FATF; *however*, the FATF may further request that Turkey adopt additional measures and procedures to ensure full compliance with FATF requirements. In the event that the FATF finds the new measures introduced with the CFT Law 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.

Risks Relating to the Turkish Banking Industry

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

The Group faces significant and continuing competition from other participants in the Turkish banking sector, including both state-controlled and private banks in Turkey as well as many subsidiaries and branches of foreign banks and joint ventures between Turkish and foreign shareholders. A small number of these banks dominate the banking industry in Turkey. According to the BRSA, as of December 31, 2012, the top seven banking groups in Turkey (including the Group), three of which were state-controlled, held in the aggregate approximately 78.8% of the Turkish banking sector's total loan portfolio, approximately 79.3% of total banking assets in Turkey and approximately 79.9% of total deposits in Turkey. State-controlled banks in Turkey have historically had access to very inexpensive funding in the form of very significant Turkish government deposits, which has provided a competitive advantage over private banks. This competitive advantage has often resulted in such banks adopting aggressive pricing strategies on both deposit and loan products, particularly in 2011.

Foreign financial institutions have shown a strong interest in competing in the banking sector in Turkey. HSBC Bank plc, UniCredit, BNP Paribas, the National Bank of Greece, Sberbank, Citigroup, ING and Bank Hapoalim are among the many non-Turkish financial institutions that have purchased or made investments in Turkish banks or opened their own Turkish offices. More recently, certain of such institutions (such as National Bank of Greece) have (or may) put some or all of their investments in Turkish banks up for sale as a result of their own financial circumstances (for example, Dexia recently sold its interest in DenizBank to Sberbank) and thus the banking and competitive landscape after the date of this Offering Circular may change from what was the case over the two to three years prior to the date of this Offering Circular. The entry into the sector by foreign competitors, either directly or in collaboration with existing Turkish banks, has increased competition in the market, and further entry by foreign competitors is likely to increase competition, especially given that some of these foreign competitors have significantly greater resources and less expensive funding sources than Turkish banks. Competition has been particularly acute in certain sectors where state-controlled banks and foreign-owned banks have been active, such as general purpose loans, for which state-controlled banks have lent funds at rates below those considered commercially viable by the Group. Competitors may direct greater resources and be more successful in the development and/or marketing of technologically-advanced products and services that may compete directly with the Group’s products and services, adversely affecting the acceptance of the Group’s products and/or leading to adverse changes in the spending and saving habits of the Group’s customer base. The Group may not be able to maintain its market share if it is not able to match its competitors’ loan pricing or keep pace with the competitors’ development of new products and services. Increased competition may affect the Group’s loan growth, reduce the average interest rates that the Group can charge its customers or otherwise have a material adverse effect on the Group’s business, financial condition and/or results of operations.

Banking Regulatory Matters – The Group is subject to numerous banking and other laws and regulations that are subject to change and such changes may have a material adverse effect on the Group

The Group is subject to a number of banking, consumer protection, antitrust and other laws and regulations designed to maintain the safety and soundness of financial institutions, ensure their compliance with economic and other obligations, limit their exposure to risk and restrict their operations. These laws and regulations include Turkish laws and regulations (in particular those of the BRSA), as well as laws and regulations of other countries in which the Group operates. Additionally, the implementation process of the Directives of European Community numbered 2006/48/EC and 2006/49/EC (the “*CRD*”) is still ongoing. In order to monitor the implementation process of the CRD by the banks, a progress survey on the adaptation of the CRD is requested from banks by the BRSA every six months. These laws and regulations increase the cost of doing business and limit the Group’s activities. See “Turkish Regulatory Environment” for a description of the Turkish banking regulatory environment.

In addition, a breach of any of these laws and regulations could expose the Group to potential liabilities or sanctions and damage its reputation. For example, the Bank and two of its subsidiaries are subject to investigation by the Turkish Competition Board, as part of a broader investigation of 12 banks operating in Turkey. A decision is expected to be reached by mid-March 2013, which may result in the Bank being subjected to an administrative fine. Should such a fine be imposed, then individual customers claiming to have suffered damages resulting from such activities could sue the Bank. See “The Group and its Business – Litigation and Administrative Proceedings.”

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, including those that limit the fees and commissions that banks may charge their customers, and there is great uncertainty as to what impact these changes may have. One example of such a change is the Central Bank’s September 2010 announcement that, as with foreign currency reserves, it would no longer pay interest on reserve accounts kept in Turkish Lira (which had until such time been interest-bearing), which change caused Turkish banks to revisit the pricing of their products and services in order to minimize the impact of this change. The BRSA or the government might introduce certain new laws and regulations that impose limits or prohibitions on fees and commissions charged to customers or otherwise affect payments received by the Group from its customers. Fees and commissions represented 21.5% of the Group’s total operating income in 2012. Any failure by the Group to adopt adequate responses to these or other future changes in the regulatory framework could have a material adverse effect on the Group’s business, financial condition and/or results of operations.

In March and April 2011, the Central Bank announced significant increases in reserve requirement ratios in order to slow down domestic demand. With this substantial increase, the Central Bank decisively attempted to discourage loan growth by increasing banks’ costs of making loans. These ratios were somewhat liberalized in October 2011 in light of the weakening macro-economic conditions (for example, the required reserve ratio (the “*RRR*”) for demand deposits was decreased from 16% to 11%). Thereafter, the Central Bank also gave banks the option to keep reserves for Turkish Lira liabilities in foreign exchange and gold liabilities. In 2012, the Central Bank also introduced this option as a monetary policy instrument (called the "*Reserve Option Mechanism*," (ROM)), which applies reserve option coefficients on certain portions of reserve requirements kept in foreign exchange and gold with an aim to bolster the Central Bank's foreign exchange reserves and positively affect the cost and liquidity channels of banks. In addition, with a view to supporting financial stability and preventing concerns about rapid credit growth resulting from the Central Bank's economic stimulus policies undertaken in the second half of 2012, in the CBT's February 2013 meeting, the effective reserve requirement ratio for foreign exchange was raised to 11.5% and the effective reserve requirement ratio for Turkish Lira increased to 11.0%. The Central Bank continues to monitor the markets closely and it may change RRRs (or take other steps) to slow credit supply.

Additionally, to curb loan growth, Turkish authorities reinstated a 15% tax on consumer loans effective October 28, 2010 and also limited mortgage loan-to-value ratios to 75%. Furthermore, recent decisions to impose a ceiling on mutual fund fees (the CMB's April 1, 2011 announcement setting an annual cap of 2.73% on money market funds' management fees, which will cover approximately 70% of total mutual funds) and decrease ceiling rates on credit cards also will directly negatively affect bank revenues. As of June 18, 2011, the BRSA also increased general provision requirements for consumer loan growth (other than mortgage and auto loans) in excess of 20% and increased the risk-weighting for certain consumer loans in calculating capital adequacy ratios. In addition, further regulation may be introduced, particularly regarding restrictions on the interest, fees and commissions that a bank may charge its customers, and such regulations could have a material adverse effect on the Group's business, financial condition and/or results of operations. See "Political, Economic and Legal Risks relating to Turkey-High Current Account Deficit" above.

Turkish Banking System – The Turkish banking sector has experienced significant volatility in the past

The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001, this resulted in the collapse of several financial institutions. Following this crisis, the government made structural changes to the Turkish banking system to strengthen the private (*i.e.*, non-governmental) banking sector and allow it to compete more effectively against the state-controlled banks Türkiye Halk Bankası ("*Halkbank*"), Türkiye Vakıflar Bankası T.A.O. ("*Vakıfbank*") and T.C. Ziraat Bankası ("*Ziraat*") (which remain three of the top 10 banks in the Turkish market based upon total assets as of December 31, 2012 according to the Banks Association of Turkey). Notwithstanding such changes, the Turkish banking sector remains subject to volatility.

If the general macro-economic conditions in Turkey, and the Turkish banking sector in particular, were to suffer another period of volatility, this may result in further bank failures, reduced liquidity and weaker public confidence in the Turkish banking system, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Changes to Capital Adequacy Requirements – Changes in the Turkish banking regulatory framework may require the Group to increase the level of capital that it holds to meet revised capital adequacy standards, which it may not be able to do on acceptable terms or at all

In June 2004, the Basel Committee on Banking Supervision (the "*Basel Committee*") published a report entitled "International Convergence of Capital Measurement and Capital Standards: a Revised Framework," which set out a new capital adequacy framework (commonly referred to as "*Basel II*") to replace the Basel Capital Accord issued in 1988. Basel II was implemented in Turkey in stages and was fully adopted during the second half of 2012.

The Group began reporting under Basel II in August 2012 and the implementation of Basel II has had a negligible effect on the Group's Tier I capital adequacy ratio.

The Basel Committee recently adopted further revisions ("*Basel III*"), which are expected to be implemented between 2013 and 2019. At this stage, the BRSA has announced its intention to adopt the Basel III requirements and a draft Regulation on the Equity of Banks as well as a draft regulation amending the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks were made available by the BRSA for public review on February 4, 2013. In addition to these implementations, a draft Regulation on the Capital Maintenance and Cyclical Capital Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, was prepared and delivered to the banks for their review. All such three draft regulations imply possible implementation of Basel III by the end of 2013. In the future, Turkish banks' capital adequacy requirement may be further affected by Basel III, which includes requirements regarding regulatory capital, liquidity adequacy, leverage ratio and counterparty credit risk measurements. If these or any other capital adequacy-related revisions are adopted and the Bank or the Group is unable to maintain its capital adequacy ratios above the minimum levels required by the BRSA (whether due to its 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. Please see "Turkish Regulatory Environment" below for further discussion on Basel III.

Pressure on Profitability – The Group's profitability and profitability growth in recent years may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector

The Group's profitability may be negatively affected in the short-term and possibly in future periods as a result of a number of factors that are generally impacting the Turkish banking sector, including a slowdown of economic growth in Turkey from the high levels of recent years and a low interest rate environment in Turkey in 2012 and 2013 (see "Reduction in Earnings on Investment Securities Portfolio" and "Interest Rate Risk" elsewhere in this section), increased competition (particularly as it impacts net interest margins (see "Competition in the Turkish Banking Sector")) and Central Bank and BRSA regulatory actions that seek either: (a) to limit the growth of Turkish banks through various conventional and unconventional policy measures, including increased reserve requirements, increased general provisioning requirements and higher risk-weighting for general purpose loans, or (b) impose limits or prohibitions on fees and commissions charged to customers or otherwise affect payments received by the Group from its customers (see "Banking Regulatory Matters" and "High Current Account Deficit").

Dependence upon Banking and Other Licenses – Group members may be unable to maintain or secure the necessary licenses for carrying on their business

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

Risks Relating to the Group and its Business

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

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

As of December 31, 2012, 11.1% and 10.5% of the Group's performing cash loans were credit card and general purpose consumer loans, respectively, which historically have had among the highest rate of payment default and are uncollateralized. The percentage of non-performing loans ("*NPLs*") decreased to 2.3% as of December 31, 2011 from 3.5% as of December 31, 2010, but increased to 2.8% as of December 31, 2012. The decrease in 2011 resulted from the deceleration in new NPLs and strong collection performance combined with the 29.8% and 30.3% growth during 2010 and 2011, respectively, in the amount of cash loans. As of December 31, 2012, the percentage of NPLs increased due to new non-performing loan inflows, particularly from commercial and consumer loans. The level of NPLs might continue to rise as the Group rebalances its lending growth toward higher yielding consumer and SME loans.

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

The Group might not correctly assess the creditworthiness of credit applicants or other counterparties (or their financial conditions may change) and, as a result, the Group could suffer material credit losses. While the Group seeks to mitigate credit risk, including through diversification of its assets and requiring collateral for many of its loans, such efforts may be insufficient to protect the Group against material credit losses. For example, if the value of the collateral securing the Group's credit portfolio is insufficient (including through a decline in its value after the original taking of such collateral), then the Group will be exposed to greater credit risk and an increased risk of non-recovery if any credit exposure fails to perform. Estimates of the value of non-cash collateral are inherently uncertain and are subject to change as a result of market and other conditions, and may lead to increased risk if such values decline. In addition, determining the amount of provisions and other reserves for probable credit losses involves the use of estimates and assumptions and an assessment of other factors that involve a great deal of judgment. As a result, the level of provisions and other reserves that the Group has set aside (which take account of collateral where loans are secured) may not be sufficient and the Group may have to create significant additional provisions for probable credit losses in future periods.

The Group has a significant position in the still-developing mortgage market in Turkey and continues to seek to expand its lending activities, including in the expanding energy sector. The growth in these or other business lines, or in the Group's credit portfolio generally, could have a negative impact on the quality of the Group's assets. Failure to maintain the Group's asset quality could result in higher loan loss provisioning and higher levels of write-offs or defaults, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

The Group's total performing loans were TL 101,407,821 thousand as of December 31, 2012 compared to TL 91,641,788 thousand as of December 31, 2011 and TL 70,167,244 thousand as of December 31, 2010. The significant and rapid increase in the Group's loan portfolio (including a significant portion of unseasoned loans) has increased the Group's credit exposure and requires continued and improved monitoring by the Group's management of its lending policies, credit quality and adequacy of provisioning levels through the Group's risk management program. The Group further intends to increase its loan portfolio, particularly with retail customers and SMEs, and any such increase could further increase the credit risk faced by the Group. Negative developments in the Turkish economy could affect these borrowers more than large companies, resulting in higher levels of NPLs and, as a result, higher levels of provisioning. Any failure by the Group to manage the growth, within prudent risk parameters, of its loan portfolio or the credit quality of its creditors or to monitor and regulate the adequacy of its provisioning levels could have a material adverse effect on the Group's business, financial condition, prospects and/or results of operations.

Interest Rate Risk – Changes in interest rates could lead to a deterioration of the Group's net interest margin and increase mark-to-market losses

The Group's interest spread (which is the difference between the interest rates that the Group earns on its interest-earning assets and the interest rates that it pays on its interest-bearing liabilities) as well as the Group's net interest margin (which is its net interest income *divided by* its total average assets) will be affected by changes in market interest rates. Sudden changes in interest rates or significant volatility in interest rates could result in a decrease in the Group's net interest income and net interest margin. As a result of declining market interest rates, a globalization of markets after the recent global financial crisis and increased competition, the Group's net interest margin declined in recent years. Although the Group's strategy of concentrating on profitable products and the repricing of loans resulted in slightly improved net interest margins in 2012, such margins may decline in subsequent years. This trend will require the Group to develop and enhance continuously its risk management systems.

The degree of the Group's exposure to interest rate risk is largely a function of the relative tenors of its interest-earning assets and interest-bearing liabilities, its ability to reprice (and the timing of any such repricing of) its interest-earning assets and interest-bearing liabilities (*e.g.,* whether their interest rates are determined on a fixed or floating basis) and its ability to hedge against interest rate risk. As of December 31, 2012, the weighted average life of certain of the Bank's fixed rate assets and liabilities in TL and foreign currency (respectively) were as follows: fixed rate cash loans, 1.5 years and 4.1 years; fixed rate securities holdings, 1.3 years and 3.9 years; and fixed rate borrowings, 1.9 years and 1.9 years. In addition, the weighted average maturities of the Bank's TL and foreign currency interest-earning assets and TL and foreign currency interest-bearing liabilities as of December 31, 2012 were 1.5 years, 4.1 years, 0.2 years and 1.7 years, respectively. See "Risk Management."

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

If the Group is unable for any reason to re-price its interest-earning assets and interest-bearing liabilities in a timely or effective manner, or if interest rates rise as a result of economic conditions or other reasons, and its interest-earning assets and interest-bearing liabilities are not appropriately match-funded or hedged, then the Group's net interest margin will be affected, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Foreign Exchange and Currency Risk – The Group is exposed to foreign currency exchange rate fluctuations, which could have a material adverse effect on the Group

The Group is exposed to the effects of fluctuation in foreign currency exchange rates, principally the US Dollar and Euro, which can have an impact on its financial position and/or results of operations. These risks are both systemic (*i.e.*, the impact of exchange rate volatility on the markets generally, including on the Group's borrowers) and unique to the Group (*i.e.*, due to the Group's own net currency positions). For example, from a systemic perspective, if the Turkish Lira were to depreciate materially against the US Dollar or the Euro (which represent a significant portion of the foreign currency borrowings of the Group's corporate and commercial customers), then it would be more difficult for the Group's customers with income primarily or entirely denominated in Turkish Lira to repay their foreign currency-denominated loans. As of December 31, 2012, 46.5% of the Group's total loans and advances to customers and banks (of which share 63.6% was in US Dollars and 33.1% in Euro), as well as a significant portion of its off-balance sheet commitments such as letters of credit, were foreign currency risk-bearing.

A portion of the Group's financial assets and liabilities is denominated in, or indexed to, foreign currencies, primarily US Dollars and Euro. If the Turkish Lira is devalued or depreciates, then (when translated into Turkish Lira) the Group would incur currency translation losses on its liabilities denominated in, or indexed to, foreign currencies (such as the Group's US Dollar-denominated long-term loans and other debt) and would experience currency translation gains on its assets denominated in, or indexed to, foreign currencies. Therefore, if the Group's liabilities denominated in (or indexed to) foreign currencies exceed its assets denominated in (or indexed to) foreign currencies, including any financial instruments entered into for hedging purposes, then a devaluation or depreciation of the Turkish Lira could adversely affect the Group's financial condition even if the value of these assets and liabilities has not changed in their original currency. As of December 31, 2012, the Group's foreign currency risk-bearing liabilities exceeded its foreign currency assets (including off balance sheet items) by TL 529,857 thousand, which was 0.3% of the Group's total liabilities and 2.4% of total shareholders' equity. In addition, the Group's lending operations depend significantly upon the Group's capacity to match the cost of its foreign currency-denominated (or indexed) liabilities with the rates charged on the Group's foreign currency-denominated (or indexed) assets. A significant devaluation or depreciation may affect the Group's ability to attract customers on such terms or to charge rates indexed to the foreign currencies and could have a material adverse effect on the Group's business, financial condition and/or results of operations.

In addition, the Group is exposed to exchange rate risk to the extent that its assets and liabilities are mismatched. The Group seeks to manage the gap between its foreign currency-denominated assets and liabilities by (among other things) matching the volumes and maturities of its foreign currency-denominated loans against its foreign currency-denominated funding or by entering into currency hedges. Although regulatory limits prohibit the Bank and the Group from having a net currency short or long position of greater than 20% of the total capital used in the calculation of its regulatory capital adequacy ratios, if the Bank or the Group is unable to manage the gap between its foreign currency-denominated assets and liabilities, then material volatility in exchange rates could lead to operating losses, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

Liquidity risk is the risk that a company will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance upon a particular source of funding (such as short-term funding), changes in credit ratings or market-wide dislocation. Credit markets worldwide experienced a severe reduction in liquidity during the recent global financial crisis and, with the exception of certain funding provided by the European Central Bank and other central banks, liquidity remains more difficult to obtain on favorable terms. Perceptions of counterparty risk between banks also increased significantly, which led to further reductions in banks' access to traditional sources of liquidity such as the debt markets and asset sales. The Group's access to these wholesale sources of liquidity may be restricted or available only at a high cost and the Group may have difficulty extending and/or refinancing its existing wholesale financing such as syndicated loans. In addition, the Group's significant reliance upon deposits as a funding source makes it susceptible to changes in customer perception of the strength of the banking sector in general and the Group in particular, and the Group could be materially and adversely impacted by substantial customer withdrawals of deposits.

The Group's customer deposits are its primary source of funding, although the Group also obtains funding through loans from other banks and through the sale of securities in the capital markets. The Bank relies primarily on short-term liabilities in the form of deposits (typically deposits with terms of less than three months) as its source of funding and has a mix of short-, medium- and long-term assets in the form of retail, consumer and corporate loans, mortgages and credit cards, which may result in asset versus liability maturity gaps and ultimately liquidity concerns in the event of a banking crisis or similar event.

The rate of growth of loans and advances to the Group's customers has in recent years outpaced the rate of growth of deposits from the Group's customers, leading to an increase in loan-to-deposit ratios from 93.2% as of December 31, 2010 to 110.9% as of December 31, 2012. Accordingly, as the growth in loans has outpaced deposit growth, the Group has funded this growth through the sale of securities and the use of borrowing facilities in addition to deposits and it may do so in the future.

If deposit growth does not keep close to loan and asset growth (for example, due to competition), then the Group would be increasingly dependent upon other sources of financing. The Group may expand its activities in commercial banking, which is constituted in considerable part by project financing and granting commercial loans. Project financing loans may be denominated in foreign currency and may have longer maturities compared to funding provided to corporations. Such longer maturities may exacerbate any liquidity mismatch between the Group's funding and its loans. The need to rely upon shorter-term funds, or the inability to raise financing via the capital or loan markets, may adversely impact the Group's liquidity profile and could have a material adverse effect on the Group's business, financial condition and/or results of operations. See "Risk Management."

In the event of a liquidity crisis affecting the Group, any liquidity mismatch (that is, a mismatch between the maturities of the Group's assets and liabilities) may require the Group to liquidate some of its assets. Any liquidation of the Group's assets in such circumstances may be executed at prices below what the Group believes to be their intrinsic values (as certain of those assets would have been accounted for at their current, no-stress-market values, accrual values or amortized costs).

In addition, the global demand for liquidity has increased following the global financial crisis, with increased competition for funds having reduced the Group's ability to raise longer-term funding via "future flow" transactions, senior or subordinated debt and other issuances. In some cases, the markets that the Group has traditionally used to obtain funding have either been closed to it or made funds available only in limited amounts. The result is that if any member of the Group were to seek to raise financing, funds that it might have raised through those channels might either be unobtainable at an acceptable price, or at all, and would need to be raised in the short-term money market, thereby reducing the Group's ability to diversify funding sources and adversely affecting the length of the Group's funding profile.

A rising interest rate environment could compound the risk of the Group not being able to access funds at favorable rates or at all. As central banks unwind the expansive liquidity that has been provided during the recent global crisis, competition among banks and other borrowers for the reduced global liquidity might result in increased costs of funding. This and other factors could result in lower credit ratings, higher borrowing costs and/or less access to funds. In addition, the Group's ability to raise or access funds may be impaired by factors that are not specific to its operations, such as general market conditions, severe disruption of the financial markets or negative views about the prospects of the sectors to which the Group lends. While the Group aims to maintain at any given time an adequate level of liquidity reserves, strains on liquidity caused by any of these factors or otherwise could have a material adverse effect on the Group's business, financial condition and/or results of operations. For example, in case of a liquidity crisis, wholesale funding would likely become more difficult to obtain, which may adversely affect borrowing using certain capital market instruments (such as Eurobonds and "future flow" financings). See also "—Foreign Currency Borrowing and Refinancing Risk" below.

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

In addition to trading activities, members of the Group invest in securities for long- or medium-term periods for their own account, including investments in Turkish government securities and securities issued by Turkish and foreign corporations. The Group has made significant investments in high-yielding Turkish government securities, leading to a material and higher-than-normal percentage of the Group's net income in 2010, 2011 and 2012 being derived from these investments. As of December 31, 2012, 25.5% of the Group's interest-earning assets consisted of securities, a slight increase from 24.4% as of December 31, 2011 (itself a decrease from 32.1% as of December 31, 2010), with the significant decline from 2010 largely a result of the accelerating growth in cash loans during 2011 and 2012. In addition to the credit risks of its investments in securities, the value of the portfolio is subject to market risks, including the risk that possible declines in interest rates may reduce interest income on any new investments whereas possible increases in interest rates may result in a decline in the market value of the securities held by the Group, whether or not the Group is required to record such losses in its financial statements, either of which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

While securities issued by the Turkish government represented 87.9%, 86.9% and 87.5% of the Group's securities portfolio as of December 31, 2010, 2011 and 2012, respectively, and the Group thus does not have significant direct exposure to the credit risk of foreign governments, the on-going disruptions to the capital markets caused by investors' concerns over the fiscal deficits in certain countries such as Greece, Ireland, Italy, Portugal and Spain have had and may continue to have a material negative impact on the valuation of securities and thus on the market value of the Group's securities portfolio.

Foreign Currency Borrowing and Refinancing Risk – The Group relies to an extent on foreign currency-denominated borrowings, which may result in difficulty in refinancing or may increase its cost of funding, particularly if the Group suffers a ratings downgrade

While the Group's principal source of funding comes from deposits, these funds are short-term by nature and thus do not enable the Group to match fund its long-term assets. In addition, price competition for wholesale deposits has made such deposits less attractive. As a result, the Group has raised (and likely will seek to increase its raising of) longer term funds from syndicated loans, "future flow" transactions, eurobond issuances, bilateral loans and other transactions, almost all of which have been denominated in foreign currencies as such long -term financing is not widely available within Turkey. As of December 31, 2012, the Group's total foreign currency-denominated loans and advances from banks and subordinated liabilities constituted 13.1% of its consolidated liabilities and equaled 53.0% of its foreign currency-denominated assets with maturities of one year or more. To date, the Bank has been successful in extending, at a relatively low cost, the maturity profile of its funding base, even during times of volatility in international markets, although this might not continue in the future. Particularly in light of the historical volatility of emerging market financings, the Group: (a) might have difficulty extending and/or refinancing its existing foreign currency-denominated indebtedness, hindering its ability to avoid the interest rate risk inherent in maturity mismatches of assets and liabilities, and (b) is susceptible to devaluations of the Turkish Lira (which would thus increase the amount of Turkish Lira that it would need to make payments on its foreign currency-denominated obligations). Should these risks materialize, these circumstances could have a material adverse effect on the Group's business, financial condition and/or results of operations.

A downward change in the ratings published by rating agencies of either Turkey or members of the Group may increase the costs of new indebtedness and/or the refinancing of the Group's existing indebtedness raised in the international financial markets, including to the extent that such a downgrade is perceived as a deterioration of the capacity of the Group to pay its debt, resulting in an increase in the cost of such financings provided by the Group's creditors.

These risks may increase as the Group seeks to increase long-term lending to its customers, including mortgages and project financings, the funding for much of which is likely to be made through borrowings in foreign currency.

As required by the rules of Basel II and Basel III, banks that are in jurisdictions that have adopted Basel II (and, in the future, Basel III) and that provide credit to a bank (such as the Bank) are or may be required to apply a risk-weighting higher than that currently applied. While it is impossible to predict the impact of the implementation of such requirements by the Group's creditors, if banks subject to the Basel requirements are required to apply higher risk weightings to credits extended to the Group, then this may result in a reduction in funds available for borrowing by the Group and/or an increase in the costs of such borrowing. As of December 31, 2012, approximately 93.8% of the Group's foreign currency-denominated borrowing (including subordinated liabilities) was sourced from international banks, multilateral institutions and "future flow" transactions. Should the Group be unable to continue to borrow funds on acceptable terms, if at all, this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Reduction in Earnings on Securities Portfolio – The Group may be unable to sustain the significant level of earnings from recent years on its securities portfolio

The Group has historically generated a significant portion of interest income from its securities portfolio, with interest and similar income derived from the Group's securities portfolio in 2010, 2011 and 2012 accounting for 37.8%, 32.3% and 29.0%, respectively, of its total interest income (and 29.3%, 24.0% and 22.8%, respectively, of its gross operating income before deducting interest expense and fee and commission expense). The Group also has obtained large realized gains from the sale of securities in the available-for-sale portfolio.

Approximately 41.2% of the Group's securities portfolio as of December 31, 2012 was scheduled to mature during 2013. Another 43.7% of the Group's other securities was scheduled to mature in the next five years. As such maturing securities were largely issued when market interest rates were higher than they are in the current market, the Group might not be able to re-invest in assets with a comparable return. While the trend has been for the Group to allocate higher percentages of its assets to making loans, such re-positioning might not result in the same returns as have been received under the maturing securities and, from a credit risk perspective, an increase in loans results in increased exposure to the credit risk of the Group's borrowers.

While the contribution of income from the Group's securities portfolio has been significant over recent years, such income may not be as large in coming years. In particular, the robust trading gains earned during the global financial crisis as a result of the high level of volatility in financial markets might not continue. In addition, the recent trend towards lower interest rates may result in lower nominal earnings on the Group's holdings of securities. As such, high levels of earnings from the Group's securities portfolio may not be sustainable in future periods. If the Group is unable to sustain its high levels of earnings from its securities portfolio, then this could have a material adverse effect on its business, financial condition and/or results of operations.

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

Members of the Group engage in various trading activities, as both agent and (to a limited extent) principal. In 2012, the Group incurred a net gain of TL 170,409 thousand from trading activities, of which TL 610,310 thousand was attributable to trading gains on securities, offset by TL 439,901 thousand attributable to trading losses on derivative transactions. The Group's proprietary trading involves a degree of risk and future results will in part depend largely upon market conditions that are outside of the Group's control. Trading risks include (among others) the risk of unfavorable market price movements relative to the Group's long or short positions, a decline in the market liquidity of such instruments, volatility in market prices, interest rates or foreign currency exchange rates relating to these positions and the risk that the instruments with which the Group chooses to hedge certain positions do not track the market value of those positions and exchange rates. The Group could incur significant losses from its trading activities, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

By law, each of the Bank and the Group is required to maintain certain capital levels and capital ratios in connection with its banking business. Such capital ratios depend in part upon the level of risk-weighted assets. The Group expects that (as evidenced by the growth in cash loans since 2010) improving economic conditions will result in increased lending (both in absolute terms as well as proportionately in comparison to the Group's zero risk-weighted investment in Turkish government securities). As a result, the Bank's management expects there to be a continuing increase in the Group's risk-weighted assets, which may adversely affect the Group's capital ratios. Potential changes relating to Basel III (if implemented by the BRSA in Turkey) may also impact the manner in which the Group calculates its capital ratios and may even impose higher capital requirements. Additionally, it is possible that the Group's capital levels could decline due to, among other things, credit losses, increased credit reserves, currency fluctuations or dividend payments. In addition, the Group may need to raise additional capital in the future to ensure that it has sufficient capital to support future growth in its assets. Should the Group desire or be required to raise additional capital, that capital may not be available at all or at a price that the Group considers to be reasonable. If any or all of these risks materialize, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Correlation of Financial Risks – The occurrence of a risk borne by the Group could exacerbate other risks that the Group faces

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

Operational Risk – The Group may be unable to monitor and prevent losses arising from fraud and/or operational errors or disruptions

The Group employs substantial resources to develop and operate its risk management processes and procedures; *however*, similar to other banking groups, the Group is susceptible to, among other things, fraud by employees or third parties, failure of internal processes and systems, unauthorized transactions by employees and operational errors (including clerical or record-keeping errors and errors resulting from faulty computer or telecommunications systems). The Group's risk management and expanded control capabilities are also limited by the information tools and techniques available to the Group. The Group is also subject to service interruptions from time to time caused by third party service providers such as telecommunications operators or other service interruptions resulting from events such as natural disasters, which are beyond the Group's control. Such interruptions may result in interruption to services to the Group's branches and/or impact customer service. Given the Group's high volume of transactions, fraud or errors may be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult for the Group to detect quickly or at all. If the Group is unable to successfully monitor and prevent these or any other operational risks, or obtain sufficient insurance to cover these risks, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List.

Measures to Prevent Money Laundering and/or Terrorist Financing – Third parties might use the Group as a conduit for illegal or terrorist activities without the Group's knowledge, which could have a material adverse effect on the Group

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

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

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

Leverage Risk – The Group may become over-leveraged

One of the principal causes of the recent global financial crisis was the excessive levels of debt prevalent in various sectors of the global economy, including the financial sectors of many countries. While there were many reasons for this over-leverage, important factors included the low cost of funding, the over-reliance by creditors (particularly investors in structured transactions) on the analysis provided by rating agencies (which reliance was often encouraged by regulatory and other requirements that permitted capital to be applied based upon the debtor's rating) and the failure of risk management systems to identify adequately the correlation of risks and price risk accordingly. If the Group becomes over-leveraged as a result of these or any other reasons, then it may be unable to satisfy its obligations in times of financial stress, and such failure could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Personnel – The Group's continued success depends upon retaining key members of its senior management and its ability to recruit, train and motivate qualified staff

The Group is dependent upon its senior management to implement its strategy and operate its day-to-day business. In addition, corporate, retail and other relationships of members of senior management are important to the conduct of the Group's business. In a rapidly emerging and developing market such as Turkey, demand for highly trained and skilled staff, particularly in the Group's Istanbul headquarters, is very high and requires the Group to continually re-assess its compensation and employment policies. If members of the Group's senior management were to leave, particularly if they were to join competitors, then those employees' relationships that have benefited the Group may not continue with the Group. In addition, the Group's continuing success depends, in part, upon its ability to attract, retain and motivate qualified and experienced banking and management personnel. The Group's failure to recruit and retain necessary personnel or manage its personnel successfully could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Dependence upon Information Technology Systems – The Group's operations are highly dependent upon its information technology systems

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

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

Risk Management Strategies – The Group's efforts to control and manage risk may be inadequate

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

Some of the Group's methods of managing risk are based upon its use of historical market behavior, which methods may not predict future risk exposures that could be significantly greater than historical measures indicate. If its measures to assess and mitigate risk prove insufficient, then the Group may experience material unexpected losses that could have a material adverse effect on the Group's business, financial condition and/or results of operations. For example, assets that are not traded on public trading markets, such as derivative contracts between banks, may be assigned values that the Group calculates using mathematical models and the deterioration of assets like these could lead to losses that the Group has not anticipated.

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

While a substantial majority of the Group's operations are in Turkey, it also maintains operations in countries such as Romania, the Netherlands and Russia. The Group's operations outside of Turkey are subject to differing regulatory environments and domestic economic conditions and require the Group to engage in transactions in relevant local currencies such as the Russian Ruble. Adverse changes in the regulatory environments, economic conditions, relevant exchange rates and/or other circumstances in the jurisdictions in which the Group operates could have a material adverse effect on the Group's business, financial condition and/or results of operations.

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

The Turkish Banking Law No. 5411 of 2005, as amended (the "*Banking Law*"), places limits on a Turkish bank's exposure to related parties. The Group is within the limits of the Banking Law in terms of its exposure to its related parties (including the Doğuş Group). As of December 31, 2012, the Group's total exposure to its related parties (if computed in accordance with the Banking Law and considered as one corporate group) was the Group's seventh largest exposure to any one corporate group. All credits with respect to and services provided to members of the Doğuş Group (such as Garanti Teknoloji's provision of IT services to the Doğuş Group) are made on an arm's-length basis and all credit decisions with respect to the members of the Doğuş Group are required to be approved by the affirmative vote of two-thirds of the Bank's Board of Directors. From time to time the Group has purchased and sold assets (including equity participations and real estate) to/from Doğuş Group companies and the Bank believes that the terms of such transactions have been at least as favorable as those the Group would have received from an unaffiliated party. The value estimations (to the extent that the market values were not available) were made by independent appraisers engaged by the Group's management. Although the Group intends to continue to enter into transactions with related parties on terms similar to those that would be offered to an unaffiliated third party, such transactions create the potential for, or could result in, conflicting interests. See "Related Party Transactions."

Corporate Governance – Turkish corporate governance standards are in transition and may not be equivalent to those of certain other countries

On December 30, 2011, the CMB issued the Communiqué on the Determination and Implementation of Corporate Governance Principles Series IV, No. 56 (as amended, the "*Corporate Governance Communiqué*") providing certain mandatory and non-mandatory principles applicable to all companies incorporated in Turkey and listed on the ISE. The CMB has amended the Corporate Governance Communiqué as of February 22, 2013 to provide for specific exemptions and/or rules applicable to banks that are traded on the ISE. These amendments are being prepared in consultation with the BRSA in accordance with the new Capital Markets Law. The intent of the Corporate Governance Communiqué is to enhance Turkish corporate governance standards in a number of ways, including requiring the establishment of various committees such as a remuneration committee and a corporate governance committee. According to the amended Corporate Governance Communiqué, publicly traded banks are also required to appoint three independent board members to their boards of directors, who may be selected from the members of the audit committee; *provided* that at least one member should meet the mandatory qualification required for board members as set out under the applicable legislation. The Bank has two members currently serving on the audit committee. Publicly traded banks must comply with the Corporate Governance Communiqué, as amended, by no later than June 2013. Accordingly, the Bank established a Corporate Governance Committee at its board meeting on February 14, 2013, and is currently working toward taking the remaining necessary steps, including appointing the remaining independent director, at its ordinary general assembly scheduled to take place in April 2013. As of the date of this Offering Circular, the Bank does not comply with all of the mandatory principles of the Corporate Governance Communiqué; *however* the Bank, in line with the grace period granted by the CMB with its decision dated October 15, 2010, intends to comply with the mandatory principles of the Corporate Governance Communiqué by June 2013. Where the Bank does not comply with any of the non-mandatory principles applicable to it under the Corporate Governance Communiqué, it will describe any such non-compliance in its annual Corporate Governance Principles Compliance Report, which is published as part of the Bank's annual report.

The Bank does not currently have any independent directors. As a result, 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. All of the members of the Bank's Board of Directors are associated with the Doğuş Group and BBVA. See "Management."

Turkish Disclosure Standards – Turkish disclosure standards differ in certain significant respects from those in certain other countries, leading to a lesser amount of information being available

The disclosure obligations applicable to Turkish companies differ in certain respects from those applicable to similar companies in certain other markets, including the United States and the United Kingdom. There is also less publicly available information regarding listed Turkish companies than public companies in the United States, the United Kingdom and other more-developed markets. The new Capital Markets Law broadened the scope of disclosure requirements and those that are required to make public disclosures and, accordingly, issuers and all relevant parties are required to disclose all events, information and developments that may impact the value of the issuer's capital markets instruments, market prices or investor decisions. The CMB will determine the details of these requirements under a new regulation to be issued by December 30, 2013. Investors might not have access to the same depth of disclosure relating to the Bank as they would for investments in banks in the United States, the United Kingdom and other more-developed markets.

Audit Qualification – The audit reports in relation to the IFRS Financial Statements included a qualified opinion; audit reports in relation to future financial statements may include similar qualifications

The Group's audit reports for the years ended December 31, 2010, 2011 and 2012 were qualified with respect to general provisions that were allocated by the Group. 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.

Deloitte has qualified its audit reports in respect of the years ended December 31, 2010, 2011 and 2012 as general provisions are not permitted under IFRS. Although these provisions did not impact the Group's level of tax or capitalization ratios, if the Group had not established these provisions, then its net income might have been higher in such years.

Risk Management – The Bank's subsidiaries have different risk management teams and procedures to the Bank

The Bank's subsidiaries have their own risk management teams and procedures, which (in the context of their respective businesses and regulatory environment) are generally consistent with those of the Bank. The Bank's audit and risk committees coordinate with, and monitor the risk management policies and positions of, the Bank's subsidiaries. Such coordination and monitoring may not be sufficient to ensure that the subsidiaries' respective risk management teams and procedures will be able to manage risks to the same degree as the Bank's risk management team and procedures. Any failure of a subsidiary's risk management procedures to manage risk effectively may have a material adverse impact on the Group's reputation, together with its business, financial condition and/or results of operations.

This risk factor should not be taken as implying that the Bank or any other member of the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Risks Relating to the Notes

Exchange Rate Risks and Exchange Controls – Investors who elect to receive payments in US Dollars will be subject to exchange rate risk and the Bank's ability to make payments on the Notes in Turkish Lira may be affected by exchange controls

The Bank will pay principal and interest on the Notes in Turkish Lira, which presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency (the "*Investor's Currency*") other than Turkish Lira. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Turkish Lira or revaluation of the Investor's Currency) and the risk that the Turkish government may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Turkish Lira would decrease: (a) the Investor's Currency-equivalent yield on the Notes, (b) the Investor's Currency-equivalent value of the interest and principal payable on the Notes and (c) the Investor's Currency-equivalent market value of the Notes.

Although the Turkish government eliminated note exchange controls in 1989, government and monetary authorities could reintroduce exchange controls that could adversely affect an applicable exchange rate and/or the ability to convert and/or transfer currency. As a result, any investor with an Investor's Currency other than the Turkish Lira may receive less interest or principal than expected, or no interest or principal. An investor receiving Turkish Lira also may not be able to convert at a reasonable price (or at all) Turkish Lira into the Investor's Currency, which could materially adversely affect the market value of the Notes. There may also be tax consequences for investors (including US investors as discussed in "Taxation – Certain US Federal Income Tax Consequences)."

Settlement Currency – Unless an election is made to receive payments in US Dollars, investors in the Notes may need to open a Turkish Lira-denominated bank account

Unless an election to receive payments in US Dollars as provided in Condition 7.2 is made, investors in the Global Notes may need to open and maintain a Turkish Lira-denominated bank account, and no assurance can be given that investors will be able to do so either outside or within Turkey. Any investors who do not maintain such a bank account will be unable to transfer Turkish Lira funds (whether from payments on the Notes or the proceeds of the sale of their investment therein) from their accounts at Euroclear and Clearstream, Luxembourg.

In respect of any Notes for which such an irrevocable election has been made, the Fiscal Agent will make payment to the applicable investor's US Dollar account through the facilities of Euroclear and/or Clearstream, Luxembourg with such investor's *pro rata* portion of the US Dollars purchased with the applicable amount of Turkish Lira and converted into US Dollars at the Applicable Exchange Rate by the Fiscal Agent. Under the terms of the Agency Agreement, the Fiscal Agent will need to have received cleared funds from the Issuer on the Relevant Payment Date by no later than 10:00 a.m. (London time) in the case of a payment of interest becoming due or by 11:00 a.m. (London time) in the case of a payment of principal becoming due in order to make any payments to investors on such Relevant Payment Date. If the Fiscal Agent receives cleared funds from the Bank after such time on the Relevant Payment Date, then the Fiscal Agent will use reasonable efforts to pay the funds as soon as reasonably practicable thereafter. If it is not possible for the Fiscal Agent so to purchase US Dollars, then the corresponding payment will be made in Turkish Lira. Investors will have no recourse to the Bank, any Agent or any other person for any such reduction in value, including any resulting from any related foreign exchange rate spreads, conversion fees or commissions. Each such election will be with respect to an individual payment only and each subsequent payment will be made in Turkish Lira unless an irrevocable election to receive such payment in US Dollars is made thereafter. Such purchase of US Dollars, and any fees and commissions related thereto, may result in such investor receiving an amount of US Dollars that is less than the amount that such investor might have obtained had it received the payment in Turkish Lira and converted this amount into US Dollars in an alternative manner.

In addition, as such an election is irrevocable: (a) its exercise may (at least temporarily) affect the liquidity of the applicable investment in the Notes, (b) an investor would not be permitted to change its election notwithstanding changes in exchange rates or other market conditions and (c) if the Fiscal Agent cannot, for any reason, purchase US Dollars with the Turkish Lira amount that has been paid by the Issuer in respect of any payment of principal or interest, investors will receive Turkish Lira in respect of such payment of principal or interest.

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

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

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

While the Notes will rank equally with all of the Bank's other unsecured and unsubordinated indebtedness, the Notes will be effectively subordinated to the Bank's secured indebtedness and securitizations, if any, to the extent of the value of the assets securing such transactions, and will be subject to certain preferential obligations under Turkish law (including, without limitation, liabilities that are preferred by reason of reserve and/or liquidity requirements required by law to be maintained by the Bank with the Central Bank, claims of individual depositors with the Bank to the extent of any excess that such depositors are not fully able to recover from the SDIF, claims that the SDIF may have against the Bank and claims that the Central Bank may have against the Bank with respect to certain loans made by it to the Bank).

Redemption for Taxation Reasons – The Bank will have the right to redeem the Notes upon the occurrence of certain changes requiring it to pay withholding taxes in excess of current levels, if any, applicable to interest or other payments on the Notes

The withholding tax rate on interest payments in respect of bonds issued by Turkish legal entities outside of Turkey varies depending upon the original maturity of such bonds as specified under the decrees of the Council of Ministers of Turkey (decrees No. 2011/1854 and 2010/1182, collectively the "*Tax Decrees*"). Pursuant to such decrees, with respect to bonds with a maturity of five years and more, the withholding tax rate on interest is 0%. Accordingly, the initial withholding tax rate on interest on the Notes will be 0%. The Bank will have the right to redeem the Notes at their principal amount and accrued but unpaid interest prior to the Maturity Date of the Notes if: (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9.2) or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after February 28, 2013, on an Interest Payment Date: (i) the Bank would be required to pay additional amounts as provided or referred to in Condition 9 and (ii) the Bank would be required to make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the applicable prevailing rates on February 28, 2013, and (b) such requirement cannot be avoided by the Bank taking reasonable measures available to it. Upon such a redemption, the investors in the Notes might not be able to reinvest the amounts received at a rate that will provide the same rate of return as their investment in the Notes.

This redemption feature is also likely to limit the market value of the Notes as the market value may not rise substantially above the price at which the Notes can be redeemed.

No Public Market – There is no public trading market for the Notes and an active trading market may not develop or be sustained in the future

While the Notes are expected to be admitted to trading on the Main Securities Market, there is no active trading market for investments in the Notes. If investments in the Notes are traded after their initial issuance, then they might trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the Bank's financial condition. Although an application has been made for the Notes to be listed on the Official List and to be admitted to trading on the Main Securities Market, such application might not be accepted and/or an active trading market may not develop or, if developed, it may not be sustained. If an active trading market for investments in the Notes is not developed or maintained, then the market or trading price and liquidity of investments in the Notes may be adversely affected.

Securities denominated and payable in Turkish Lira are a relatively new development in the international capital markets, which may have an adverse effect on the liquidity, marketability and/or trading price of investments in the Notes.

Volatile Price – The market price of the Notes may be subject to a high degree of volatility

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

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

Credit Ratings – Credit ratings may not reflect all risks

In addition to the ratings on the Notes provided by Fitch and Moody's, and the ratings on the Bank by Fitch, Moody's and Standard & Poor's, one or more other independent credit rating agencies may assign credit ratings to the Notes and/or the Bank. The ratings might not reflect the potential impact of all risks related to the structure, market and other factors that may affect the value of the Notes. Credit ratings assigned to the Notes and/or the Bank do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to adjustment, revision, suspension or withdrawal at any time by the assigning rating organization. Similar ratings on different types of notes do not necessarily mean the same thing. The initial ratings by Fitch and Moody's will not address the likelihood that the principal on the Notes will be prepaid or paid on the scheduled Maturity Date. Such ratings also will not address the marketability of investments in the Notes or any market price. Any adverse change in (or withdrawal of) the Bank's credit ratings may affect the market's perception of the Bank's creditworthiness and may therefore have an adverse effect on the interest rate and/or tenor at which the Bank can obtain funding. Any change in the credit ratings of the Notes or the Bank could adversely affect the price that a subsequent purchaser will be willing to pay for investments in the Notes. The significance of each rating should be analyzed independently from any other rating.

Majority Decisions – Decisions of the holders of the required percentage of the Notes bind all Noteholders

The conditions of the Notes will contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions will permit Noteholders holding defined percentages of the Notes to bind all Noteholders, including Noteholders who did not vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. As a result, decisions might be taken by the Noteholders as a whole that are contrary to the preferences of any particular Noteholder.

Transfer Restrictions – Transfer of investments in the Notes will be subject to certain restrictions

Other than the CMB's approval of the issuance and sale of the Notes, the Notes have not been and are not expected to be registered: (a) under the Securities Act or any applicable state's or other jurisdiction's securities laws or (b) with the SEC or any other applicable state's or other jurisdiction's regulatory authorities. The offering of the Notes (or beneficial interests therein) will be made pursuant to exemptions from the registration provisions of the Securities Act and from other securities laws. Accordingly, reoffers, resales, pledges and other transfers of investments in the Notes will be subject to certain transfer restrictions. Each investor is advised to consult legal counsel in connection with any such reoffer, resale, pledge or other transfer. See "Transfer Restrictions."

Because transfers of interests in the Global Certificates can be effected only through book entries at Clearstream, Luxembourg and/or Euroclear (as applicable) for the accounts of their respective participants, the liquidity of any secondary market for investments in the Global Certificates may be reduced to the extent that some investors are unwilling to invest in notes held in book-entry form in the name of a participant in Clearstream, Luxembourg or Euroclear, as applicable. The ability to pledge interests in the Notes may be limited due to the lack of a physical certificate. In the event of the insolvency of Clearstream, Luxembourg, Euroclear or any of their respective participants in whose name interests in the Notes are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on the Notes may be impaired.

Further Issues – The Bank may issue further notes, which may dilute the Noteholders' share of the total issuance

As permitted by Condition 15, the Bank may from time to time without the consent of the Noteholders create and issue further Notes, having terms and conditions that are the same as those of the Notes, or the same except for the amount of the first payment of interest, which new Notes may be consolidated and form a single series with the outstanding Notes even if doing so may adversely affect the value of the outstanding Notes. To the extent that the Bank issues such further notes, the existing Noteholders' share of the total issuance (*e.g.*, for voting) will be diluted.

Enforcement of Judgments – It may not be possible for investors to enforce foreign judgments against the Bank or its management

The Bank is a public joint stock company organized under the laws of Turkey. Certain of the directors and officers of the Bank reside inside Turkey and all or a substantial portion of the assets of such persons may be, and substantially all of the assets of the Bank are, located in Turkey. As a result, it may not be possible for investors to effect service of process upon such persons outside Turkey or to enforce against them in the courts of jurisdictions other than Turkey any judgments obtained in such courts that are predicated upon the laws of such other jurisdictions.

In addition, under the International Private and Procedure Law of the Republic of Turkey (Law No. 5718), a judgment of a court established in a country other than the Republic of Turkey may not be enforced in Turkish courts in certain circumstances. Although Turkish courts generally recognize enforceable judgments of English courts on the basis that there is *de facto* reciprocity between the United Kingdom and Turkey with respect to the enforcement of judgments of their respective courts, there is no treaty between the United Kingdom and Turkey providing for reciprocal enforcement of judgments. For further information, see "Enforcement of Judgments and Service of Process."

EU Savings Directive – The Notes may be subject to withholding taxes in circumstances where the Bank is not obliged to make gross up payments, which would result in investors receiving less interest than expected and could materially adversely affect their return on the Notes

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

The European Commission has proposed certain amendments to such Directive, which may, if implemented, amend or broaden the scope of the requirements described herein.

If a payment were to be made or collected through a member state that has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, then neither the Bank, any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Bank will be required to maintain a paying agent in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Reliance upon Clearing System Procedures – Investors in the Notes will be subject to the rules of the applicable clearing system and their ability to exercise rights relating to the Notes directly may be limited

The Global Certificates will be delivered to a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Agency Agreement (see "The Global Certificates"), investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg and their respective accountholders will maintain records of the beneficial interests in the Global Certificates. While the Notes are represented by Global Certificates, investors will be able to trade their beneficial interests therein only through Euroclear and Clearstream, Luxembourg and their respective accountholders.

While the Notes are represented by the Global Certificates, the Issuer will discharge its payment obligation thereunder by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely upon the procedures of the relevant clearing system and its participants to receive payments under their interests in the related Notes. The Bank will have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Certificate. Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

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

The Office of Foreign Assets Control of the US Department of Treasury ("*OFAC*") administers regulations that restrict the ability of US persons to invest in, or otherwise engage in business with, certain countries, including Iran and Sudan, and specially designated nationals ("*SDNs*"), and other United States, United Kingdom, European Union and United Nations rules impose similar restrictions (the SDNs and other targets of these restrictions being together the "*Sanction Targets*"). As the Bank is not a Sanction Target, these rules do not prohibit United States or European investors from investing in, or otherwise engaging in business with, the Bank; *however*, while the Bank's current policy is not to engage in any business with Sanction Targets, to the extent that the Bank invests in, or otherwise engages in business with, Sanction Targets directly or indirectly, investors in the Bank may incur the risk of indirect contact with Sanction Targets. See "The Business of the Group – Compliance with Sanctions Laws."

FORWARD LOOKING STATEMENTS

This Offering Circular contains statements that may be considered to be "forward-looking statements" (as that term is defined in the US Private Securities Litigation Reform Act of 1995) relating to the Group's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the Group's businesses). When used in this Offering Circular, the words "anticipates," "estimates," "expects," "believes," "intends," "plans," "aims," "may," "will," " should" and any similar expression generally identify forward-looking statements. Forward-looking statements appear in a number of places throughout this Offering Circular, including (without limitation) under "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "The Group and its Business" and include, but are not limited to, statements regarding:

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

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

The Bank has identified some of the risks inherent in these forward-looking statements and these are set out under "Risk Factors." Should one or more of these factors or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. There may be other risks, including some risks of which the Bank is unaware, that could adversely affect the Group's results or the accuracy of forward-looking statements in this Offering Circular. Therefore, potential investors should not consider the factors discussed under "Risk Factors" to be a complete set of all potential risks or uncertainties of investing in the Notes.

Potential investors should not place undue reliance upon any forward-looking statements. Except as required to comply with its regulatory requirements, the Bank does not have any intention or obligation to update forward-looking statements to reflect new information or future events or risks that may cause the forward-looking events discussed in this Offering Circular not to occur or to occur in a manner different from what the Bank currently expects.

ENFORCEMENT OF JUDGMENTS AND SERVICE OF PROCESS

The Bank is a public joint stock company organized under the laws of Turkey. Certain of the directors and officers of the Bank named herein reside inside Turkey and all or a significant portion of the assets of such persons may be, and substantially all of the assets of the Bank are, located in Turkey. As a result, it may not be possible for investors to effect service of process upon such persons outside Turkey or to enforce against them in the courts of jurisdictions other than Turkey any judgments obtained in such courts that are predicated upon the laws of such other jurisdictions. In order to enforce such judgments in Turkey, investors should initiate enforcement lawsuits before the competent Turkish courts. In accordance with Articles 50-59 of Turkey's International Private and Procedure Law (Law No. 5718), the courts of Turkey will not enforce any judgment obtained in a court established in a country other than Turkey unless:

(a) there is in effect a treaty between such country and Turkey providing for reciprocal enforcement of court judgments,

(b) there is *de facto* enforcement in such country of judgments rendered by Turkish courts, or

(c) there is a provision in the laws of such country that provides for the enforcement of judgments of Turkish courts.

There is no treaty between Turkey and either the United States or the United Kingdom providing for reciprocal enforcement of judgments. There is no *de facto* reciprocity between Turkey and the United States. Turkish courts have rendered at least one judgment confirming *de facto* reciprocity between Turkey and the United Kingdom; *however*, since *de facto* reciprocity is decided by the relevant court on a case-by-case basis, there is uncertainty as to the enforceability of court judgments obtained in the United States or the United Kingdom by Turkish courts. Moreover, there is uncertainty as to the ability of an investor to bring an original action in Turkey based upon the US federal or any other non-Turkish securities laws.

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

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

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

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

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

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

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

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

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

USE OF PROCEEDS

The Bank will incur various expenses in connection with the issuance of the Notes, including underwriting fees, legal counsel fees, rating agency expenses and listing expenses. The expenses in connection with the admission of the Notes to the Official List and to trading on the Main Securities Market are expected to amount to approximately €4,940. The Bank will use the net proceeds from the issuance of the Notes for general corporate purposes, including paying the other expenses relating to the issuance of the Notes.

EXCHANGE RATES

The following table sets forth, for the periods indicated, information concerning the period average and period-end buying rates for US Dollars for the periods indicated. The rates set forth below are provided solely for convenience and were not used by the Bank in the preparation of the financial statements included elsewhere in this Offering Circular nor in the presentation of any of the other figures in this Offering Circular. No representation is made that Turkish Lira could have been, or could be, converted into US Dollars at that rate or at any other rate.

Period	Average(1)	End(2)	High	Low
February 2013	1.7691	1.8050	1.8069	1.7459
January 2013	1.7639	1.7588	1.7800	1.7496
2012	1.7926	1.7826	1.8889	1.7340
2011	1.6700	1.8889	1.9065	1.4955
2010	1.5004	1.5460	1.5978	1.3884
2009	1.5471	1.5057	1.7958	1.4365
2008	1.2929	1.5123	1.6956	1.1449

Source: Central Bank

(1) For each of the full years, this represents the yearly averages of the monthly averages of the TL/US$ exchange rates determined by the Central Bank for the relevant period, which averages were computed by calculating the average of the daily TL/US$ exchange rates on the business days of each month during the relevant period. For the months of 2013, this represents the monthly averages of the TL/US$ exchange rates determined by the Central Bank for such month, which monthly averages were computed in the same manner described above.

(2) Represents the TL/US$ exchange rates for the purchase of US Dollars determined by the Central Bank on the last working day of the relevant period, effective for the following working day.

As of February 28, 2013 at 6:00 p.m. Turkish time, the Bloomberg Generic FX page was showing the exchange rate as US$1.00 = TL 1.7984/1.7987, bid/ask. The Turkish Lira may depreciate or appreciate significantly in the future.

SUMMARY FINANCIAL AND OTHER DATA

The following summary financial and other data as of and for each of the years ended December 31, 2010, 2011 and 2012 have been extracted (except as noted in the "Key Ratios" table) from the IFRS Financial Statements included elsewhere in this Offering Circular, without material adjustment. This information should be read in conjunction with the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the IFRS Financial Statements (including the notes thereto) appearing elsewhere in this Offering Circular. The IFRS Financial Statements included in this Offering Circular have been audited by Deloitte. See "Risk Factors – Risks Relating to the Group and its Business – Audit Qualification." Note that the Group's consolidated capital adequacy ratios are calculated based upon numbers prepared in accordance with BRSA regulations.

	For the year ended December 31,		
	2010[(2)]	**2011**	**2012**
Income Statement Data:		*(TL thousands)*	
Net interest income	5,214,406	5,235,893	6,407,362
Net fee and commission income	1,910,832	2,130,603	2,072,749
Other operating income	708,450	1,366,337	1,154,780
Total operating income	**7,833,688**	**8,732,833**	**9,634,891**
Impairment losses, net[(1)]	(84,777)	(353,716)	(1,243,673)
Other operating expenses	(3,451,446)	(4,107,027)	(4,110,413)
Income before tax	**4,297,465**	**4,272,090**	**4,280,805**
Taxation charge	(865,840)	(874,164)	(888,081)
Net income for the period	**3,431,625**	**3,397,926**	**3,392,724**

(1) "Impairment losses, net" includes provisions for loan losses, net.
(2) In 2011, the Group reassessed the accounting treatment applied for the reserve for employee severance indemnity and restated the prior year's financial statements. Accordingly, the Group's net income in 2010 was reduced by TL 17,269 thousand and certain income statement items were restated in order to reflect the effect of this restatement.

	As of December 31,		
	2010	**2011**	**2012**
Balance Sheet Data:		*(TL thousands)*	
Cash and balances with central banks	5,073,058	3,429,820	4,519,405
Loans and advances to banks	9,810,401	15,232,714	9,409,593
Loans and advances to customers	71,092,418	92,653,780	102,260,080
Investment securities	40,361,866	35,941,390	39,861,281
Other assets[(1)(3)]	9,464,972	14,143,317	21,449,176
Total assets	**135,802,715**	**161,401,021**	**177,499,535**
Deposits from customers	76,295,528	90,138,994	92,191,501
Deposits from banks	2,808,006	3,096,810	5,583,786
Other liabilities[(2)(3)]	39,826,353	50,015,338	57,786,532
Total liabilities	**118,929,887**	**143,251,142**	**155,561,819**
Total shareholders' equity and non-controlling interests	**16,872,828**	**18,149,879**	**21,937,716**
Total liabilities, shareholders' equity and non-controlling interests	**135,802,715**	**161,401,021**	**177,499,535**

(1) "Other assets" is derived from the sum of all asset line items in the applicable balance sheet, except for "Cash and balances with central banks," "Loans and advances to banks," "Loans and advances to customers" and "Investment securities."
(2) "Other liabilities" is derived from the sum of all liability line items in the applicable balance sheet, except for "Deposits from customers" and "Deposits from banks."
(3) Receivables from the securities lending market and payables to the securities lending market are netted-off in the balance sheet as of December 31, 2012 for presentation purposes. Accordingly, such items, both amounting to TL 737,814 thousand as of December 31, 2011, are also netted-off in the above table for comparison purposes. There was no effect of this presentation change on the prior year's balance sheet.

Key Ratios	As of or for the year ended December 31, 2010	2011	2012
Net interest margin(1)	4.3%	3.5%	3.8%
Adjusted net interest margin(2)	4.2%	3.4%	3.1%
Net yield(3)	5.0%	4.2%	4.5%
Adjusted net interest income as a percentage of average interest-earning assets(3)(4)	5.0%	3.7%	4.0%
Net fee and commission income to total operating income	24.3%	25.0%	24.6%
Cost-to-income ratio(5)	44.4%	45.8%	46.9%
Operating expenses as a percentage of total average assets(6)	2.6%	2.3%	2.2%
Deposits to total assets	58.2%	57.8%	55.1%
Total cash loans to total assets	52.3%	57.4%	57.6%
Total shareholders' equity to total assets	12.4%	11.2%	12.4%
Liquid assets as a percentage of total deposits(7)	12.4%	11.9%	8.7%
Non-performing loans to total gross cash loans	3.5%	2.3%	2.8%
Free capital ratio(8)	10.8%	10.0%	11.1%
Group's capital adequacy ratios(9)			
Tier I capital adequacy ratio(10)	15.71%	14.12%	15.52%
Total capital adequacy ratio(10)	18.07%	15.76%	16.87%
Allowance for probable loan losses to non-performing loans(11)	85.2%	94.7%	93.7%
Return on average total assets(12)	2.8%	2.3%	2.0%
Return on average shareholders' equity(13)	22.3%	19.6%	17.0%
TL/$ Exchange Rate			
Period-end	1.52	1.87	1.76
Daily average per period	1.49	1.66	1.78
Inflation rate			
Producer price index(14)	8.9%	13.3%	2.5%
Consumer price index(14)	6.4%	10.5%	6.2%
Gross Domestic Product (GDP) (real)(15)			
GDP (real) (% change)	9.2%	8.5%	2.7%

(1) Net interest income as a percentage of total average assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period). This is calculated on the basis of IFRS. For Bank-only net interest margin, see "Management's Discussion and Analysis of Financial Condition and Result of Operations – Significant Factors Affecting the Group's Financial Condition and Result of Operations – Interest Rate Environment."

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

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

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

(5) "Cost" includes total operating expenses excluding impairment losses, net, reserve for employee severance indemnities and foreign exchange and trading losses. "Income" includes operating income minus foreign exchange and trading losses and impairment losses, net, except for provisions made on a portfolio basis to cover any inherent risk of loss for cash loans and non-cash loans. If "income" were calculated without subtracting impairment losses, net, then the ratios would be 43.8%, 43.9% and 42.0% for 2010, 2011 and 2012, respectively.

(6) Operating expenses for purposes of this calculation is total operating expenses excluding impairment losses, net, depreciation and amortization expenses, reserve for employee severance indemnities and foreign exchange and trading losses. Total average assets are calculated as the average of the opening, quarter-end and closing balances for the applicable period.

(7) Liquid assets represent cash and balances with central banks, loans and advances to banks excluding blocked accounts and financial assets at fair value through profit or loss.

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

(9) Calculated in accordance with BRSA regulations for the Group. Each of the Bank and the Group is required to maintain a capital adequacy ratio over the legal minimum only on a total capital basis. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Adequacy" below. The 2010 and 2011 capital adequacy ratios are not comparable to the ratio of 2012 as the calculation method changed to Basel II starting on July 1, 2012.

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

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

(12) Net income for the period as a percentage of average total assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period).
(13) Net income for the period as a percentage of average shareholders' equity (calculated as the average of the opening, quarter-end and closing balances for the applicable period).
(14) As published by TurkStat.
(15) As published by TurkStat, except for data in relation to 2012, which has been estimated by the Bank.

CAPITALIZATION OF THE GROUP

The following table sets forth the total capitalization of the Group as of December 31, 2010, 2011 and 2012. The following financial information has been extracted from the Group's IFRS Financial Statements without material adjustment. This table should be read in conjunction with the Group's IFRS Financial Statements (including the notes thereto) and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Offering Circular.

	As of December 31,		
	2010	**2011**	**2012**
	(TL thousands)		
Share capital	5,146,371	5,145,012	5,143,305
Share premium	11,880	11,880	11,880
Non-controlling interests	97,461	112,583	140,524
Unrealized gains on available-for-sale assets	1,627,351	92,778	1,093,683
Hedging reserve	(1,482)	(389)	-
Translation reserve	1,222	(16,382)	(20,765)
Legal reserves	553,459	757,480	956,192
Retained earnings	9,436,566	12,046,917	14,612,897
Total shareholders' equity and non-controlling interests	**16,872,828**	**18,149,879**	**21,937,716**
Long-term debt(1)	13,693,752	15,863,846	15,567,653
Total Capitalization	**30,566,580**	**34,013,725**	**37,505,369**

(1) Long-term debt is comprised of long-term debts classified under "loans and advances from banks" and "subordinated liabilities" (excluding expense accruals) in the IFRS Financial Statements.

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

The following discussion should be read in conjunction with the Group's IFRS Financial Statements (including the notes thereto) included elsewhere in this Offering Circular.

Under IFRS, the Bank's financial statements are consolidated with the financial statements of its affiliates (except to the extent immaterial) that are companies controlled by the Bank (*i.e.*, the Bank has the power to govern the financial and operating policies of these enterprises so as to obtain benefits from their activities). The entities that were consolidated in the IFRS Financial Statements as of December 31, 2012 were Garanti Bank International NV ("*GBI*"), Garanti Finansal Kiralama AŞ ("*Garanti Leasing*"), Garanti Bank Moscow ("*GBM*"), Garanti Faktoring Hizmetleri AŞ ("*Garanti Factoring*"), Garanti Emeklilik ve Hayat AŞ ("*Garanti Pension and Life*"), Garanti Holding BV(*) ("*GHBV*"), G Netherlands BV(†) ("*G Netherlands*"), Garanti Bank SA ("*Garanti Romania*"), Motoractive IFN SA ("*Motoractive*"), Ralfi IFN SA ("*Ralfi*"), Domenia Credit IFN SA ("*Domenia*"), Garanti Yatırım Menkul Kıymetler AŞ ("*Garanti Securities*"), Garanti Yatırım Ortaklığı AŞ ("*GYO*"), Garanti Portföy Yönetimi AŞ ("*Garanti Asset Management*"), Garanti Filo Yönetim Hizmetleri AŞ ("*Garanti Fleet*"), Garanti Bilişim Teknolojisi ve Ticaret TAŞ ("*Garanti Teknoloji*") and Garanti Diversified Payment Rights Finance Company (while not a legal affiliate, the last entity is a special purpose entity established for the purpose of the Bank's "diversified payment rights" program, and is thus required to be consolidated). The IFRS Financial Statements included these same consolidated entities (except that: (a) the Bank began consolidating GHBV, G Netherlands, Garanti Romania, Motoractive, Ralfi and Domenia as of May 28, 2010 as a result of their acquisition as described in "The Group and its Business – Subsidiaries – GHBV and Romania businesses" below), (b) the Bank discontinued consolidating Garanti Financial Services plc and Garanti Fund Management Co. starting from May 31, 2010 following the completion of their liquidations, (c) Leasemart Holding BV had been consolidated from December 16, 2010, the date of its acquisition by the Bank, until August 2, 2011, the date of its merger with GHBV and (d) the Bank discontinued consolidating T2 Capital Finance Company (a special purpose entity established for the purpose of a subordinated debt transaction and thus required to be consolidated) starting from February 6, 2012 following the repayment of the related subordinated debt.

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

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

The Group's financial condition, results of operations and prospects depend significantly upon the macro-economic conditions prevailing in Turkey as well as other factors. The impact of these and other potential factors may vary significantly in the future and many of these factors are outside the control of the Group. Prospective investors should (among other things) consider the factors set forth under "Forward-Looking Statements" and "Risk Factors." The following describes the most significant of such factors since the beginning of 2010.

Turkish Economy

The Group's operations are primarily in Turkey (or related to Turkish activities) and almost all of its operating income and net income are derived from its Turkish operations (including Turkish-related business for the Group's operations abroad). Accordingly, its results of operations and financial condition are and will continue to be significantly affected by Turkish political, regulatory and macro-economic factors, including factors such as economic growth rates, currency fluctuations, the Central Bank's regulatory policy, inflation and fluctuations in interest rates in Turkey. The following table provides certain macro-economic indicators for Turkey, including real GDP, annual inflation rates and the Central Bank's overnight TL rate for each of the indicated years, as well as the average exchange rates announced by the Bank between the TL and each of the US Dollar and the Euro for such years:

(*) Formerly named D Netherlands Holding BV.
(†) Formerly named Doğuş GE BV.

	2007	2008	2009	2010	2011	2012
GDP (real)[(1)]	4.7%	0.7%	(4.7)%	9.2%	8.5%	2.7%
Producer price index[(2)]	5.9%	8.1%	5.9%	8.9%	13.3%	2.5%
Consumer price index[(2)]	8.4%	10.1%	6.5%	6.4%	10.5%	6.2%
Period-end Central Bank overnight TL rate[(3)]	15.75%	15.00%	6.50%	1.50%	5.00%	5.00%
Daily average TL/$ exchange rate[(4)]	1.30	1.29	1.53	1.49	1.66	1.78
Daily average TL/€ exchange rate[(5)]	1.78	1.88	2.13	1.97	2.31	2.28

(1) As published by TurkStat, except for data in relation to 2012, which has been estimated by the Bank.
(2) As published by TurkStat.
(3) The overnight borrowing rate announced by the Central Bank. Starting from 2010, the Central Bank announces the weekly repo lending rate as the reference rate, which was 5.50% as of December 31, 2012, 5.75% as of December 31, 2011 and 6.50% as of December 31, 2010.
(4) The Turkish Lira exchange rate for purchases of US Dollars announced by the Bank.
(5) The Turkish Lira exchange rate for purchases of Euro announced by the Bank.

In 2010, in line with the positive trends in growth, the Group's loan portfolio returned to an increasing trend. The producer price index increased significantly above the level in 2009, especially due to the increase in the prices of oil, gold, agricultural products and other commodities. In 2010, interest rates maintained their decreasing trend. Due to greater economic stability and increasing confidence in 2010, the Group's loan portfolio grew by 29.8% compared to year-end 2009. This growth was principally in consumer loans (particularly in mortgage and general purpose loans) and loans to the service sector and certain industrial sectors such as energy, metal and metal products, and construction. The share of loans and advances to customers in total assets increased from 47.4% as of the beginning of 2010 to 52.4% as of December 31, 2010. In 2010, the Turkish Lira slightly appreciated against the US Dollar and the Euro.

These trends continued in 2011 as the global and domestic economies continued their recovery, with the Group's loan portfolio growing by 30.3% during the year. As in 2010, this growth was driven by an increase in consumer loans (and, in particular, general purpose loans, credit card receivables and mortgage loans) and loans to the construction and service sectors and certain industrial sectors such as food, tourism and energy. The upward pressure on inflation in the Turkish economy continued in 2011, as reflected by the producer price index, the consumer price index and the depreciation of the Turkish Lira against the US Dollar and the Euro during that year.

In 2012, the Turkish Lira depreciated against a basket of currencies, principally due to the Central Bank's measures aimed at reducing the appreciation pressure on the Turkish Lira. After having stayed at levels above 10% throughout the first quarter of 2012, consumer price inflation fell to 6.2% by the end of 2012, in part due to decreases in the prices of food together with the Central Bank's tightening of monetary policy in late 2011. Bank-only loans grew by 9.6% over 2012, with Turkish Lira loans forming an increasing proportion of the Bank's loan portfolio compared to foreign currency lending. This Turkish Lira loan growth was primarily driven by the Bank's SME, retail and commercial customers. It is expected that the Turkish economy will continue to grow in 2013, although GDP is expected to grow at a similar slow rate as in 2012, with growth rates expected in the low single digits.

Currency Exchange Rates

A significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly the US Dollar and the Euro (41.3% of total assets and 48.3% of total liabilities as of December 31, 2012). While the Group monitors its net open position in foreign currencies (which is the amount by which its foreign currency-denominated assets differ from its foreign currency-denominated liabilities) and each of the Bank and the Group is required to comply with foreign currency net open position limits promulgated by the BRSA, each of the Bank and the Group has maintained and likely will continue to maintain gaps between the balances of its foreign currency assets and liabilities. The limit imposed by the BRSA is defined as an amount plus/minus 20% of the total capital used in the calculation of regulatory capital adequacy ratios. The Group's and the Bank's foreign currency net open position ratios were (1.4)% and 1.4%, respectively, as of December 31, 2012, (1.1)% and 0.8%, respectively, as of December 31, 2011 and (3.5)% and (1.3)%, respectively, as of December 31, 2010.

The Group's short foreign currency position increased to an equivalent of US$301 million as of December 31, 2012 from US$166 million as of December 31, 2011, which itself was a decrease from an equivalent of US$430 million as of December 31, 2010. The following table provides the Group's net open position in different currencies as of the indicated dates:

	As of December 31,		
	2010	**2011**	**2012**
		(millions)	
US Dollars	$(418)	$(157)	$12
Euro	€(207)	€(235)	€(467)
Other currencies(1)	$265	$(295)	$302
Total net foreign exchange position(1)(2)	**$(430)**	**$(166)**	**$(301)**

(1) For the convenience of the reader, the December 31, 2012 figures have been translated into US Dollars based upon the TL/$ Exchange Rate as of December 31, 2012 of TL 1.760 = US$1.00.
(2) The positions indicated are net of the effects of hedging transactions and other off-balance sheet positions.

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

By maintaining a reasonably balanced foreign currency position throughout each of 2010, 2011 and 2012, the Group had reasonable net foreign exchange gains or losses (after giving effect to the Group's hedging strategy and other off-balance sheet positions) in each such period – net foreign exchange gains of TL 435,055 thousand, a net foreign exchange loss of TL 340,950 thousand and net foreign exchange gains of TL 81,971 thousand in 2012, 2011 and 2010, respectively. The major driver behind the foreign exchange loss in 2011 was the volatility of the Turkish Lira as a result of monetary interventions by the Central Bank. These interventions, including increases in reserve requirements, changes in currency compositions of such requirements and the tightening of monetary policy, each adversely affected the Group's income statement through both on balance and off balance sheet items. See also "Operating Income-Other Operating Income" and "Operating Expenses."

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

Interest Rate Environment

One of the primary factors influencing the Group's profitability is the level of interest rates in Turkey, which in turn influences the return on its securities portfolio and its loan and deposit rates. Interest earned and paid on the Group's assets and liabilities reflect, to a certain degree, inflation, expectations regarding inflation, shifts in short-term interest rates set by the Central Bank and movements in long-term real interest rates. The fluctuations in short-term and long-term interest rates impact the Group's net interest income differently based upon the repricing profile of the Group's interest-earning assets and interest-bearing liabilities. Due principally to historical inflation expectations in Turkey, as of December 31, 2012, 47.1% of the Bank's TL-denominated cash loan portfolio had a maturity of one year or less and 19.4% of such portfolio carried a floating rate of interest (51% and 24% and 51% and 31% as of December 31, 2011 and 2010, respectively).

Because the Group's interest-bearing liabilities (principally deposits) generally reprice faster than its interest-earning assets, changes in the short-term interest rates in the economy generally are reflected in the rates of interest paid by the Group on its liabilities before such interest rates are reflected in the rates of interest earned by the Group on its assets. Therefore, when short-term interest rates fall, the Group is both positively affected (for example, the value of its fixed rate securities portfolio may increase and its interest margins can improve), but can also be negatively impacted (for example, through the decline in net interest margins on assets funded by 0% interest rate deposits). On the other hand, when short-term rates increase, the Group's interest margin is generally negatively affected as it generally will pay higher interest rates on its interest-bearing liabilities before it can modify the rates of its interest-earning assets. An increase in long-term rates generally has at least a short-term negative effect on the Group's net interest margin because its interest-earning assets generally have a longer repricing duration than its interest-bearing liabilities and because a portion of its interest-earning assets have fixed rates of interest (for example, 56.4%, 58.9% and 61.3% of the Bank's interest-earning assets were fixed-rate as of December 31, 2010, 2011 and 2012, respectively); *however*, 32.2% of the Group's securities portfolio consisted of consumer price index-linked securities as of December 31, 2012 (30.8% and 26.6% as of December 31, 2011 and 2010, respectively). Falling interest rates are expected by the Bank's management to increase the value of the Group's existing securities investment portfolio; *however*, this effect may be diminished over coming years as the Group's holding of securities issued during periods of higher interest rates reduces through repayment.

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

	2010	2011	2012
Net interest margin(1)............................	4.5%	3.6%	4.3%
Turkish Lira assets............................	6.0%	5.2%	5.5%
Foreign currency assets	1.9%	1.2%	1.7%
Average spread(2)			
Turkish Lira assets............................	5.2%	4.5%	5.5%
Foreign currency assets	2.0%	1.5%	2.4%

(1) The Bank's net interest income as a percentage of its total average assets. Total average assets are calculated as the average of the opening, quarter-end and closing balances for the applicable period.

(2) Difference between the weighted average interest rate of the Bank's average interest-earning assets and interest-bearing liabilities. Average interest-earning assets and interest-bearing liabilities are calculated as the average of the opening, quarter-end and closing balances for the applicable period.

In 2010, net interest margins and spreads in Turkish Lira and foreign currencies decreased as compared to 2009. The overnight TL borrowing rate announced by the Central Bank declined from 6.5% in November 2009 to 1.5% in December 2010 and then increased to 5.0% in December 2011 and remained at that level in 2012. The decrease in margins since 2009 has principally been due to the moderation of local market conditions (including inflationary pressures), the increases to reserve requirements introduced by the Central Bank (no interest is earned on such reserves) and the tightening of monetary policy in Turkey over the period. The improvement in net interest margins and spreads in 2012 was principally due to the growth in the Group's lending activities on loans with more profitable margins (*e.g.*, consumer loans) and a decrease in interest rates on deposits. Increased competition, particularly price competition in certain retail products (particularly general purpose loans) from state-controlled banks, negatively impacted the Group's net interest margin during 2011.

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

	2010	2011	2012
Net interest margin(1)	4.3%	3.5%	3.8%
Average spread(2).................................	3.8%	3.2%	3.5%

(1) The Group's net interest income as a percentage of its total average assets. Total average assets are calculated as the average of the opening, quarter-end and closing balances for the applicable period.

(2) Difference between the weighted average interest rate of the Group's average interest-earning assets and interest-bearing liabilities. Average interest-earning assets and interest-bearing liabilities are calculated as the average of the opening, quarter-end and closing balances for the applicable period.

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

Significant Securities Portfolio

The Group has historically generated a significant portion of interest income from its securities portfolio, with interest and similar income derived from the Group's securities portfolio in 2010, 2011 and 2012, accounting for 37.8%, 32.3% and 29.0%, respectively, of its total interest income (and 31.3%, 26.2% and 26.3%, respectively, of its gross operating income before deducting interest expense and fee and commission expense when trading gains on sale of securities are also considered). The Group also has obtained large realized gains from the sale of securities, which gains represented 52.9% of the Group's other operating income in 2012 (largely attributed to the Bank's partial sale of eurobonds in its held-to-maturity portfolio in the third quarter of 2012 pursuant to the exception granted by IAS 39 for the sale of securities originally classified as securities held-to-maturity in cases where the regulatory capital requirement increases, such as following Basel II's effectiveness on July 1, 2012), 23.9% in 2011 and 35.0% in 2010.

While the contribution of income from the Group's securities portfolio (including interest earned, trading gains and other income) has been significant over the past three fiscal years, the Group expects that trading gains will not continue to be as large going forward and that the percentage of its assets invested in securities will decline further as loan demand keeps accelerating due to the continued (though limited) growth in the Turkish economy. In addition, interest income may be diminished over coming years as the Group's holding of securities issued during periods of higher interest rates reduces through repayment.

The Group's securities portfolio principally contains Turkish government debt securities, with more limited holdings of other securities such as corporate and foreign government debt securities. The Group's investment securities portfolio (which excludes its trading portfolio) represented 29.7%, 22.3% and 22.5%, respectively, of the Group's total assets as of December 31, 2010, 2011 and 2012. The share of the Group's investment securities portfolio in its total assets decreased in 2010, 2011 and 2012 as the Group increased its cash loan lending, in part due to higher loan demand. As the Group's investment securities portfolio is comprised largely of high quality securities (principally Turkish government debt, most of which is held in the available-for-sale portfolio), the Group experienced insignificant credit losses on its investment securities portfolio and established immaterial provisions relating thereto during each of 2010, 2011 and 2012; *however*, its trading portfolio and available-for-sale investment securities portfolio are marked-to-market with the mark-to-market losses or gains being included in income (for the trading portfolio and where there is a permanent impairment of available-for-sale securities) or shareholders' equity (for the available-for-sale portfolio) as appropriate. In case of permanent impairments of held-to-maturity securities, such impairment losses are also recognized in income. See Note 10 of the 2012 IFRS Financial Statements included elsewhere in this Offering Circular and "Selected Statistical and Other Information – Securities Portfolio."

Provisions for Probable Loan Losses

The Group's financial results can be significantly affected by the amount of provisions for probable loan losses. The net provision for probable losses on cash loans increased from TL 60,419 thousand in 2010 to TL 200,954 thousand (a 232.6% increase) in 2011, and further increased to TL 1,158,033 thousand (a 476.3% increase) in 2012. These increases were due to further provision requirements on consumer loans and credit cards as the Group's loan portfolio grew, certain non-performing commercial loans (though with strong collateralization) and the decrease in collections compared to those in 2011 and 2010 as expected. The ratio of the Group's non-performing loans to total gross cash loans decreased from 3.5% as of December 31, 2010, to 2.3% as of December 31, 2011, and increased to 2.8% as of December 31, 2012. In 2010, as a result of deceleration in new non-performing loans and a strong collection performance combined with the 29.8% growth in the amount of cash loans, the ratio of the Group's non-performing loans to total gross cash loans declined to 3.5% as of December 31, 2010. In 2011, further improvements in general economic conditions, supported by a 30.3% growth in cash loans, together with strong collections in the last quarter of the year, contributed to the decrease in the ratio of non-performing loans to total cash loans to 2.3%. In 2012, the ratio increased to 2.8% due to the decrease in the pace of collections and loan growth, impacted by the slowing pace of growth in the Turkish economy (particularly in domestic demand).

In addition to the provisions that the Group is required to take for non-performing loans according to BRSA requirements (see "Turkish Regulatory Environment – Loan Loss Reserves;" IFRS provisioning is described below in "Significant Accounting Policies – Allowance for Loan Losses, Guarantees and Other Commitments"), the Group's management may take additional provisions should the management determine this to be prudent either in the form of specific provisions or general provisions. For example, in 2009 the Group's management elected to take a TL 330,000 thousand general provision in order to act conservatively in the context of the uncertainty created by the global financial crisis. In addition to the negative impact on net income caused by the increase to total operating expenses resulting from such provisions, from a tax perspective the Group is unable to deduct these general provisions from its taxable income, thus increasing its effective tax rate. The Bank's management decided to maintain this general provision in the following years, and elected to take a further TL 90,000 thousand provision in 2011. Deloitte has qualified its audit reports for these provisions for 2010, 2011 and 2012 because general provisions are not permitted under IFRS. See the IFRS Financial Statements included elsewhere in this Offering Circular.

Significant Accounting Policies

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

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

Allowance for Loan Losses, Guarantees and Other Commitments

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

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

Fair Value of Securities

The Group's securities are classified as either financial assets at fair value through profit or loss (*i.e.*, trading securities) or investment securities (which include both available-for-sale securities and held-to-maturity securities). While held-to-maturity securities are recorded at their acquisition cost and measured at amortized cost calculated as per the effective interest rate method, the Group's trading securities and available-for-sale investment securities (which collectively represented 96.6% of the Group's total securities portfolio as of December 31, 2012) are recorded at fair value, with changes in fair value being recorded in income (for the trading portfolio and where there is a permanent impairment or sale of available-for-sale securities) or shareholders' equity (for mark-to-market movements in available-for-sale securities). In the case of permanent impairment of held-to-maturity securities, such impairment losses are also recognized in income. As of December 31, 2010, 2011 and 2012, a total of TL 35,242,783 thousand, TL 31,574,131 thousand and TL 39,045,253 thousand, respectively, in such securities were recorded at fair value in the Group's balance sheet.

The following table sets out the distribution of the Group's securities recorded at fair value as of each of the indicated dates:

	December 31,		
	2010	**2011**	**2012**
		(TL thousands)	
Financial assets at fair value through profit or loss	774,843	419,271	550,926
Investment securities available-for-sale	34,467,940	31,154,860	38,494,327
Total	**35,242,783**	**31,574,131**	**39,045,253**

Fair value is defined as the value at which a position could be closed out or sold in a transaction with a willing and knowledgeable unrelated party, without any deduction for transaction costs. The Group estimates fair value using quoted market prices when available. When quoted market prices are not available, the Group uses a variety of models that include dealer quotes, pricing models and quoted prices from instruments with similar characteristics or discounted cash flows. The determination of fair value when quoted market prices are not available involves judgment by the Group's management. There is often limited market data to rely upon when estimating the impact of holding a large or aged position. Similarly, judgment must be applied in estimating prices when no external parameters exist. Other factors that can affect the estimates include incorrect model assumptions and unexpected correlations. The imprecision in estimating these factors may affect the amount of revenue or loss recorded for a specific asset or liability. As of December 31, 2012, the Group held trading securities and available-for-sale investment securities for which it could not use market prices or observable market inputs to determine fair value representing only 1.3% of its total assets.

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

Derivatives

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

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

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

Defined Benefit Plan

The Bank has a defined benefit plan for its Turkish employees, which is called Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı (the "*Fund*"). The Fund is a separate legal entity and a foundation recognized by an official decree and provides pension and post-retirement medical benefits to all qualified Bank employees. This benefit plan is funded through contributions both by the Bank's employees and the Bank as required by Turkey's Social Security Law. Employees of other members of the Group do not participate in this benefit plan.

This benefit plan is composed of: (a) the contractual benefits provided under the articles of association of the Fund to the participating employees, which are subject to transfer to the Social Security Institution of the Republic of Turkey (*Türkiye Cumhuriyeti Sosyal Güvenlik Kurumu*) (the "*SSF*") as described in the next paragraph, and (b) other "excess" benefits and payments provided in the existing trust indenture but not transferable to the SSF (and medical benefits provided by the Bank for its constructive obligation (as defined in IAS 19, an obligation that derives from an entity's actions whether by an established pattern of past practice, a published policy or a sufficient specific current statement) (the "*excess benefits*").

According to Turkish law, certain of the assets and liabilities of these funds had to be transferred to the SSF by May 8, 2011. This period was extended by the Council of Ministers for a period of two years. At the time of this transfer, an actuarial calculation will be conducted to establish if a bank's fund's assets are sufficient to meet its liabilities. The SSF is required to collect the unfunded portion (if any) from the employee benefit funds and the banks employing the relevant fund participants, which will be severally liable, in annual installments to be paid over a period of up to fifteen years. The payment would be in Turkish Lira and would be announced by the Treasury for each year.

Although no official work has commenced to implement the transfer of any of the Bank's retirement fund assets and liabilities to the SSF, the Bank engaged Aon Hewitt S.A. (an alliance member of Hewitt Associates) to conduct an actuarial study, which reported no deficit based upon the assumptions stated in the applicable law. These assumptions are sensitive to elements such as the number of employees in the current workforce, the workforce turnover rate, the aging rate of the workforce and the other parameters stipulated in the relevant legislation. Therefore, it is possible that the actuarial study may turn out to be incorrect if any of the assumptions upon which it is based differ from the calculations made at the time of the actual transfer. If there is a shortfall at the time of the transfer of the fund (as determined by the SSF), then the Bank would be liable to make the supplemental payments described above for fifteen years.

The excess benefits, which are not subject to the transfer to the SSF, are accounted for in the Group's IFRS Financial Statements in accordance with IAS 19, "Employee Benefits." The obligation in respect of this retained portion of the benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, which benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognized past service costs and the fair value of any plan assets are deducted.

The pension and medical benefits transferable to the SSF and the excess benefits are calculated annually by an independent actuary registered with the Undersecretariat of the Treasury. As per the latest independent actuary report dated December 27, 2012, the Bank had no excess obligation that needed to be provided for as of December 31, 2012.

Taxation

Income tax is calculated on the basis of taxable income as calculated by applicable tax laws and regulations, which differ in certain material respects from IFRS. The Group's effective tax rate was 20.15% in 2010, 20.46% in 2011 and 20.75% in 2012. In preparing its financial statements, the Group is required to estimate taxes on income, which involves an estimation of current tax expenses together with an assessment of temporary differences resulting from differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group's carrying value of net deferred tax assets assumes that the Group will be able to generate sufficient future taxable income based upon estimates and assumptions. If these estimates and related assumptions change in the future, then the Group may be required to record valuation allowances against its deferred tax assets resulting in additional tax expense in its income. The Group evaluates the recoverability of the deferred tax assets on each business day.

Key Performance Indicators

The Group calculates certain ratios in order to measure its performance and compare it to the performance of its main competitors. The following table sets out certain key performance indicators for the Group for the indicated dates/periods, which indicators are (among others) those used by the Group's management to manage its business:

	As of (or for the year ended) December 31,		
Ratios	**2010**	**2011**	**2012**
Net interest margin[(1)]	4.3%	3.5%	3.8%
Adjusted net interest margin[(2)]	4.2%	3.4%	3.1%
Net yield[(3)]	5.0%	4.2%	4.5%
Adjusted net interest income as a percentage of average interest-earning assets[(3)(4)]	5.0%	3.7%	4.0%
Net fee and commission income to total operating income	24.3%	25.0%	24.6%
Cost-to-income ratio[(5)]	44.4%	45.8%	46.9%
Operating expenses as a percentage of total average assets[(6)]	2.6%	2.3%	2.2%
Non-performing loans to total gross cash loans	3.5%	2.3%	2.8%
Free capital ratio[(7)]	10.8%	10.0%	11.1%
Group's capital adequacy ratios[(8)]			
Tier I capital adequacy ratio[(9)]	15.71%	14.12%	15.52%
Total capital adequacy ratio[(9)]	18.07%	15.76%	16.87%
Allowance for probable loan losses to non-performing loans[(10)]	85.2%	94.7%	93.7%
Return on average total assets[(11)]	2.8%	2.3%	2.0%
Return on average shareholders' equity[(12)]	22.3%	19.6%	17.0%

(1) Net interest income as a percentage of total average assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period). The above is calculated on the basis of IFRS. For Bank-only net interest margin, please see "Management's Discussion and Analysis of Financial Condition and Result of Operations – Significant Factors Affecting the Group's Financial Condition and Result of Operations – Interest Rate Environment."

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

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

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

(5) "Cost" includes total operating expenses excluding impairment losses, net, reserve for employee severance indemnities and foreign exchange and trading losses. "Income" includes operating income *minus* foreign exchange and trading losses and impairment losses, net, except for provisions made on a portfolio basis to cover any inherent risk of loss for cash loans and non-cash loans. If "income" were calculated without subtracting impairment losses, net, then the ratios would be 43.8%, 43.9% and 42.0% for 2010, 2011 and 2012, respectively.

(6) Operating expenses for purposes of this calculation are total operating expenses excluding impairment losses, net, depreciation and amortization expenses, reserve for employee severance indemnities and foreign exchange and trading losses. Total average assets are calculated as the average of the opening, quarter-end and closing balances for the applicable period.

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

(8) Calculated in accordance with BRSA regulations for the Group. Each of the Bank and the Group is required to maintain a capital adequacy ratio over the legal minimum only on a total capital basis. See "Capital Adequacy" below. The 2010 and 2011 capital adequacy ratios are not comparable to the ratio of 2012 as the calculation method changed to Basel II starting on July 1, 2012.

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

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

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

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

Analysis of Results of Operations for the Years Ended December 31, 2010, 2011 and 2012

The following summary financial and operating data as of and for the years ended December 31, 2010, 2011 and 2012 have been extracted from the IFRS Financial Statements. This information should be read in conjunction with the IFRS Financial Statements (including the notes thereto) included elsewhere in this Offering Circular.

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

	For the year ended December 31,		
	2010	**2011**[(2)]	**2012**
		(TL thousands)	
Net interest income	5,214,406	5,235,893	6,407,362
Net fee and commission income	1,910,832	2,130,603	2,072,749
Other operating income	708,450	1,366,337	1,154,780
Total operating income	**7,833,688**	**8,732,833**	**9,634,891**
Impairment losses, net[(1)]	(84,777)	(353,716)	(1,243,673)
Other operating expenses	(3,451,446)	(4,107,027)	(4,110,413)
Total operating expenses	**(3,536,223)**	**(4,460,743)**	**(5,354,086)**
Income before tax	**4,297,465**	**4,272,090**	**4,280,805**
Taxation charge	(865,840)	(874,164)	(888,081)
Net income for the year	**3,431,625**	**3,397,926**	**3,392,724**
Attributable to equityholders of the Bank	3,410,750	3,378,496	3,364,809
Attributable to non-controlling interests	20,875	19,430	27,915

(1) "Impairment losses, net" includes provision for loan losses, net.

(2) In 2011, the Group reassessed the accounting treatment applied for the reserve for employee severance indemnity and restated the prior year's financial statements. Accordingly, the Group's net income in 2010 was reduced by TL 17,269 thousand and certain income statement items were restated in order to reflect the effect of this restatement.

Net Income

The Group's net income for a period is calculated by reducing its operating income for such period by the amount of its operating expenses and taxation charge for such period. The Group's net income for 2012 was TL 3,392,724 thousand, a 0.2% decrease from TL 3,397,926 thousand in 2011, which itself was a 1.0% decrease from TL 3,431,625 thousand in 2010. The net income for 2011 and 2012 was affected by certain exceptional items, which are quantified in the table below:

	2010	**2011**	**2012**
		(TL thousands)	
Exceptional items			
Sale/liquidation of equity participations	-	172,379	17
Sale of non-performing loans	-	54,207	31,472
Other provision[1]	-	-	(98,090)
Provision for general banking risks[2]	-	(90,000)	-
Tax effects of the items listed above	-	(22,178)	13,275
Total impact on net income	**-**	**114,408**	**(53,326)**
Reported net income for the year	3,431,625	3,397,926	3,392,724
Net income adjusted for above events	**3,431,625**	**3,283,518**	**3,446,050**

(1) Including mainly provisions for checks.

(2) As it had in 2009, in 2011 the Bank's management decided to take a conservative approach to provisioning due to the uncertainty in the economy and market conditions during the global financial crisis and made provisions for general banking risks that it believed were prudent. These provisions form a component of "Impairment losses, net" and affect the balance sheet as an element of "Other liabilities and accrued expenses." As such general provisions are not permitted under IFRS, the Group's independent auditors noted this departure from IFRS in the Group's 2010, 2011 and 2012 IFRS Financial Statements. Should the Bank's management determine that market conditions have improved to such an extent that such additional reserves are not required, then they may elect to reverse such reserves in future periods, which would have the result of increasing income in such period.

After adjusting for these exceptional events, the increase in net income was 4.9% in 2012 as compared to 2011. The increase in net income in 2012 was principally due to an increase in interest income on loans, which resulted from the Group's focus on high margin products and timely repricing of loans. In 2011, there was a decrease in net income primarily due to actions taken in response to regulatory requirements by the BRSA as well as continued competition for both loans and deposits. In particular, the increase in reserve requirements resulted in an increase in the Group's non-interest earning assets.

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

Operating Income

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

	2010	**2011**	**2012**
Net interest income	66.6%	60.0%	66.5%
Net fee and commission income	24.4%	24.4%	21.5%
Other operating income	9.0%	15.6%	12.0%
Total operating income	**100.0%**	**100.0%**	**100.0%**

Net Interest Income

The Group's net interest income is the difference between the interest income and its interest expense (each described below) and is the principal area of income for the Group. As a result, the differential between the interest rates that the Group receives on interest-earning assets and the interest rates that it pays on interest-bearing liabilities (*i.e.*, its average spread) and the volume of such assets and liabilities tend to have the most significant impact on the Group's results of operations. Net interest income represented 66.6%, 60.0% and 66.5% of the Group's total operating income in 2010, 2011 and 2012, respectively.

Net interest income amounted to TL 6,407,362 thousand in 2012, which was a 22.4% increase from TL 5,235,893 thousand in 2011, which was a 0.4% increase from TL 5,214,406 thousand in 2010. The Group's net yield (*i.e.*, its net interest income as a percentage of its average interest-earning assets (which is calculated as the average of the opening, quarter-end and closing balances for the applicable year)), was 4.5% in 2012 compared to 4.2% in 2011 and 5.0% in 2010. The decline in net yield in 2011 was mainly due to the general decline in margins in the Turkish market from 2010 onwards as a result of increased competition across all sectors of the Group's business; *however*, the volumes, especially in lending activities, increased in 2011 and 2012 as further described in "Loans and Advances to Customers" below. There was a slight improvement in 2012 as a result of a decrease in the cost of funding, especially in deposits.

Net interest margin was 4.3% in 2012 for the Bank (3.8% for the Group) compared with 3.6% in 2011 for the Bank (3.5% for the Group) and 4.5% in 2010 for the Bank (4.3% for the Group). The high net interest margin in 2010 for the Bank and the Group was mainly due to a decline in short-term interest rates, which benefited the Group as it was able to reprice its liabilities more quickly than its assets repriced. In 2011, the margins decreased as assets were repriced with a time-lag compared to liabilities. The Group's net interest margin slightly improved in 2012 because it focused on high margin products and reducing funding costs by decreasing interest rates on deposits. The Bank and the Group's spreads followed a similar pattern, but the Bank's spread improved to a greater degree than the Group's because of lower deposit costs in the domestic market. See also "– Significant Factors Affecting the Group's Financial Condition and Results of Operations – Interest Rate Environment."

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

Interest Income. Interest income is the interest (including the amortization of interest-earning assets purchased at a discount and the interest component of lease receivables) and certain loan-related fees (such as closing fees received on project finance loans) received by the Group on its interest-earning assets, principally loans and debt securities. Interest income is a function of both the volume of interest-earning assets and the yield that the Group earns on these holdings. In 2012, the Group's interest income increased by 21.4% to TL 13,826,134 thousand from TL 11,393,106 thousand in 2011, which itself was an increase of 11.4% from TL 10,227,083 thousand in 2010. The following table sets out the interest earnings on the Group's interest-earning assets during each of the indicated years:

	2010	**2011**	**2012**
		(TL thousands)	
Interest on loans	5,663,963	7,165,025	9,164,868
Interest on securities	3,863,118	3,677,404	4,005,815
Interest on deposits at banks	403,528	309,804	352,702
Interest on lease business	203,804	172,135	239,758
Others	92,670	68,738	62,991
Total interest income	**10,227,083**	**11,393,106**	**13,826,134**

As noted above, interest income is a function of both the volume of, and yield earned on, the Group's interest-earning assets. In 2012, the increase in interest income was principally due to the 27.9% increase in interest income on loans. This was due to a combination of loan repricing, lower interest rate loans maturing, an increase in the proportion of higher yielding loans in the Group's loan portfolio and continuing (but slowing) growth in the volume of the Group's loans. In 2011, the increase in interest income was principally due to the 26.5% increase in interest income on loans.

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

	2010	2011	2012
Total average yield for the Bank	**8.75%**	**8.33%**	**9.10%**
Deposits at banks	2.30%	1.22%	1.09%
Investment securities	11.06%	10.91%	11.31%
Loans and advances to customers	8.93%	9.08%	10.15%
Total average yield for the Group	**9.75%**	**9.04%**	**9.80%**

The decline in yield in 2011 compared to 2010 primarily resulted from the declining interest rate environment in global and Turkish markets as a result of the global financial crisis and governmental responses thereto, including increases in liquidity facilities by the Central Bank and sharp reductions in its interest rates as well as increase in competition in the Turkish market. The increase in 2012 is in line with the Group's strategy of focusing on high-margin products.

The growth in the Group's interest income in the years after 2010 was primarily due to the increase in the size of its loan portfolio. During 2010, the loan market improved after the global financial crisis and thus the growth in cash loans improved as global market conditions recovered and the demand of the Group's customers for loans increased. As a result, interest income on loans increased. In 2011, strong loan demand from the Turkish market underpinned the continued growth in the volume of cash loans as the Group reduced its securities portfolio to, in part, fund loan growth (along with deposits and new funding), although pricing continued to be negatively impacted by competition from state and private banks; *however*, the increase in volume more than offset the pricing impact leading to an increase in interest income. In addition, during 2011, interest income from securities declined as a result of low interest rates and the Group's reduced securities portfolio as it continued to fund new loan growth. In 2012, the Group's loan portfolio continued to grow and was supported by better margins resulting from a selective lending strategy that focused on higher-yielding products.

Interest Expense. Interest expense is the interest and certain loan-related fee expenses (such as fees paid on syndicated loans) of the Group on its interest-bearing liabilities, principally time deposits and borrowings. As with interest income, interest expense is a function of both the volume of interest-bearing liabilities and the interest rates that the Group pays on these liabilities. In 2012, the Group's interest expense increased by 20.5% to TL 7,418,772 thousand from TL 6,157,213 thousand in 2011, which itself was an increase of 22.8% from TL 5,012,677 thousand in 2010. The following table sets out the interest expense on the Group's interest-bearing liabilities by category during each of the indicated years:

	2010	2011	2012
		(TL thousands)	
Interest on saving, commercial and public deposits	3,661,582	4,047,763	5,036,622
Interest on borrowings and obligations under repurchase agreements	1,212,394	1,743,956	1,872,825
Interest on bonds payable	-	177,431	321,472
Interest on bank deposits	72,469	107,148	164,573
Interest on subordinated liabilities	59,943	69,623	11,696
Other	6,289	11,292	11,584
Total interest expense	**5,012,677**	**6,157,213**	**7,418,**772

As noted above, changes in the interest rates that the Group pays on its interest-bearing liabilities significantly affect the Group's interest expense. Most significantly, the Group's interest-bearing deposits represent the largest portion of its liabilities by 53.5%, 50.6% and 48.5%, respectively, as of December 31, 2010, 2011 and 2012. As a result, the interest rates that the Group pays on its deposits typically have the largest impact on the Group's interest expense. The following table sets forth the average interest rates paid by the Bank (daily average) and the Group (quarterly average) on interest-bearing deposits and other interest-bearing liabilities for the indicated years:

	2010	2011	2012
Total interest rates for the Bank	**5.41%**	**5.69%**	**6.28%**
Deposits from customers	5.37%	5.57%	6.13%
Short-term debt	7.22%	5.98%	7.41%
Long-term debt	5.40%	5.92%	6.29%
Repurchase agreements	5.71%	6.04%	7.40%
Total interest rates for the Group	**5.94%**	**5.83%**	**6.33%**

The reduction in the Group's interest expense in 2010 was principally a result of interest rate-easing by the Central Bank (which began in 2009 and continued thereafter and resulted in significantly lower interest rates on TL deposits and TL-denominated repurchase agreements) and declining interest rates generally across global markets in response to the global financial crisis. The TL overnight rate gradually declined from 15.0% on December 31, 2008 to 5.0% on December 31, 2011, and remained at that level in 2012. The benefits from the decrease in interest rates paid by the Group exceeded the additional interest expense resulting from the significant increase in the amount of the Group's interest-bearing liabilities beginning in 2010 and continuing since that time. The increase in the Group's interest expense in 2011 and 2012 was principally a result of a significant increase in interest-bearing liabilities incurred to meet the increasing demand for loans from the Group's customers. This growth in demand for loans was primarily due to the strong recovery of the Turkish economy in 2010 and 2011 from the global financial crisis. This strong recovery led the Central Bank to increase banks' reserve requirements and to increase its interest rates in an attempt to moderate growth in the Turkish economy. These Central Bank interventions resulted in an increase in the Group's interest expense. See "Financial Condition-Liabilities" below.

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

Net Fee and Commission Income

The second largest component of the Group's operating income is its net fee and commission income. The Group earns fee and commission income on both capital-intensive products (such as origination fees on cash loans and fees for credit cards, letters of credit and guarantees) and capital-free products (such as investment advice and brokerage fees in respect of debt and equity trading). The principal drivers for fee and commission income are the credit card and retail banking businesses. The Bank's management expects the contribution of fee and commission income to the Group's overall operating income to increase, particularly with the expected growth in its retail lending businesses and tightening interest margins; *however*, the Turkish government periodically considers imposing limits or prohibitions on fees and commissions that a bank may charge for certain banking services, including in a recently proposed consumer protection law, and the adoption of any such limits or prohibitions could result in lower fee and commission income for the Group.

The Group's net fee and commission income for 2012 was TL 2,072,749 thousand, a decrease of 2.7% from TL 2,130,603 thousand in 2011, which itself was an increase of 11.5% from TL 1,910,832 thousand in 2010. The increase in 2011 was primarily due to the growth in consumer and SME loans, which tend to have higher fees and commissions than corporate and commercial loans, and the Group's acquisition of customers across its business lines and fees and commissions generated from related new product sales. The decrease in the Group's net fee and commission income in 2012 was in part due to the reduced cap on fund management fees required by a change in applicable Turkish regulations along with an expansion of the coverage of fees subject to amortization through the life of cash loan contacts (if each such factor were excluded, the Bank would have experienced approximately a 9% increase in net fee and commission income over the period);

however such decreases were partly offset by an increase in the number of credit cards issued by the Group and therefore an increase in the fees payable by users of such credit cards.

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

	2010	2011	2012
		(TL thousands)	
Fee and Commission Income			
Credit card fees	991,941	1,131,262	1,381,179
Retail banking	558,904	609,651	499,062
SME banking	302,348	345,189	309,768
Commercial banking	198,068	219,011	232,008
Corporate banking	30,066	30,873	24,532
Other	145,711	198,180	133,918
Total fee and commission income	**2,227,038**	**2,534,166**	**2,580,467**
Fee and Commission Expense			
Credit card fees	(258,257)	(318,329)	(373,177)
Retail banking	(5,681)	(13,406)	(32,401)
SME banking	(1,021)	(1,849)	(10,787)
Commercial banking	(589)	(523)	(3,412)
Corporate banking	(111)	(488)	(1,418)
Other	(50,547)	(68,968)	(86,523)
Total fee and commission expense	**(316,206)**	**(403,563)**	**(507,718)**
Net fee and commission income	**1,910,832**	**2,130,603**	**2,072,749**

Other Operating Income

Other operating income includes net trading gains, net foreign exchange gains, premium income from the insurance business and other items. Total other operating income for 2012 amounted to TL 1,154,780 thousand, decreasing by 15.5% from TL 1,366,337 thousand in 2011 (despite incurring a net foreign exchange loss in 2011 (included in operating expenses) compared to a gain in 2010), which itself was a 92.9% increase from TL 708,450 thousand in 2010 (mainly due to the increase in trading gains and certain exceptional items affecting other operating income). See "Net Income" above. The following table sets out the Group's other operating income by category during each of the indicated years:

	2010	2011	2012
		(TL thousands)	
Trading gains, fixed/floating securities	253,518	326,257	610,310
Trading gains/(losses), derivative transactions	63,104	350,936	(439,901)
Trading gains, net[(1)]	**316,622**	**677,193**	**170,409**
Foreign exchange gains, net.	81,971	-	435,055
Premium income from insurance business	199,074	228,713	299,617
Other operating income[(2)]	110,783	460,431	249,699
Total other operating income	**708,450**	**1,366,337**	**1,154,780**

(1) See note 29 to the 2012 IFRS Financial Statements included elsewhere in this Offering Circular.
(2) In 2011, the Group revised the presentation of its consolidated income statement. The above table revises the 2010 presentation accordingly for a comparative presentation to 2011 and 2012.

The largest component of total other operating income in 2011 and 2010 (representing 49.6% and 44.7% of the totals, respectively) was the net trading gains, which in 2011 increased by 113.9% compared to 2011. In 2012, net foreign exchange gains represented the largest component of total other operating income, with a 37.7% share in total. Net trading gains in 2010, 2011 and 2012 were the result of gains in the trading of fixed- and floating-rate debt securities. The strong increase in trading income in 2011 was primarily attributable to securities trading transactions in the first quarter of 2011, which accounted for almost half of trading income for the year. This was partly due to the sale of higher-rate fixed interest securities as interest rates decreased. Gains on derivative transactions (which to a large extent are used to hedge the Group's own positions) accounted for the remainder of the gains in 2011. These gains were the result of an increase in the volume and size of customer-driven transactions due to the increasing adverse effects of the global financial crisis on Turkish customers, reversing the trend seen in 2010. In 2012, the Bank's sales from its held-to-maturity portfolio due to changes in the local capital adequacy legislation, as permitted by IAS 39, drove the sharp increase in trading gains from fixed and floating rate debt securities; *however*, this was partially offset by trading losses on derivative transactions due to mark-to-market losses on derivatives (including in particular losses arising from interest-rate swaps hedging the interest rate risk associated with long-term fixed rate Turkish Lira loans). As it is not possible for the Group to fully model hedge accounting for such hedges, the results are presented in different lines of the Group's income statement and, accordingly, generally offset each other and do not have an aggregate impact on the Group's overall result of operations.

The second largest component of other operating income is the premium income from insurance business, which had a 25.9% share in total other operating income in 2012, compared to 20.7% in 2011 (excluding the effect of significant gains on the sale of assets) and 28.5% in 2010. As the market share and transaction volume of the Group's life and pension business increase, its contribution to other operating income is expected to increase. See "The Group and its Business – Subsidiaries – Garanti Pension and Life" below.

The Group's foreign exchange gains/losses include both realized and unrealized gains/losses. The realized gains/losses result from the settlement of foreign exchange transactions and spot legs of derivative transactions, whereas unrealized gains/losses arise from the Group's foreign currency positions. The unrealized gains/losses consist of two parts - unrealized gains/losses on the balance sheet position and unrealized gains/losses on the off-balance sheet position. The foreign exchange gains/losses arising from the settlement of foreign exchange transactions and the unrealized gains/losses from the balance sheet foreign currency position are included under "foreign exchange gains/losses, net" whereas both the realized and unrealized gains/losses on off-balance sheet transactions and positions (which principally result from forward legs of derivative transactions) are recorded under "trading gains/losses." Therefore, although the Group did not hold any material foreign currency net open positions throughout 2010, 2011 and 2012 (considering both on-balance sheet and off-balance sheet positions), "foreign exchange gains/losses, net" varied among these years depending upon the balance sheet and off-balance sheet positions in gross terms. In 2012, the Group recorded foreign exchange gains, net of TL 435,055 thousand, compared to foreign exchange losses, net of TL 340,950 thousand in 2011 (included in operating expenses) and foreign exchange gains, net of TL 81,971 thousand in 2010. The Group's foreign exchange loss in 2011 was due to the volatility of foreign exchange rates during the year. With respect to foreign exchange gains, see "Significant Factors Affecting the Group's Financial Condition and Results of Operations – Currency Exchange Rates" above.

Operating Expenses

The Group's operating expenses include business expenses such as salaries/benefits and rent, but also include impairment losses (including provisions for non-performing loans) and foreign exchange and trading losses. Operating expenses in 2012 increased by 20.0% to TL 5,354,086 thousand, while operating expenses in 2011 increased by 26.1% to TL 4,460,743 thousand from TL 3,536,223 thousand in 2010. The increase in 2012 is 30.0% when net foreign exchange losses are excluded in 2011. The increase in 2012 principally resulted from an increase in the Group's provision for loans and other credit risks and also increases in employee and expansion-related expenses (as further explained in "Salaries and Wages" below). With respect to such provisions, see "Provisions for Probable Loan Losses" below.

As noted above, as a banking institution, the Group's management focuses closely on the Group's efficiency and (within the context of maintaining the quality of its services) seeks to decrease its cost/income ratio. The Group's costs (which includes total operating expenses excluding impairment losses, net, reserve for employee severance indemnities and foreign exchange and trading losses) to income (which includes operating income *minus* foreign exchange and trading losses and impairment losses, net, except for provisions made on a portfolio basis to cover any inherent risk of loss for cash loans and non-cash loans) ratio increased slightly to 46.9% in 2012 from 45.8% in 2011 (44.4% in 2010). A similar ratio monitored by the Group is its ratio of operating expenses (calculated for this purpose as total operating expenses excluding impairment losses, net, depreciation and amortization expenses, reserve for employee severance indemnities and foreign exchange and trading losses) to total average assets, which ratio improved slightly from 2.6% in 2010 to 2.3% in 2011 and to 2.2% in 2012. The deterioration in the cost-to-income ratio was due to the significant increase in provisions for loans and other credit risks, whereas the ratio of operating expenses as a percentage of total average assets improved since 2009 mainly due to close and effective control of costs.

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

	2010	2011	2012
		(TL thousands)	
Salaries and wages	1,200,361	1,321,469	1,441,706
Provisions for loans and other credit risks, net(1)	76,219	220,070	1,202,379
Credit card rewards and promotion expenses	431,926	438,765	427,893
Employee benefits(2)	314,105	330,928	405,304
Depreciation and amortization	207,312	233,751	258,233
Rent expenses	159,661	193,994	215,817
Communication expenses	156,203	150,159	171,892
Taxes and duties other than on income	118,047	128,589	145,607
Impairment losses, net(2)	8,558	133,646	41,294
Foreign exchange loss, net	-	340,950	-
Other operating expenses(3)	863,831	968,422	1,043,961
Total operating expenses(4)	**3,536,223**	**4,460,743**	**5,354,086**

(1) In 2011, the Group revised the presentation of its consolidated income statement. The above table revises the 2010 presentation accordingly for a comparative presentation to 2011 and 2012.

(2) In 2011, the Group reassessed the accounting treatment applied to the employee severance indemnity reserve and restated the reserve in the prior year's financial statements. Accordingly, the Group's net income during 2010 was reduced by TL 17,269 thousand. The effect of this reassessment was TL 21,586 thousand in respect of employee benefits during 2010.

(3) Other operating expenses include various normal course expenses such as advertising expenses, utility charges and repair and maintenance, none of which is individually material. See note 30 to the 2012 IFRS Financial Statements included elsewhere in this Offering Circular.

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

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

Impairment Losses, Net. The Group's total operating expenses can be materially negatively affected by provisions that the Group takes for probable losses on its cash loans and other impairments. The provision for loan losses is comprised of amounts for specifically-identified impaired and non-performing cash loans plus a further portfolio-basis allowance amount that the Bank's management believes to be adequate to cover the inherent risk of loss present in the pool of performing cash loans. The low level of provisions for loans and other credit risks in 2010 was due to a strong collection performance from non-performing loan customers and a deceleration in the amount of new non-performing loans. In 2011, although loan performance normalized following the strong recoveries experienced in 2010 as economic conditions improved following the global financial crisis, the substantial increase in the size of the Group's loan portfolio drove an increase in the net provision (offset somewhat by a TL 504,460 thousand sale of non-performing loans in 2011, which itself was offset somewhat by the Bank's decision to take a general provision of TL 90,000 thousand as detailed below). In 2012, a sharp increase in the Group's provisions for loans and other credit risks resulted from increasing provision needs for commercial and consumer loans.

The Group makes provision for probable loan losses for anticipated problem loans and non-performing loans already so classified each business day. See "Selected Statistical and Other Information – Summary of Loan Loss Experience" below.

In addition to provisions for probable losses on cash loans and non-cash loans, the Group's impairment losses, net include provisions for tangible assets and goodwill, investment in equity participations, other receivables and (where applicable) reversal of related prior year provisions.

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

	2010	2011	2012
		(TL thousands)	
Balance at the beginning of the year	2,288,659	2,457,953	2,487,786
Newly consolidated affiliates' opening balances	94,937	-	-
Write-offs	(68,032)	(230,780)	(208,557)
Recoveries and reversals	(645,293)	(502,734)	(222,912)
Provision for the year, specific	845,259	651,247	1,160,565
Provision for the year, portfolio-basis (net)	(57,577)	112,100	196,137
Balance at the end of the year[(1)]	**2,457,953**	**2,487,786**	**3,413,019**

(1) See notes 9, 11, 12, 13 and 21 to the 2012 IFRS Financial Statements included elsewhere in this Offering Circular.

The Group's net provision for probable losses on cash and non-cash loans in 2012 was TL 1,202,187 thousand, a 452.7% increase from TL 217,504 thousand in 2011, which itself was a 189.7% increase from TL 75,090 thousand in 2010. As a result of the strong growth of the Group's loan portfolio and strong collection performance, the Group's "non-performing loans to total gross cash loans" ratio decreased from 3.5% in 2010 to 2.3% in 2011 and then increased to 2.8% in 2012, due primarily to a deterioration in commercial and consumer loans. Beginning in 2010, recoveries and reversals decreased with normalizing economic conditions following the global financial crisis. The increase in write-offs in 2011 and 2012 is principally due to sales from NPL portfolios. The effect of such sales on the non-performing loan ratio was to reduce it by 0.2% and 0.5% for 2012 and 2011, respectively.

In addition to the specific and portfolio-basis provisions detailed above, the Group's management elected to take a TL 330,000 thousand general provision in 2009 in order to act conservatively in the context of the uncertainty created by the global financial crisis. This was increased by TL 90,000 thousand in 2011. The Group's audit reports for the years ended December 31, 2010, 2011 and 2012 were qualified with respect to general provisions that were allocated by the Group. The provisions were taken in accordance with the conservatism principle applied by the Group in considering the circumstances that may arise from any changes in the economy or market conditions. See the IFRS Financial Statements included elsewhere in this Offering Circular. These general provisions are not included in the allowance for probable loan losses on cash loans in the table above but do form a component of "impairment losses, net" and affect the balance sheet as an element of "other liabilities, accrued expenses and provisions."

Salaries and Wages. The Group's operating expenses include the salaries and wages that it pays to its employees. Salaries and wages increased by 9.1% to TL 1,441,706 thousand in 2012 from TL 1,321,469 thousand in 2011, itself a 10.1% increase from TL 1,200,361 thousand in 2010. The increase in 2011 was broadly in line with inflation, principally due to an increased emphasis on effective cost management and management of human resources. As of December 31, 2012, the Group had 20,287 employees, compared to 19,685 as of December 31, 2011 and 19,497 as of December 31, 2010. The increase in the number of employees principally resulted from the Group's branch expansion (growing by 6.4% from 863 as of December 31, 2010 to 918 as of December 31, 2011, and then growing 2.0% more to 936 as of December 31, 2012).

Taxation Charge

The Group is subject to different forms of income taxation in each market in which it has operations, although the principal driver is Turkish taxation of the Group's income. Taxation and duties other than on income are included in operating expenses whereas taxation on income is applied to income before tax in order to determine the Group's net income. Income taxation charges for 2012 amounted to TL 888,081 thousand, which was a 1.6% increase from TL 874,164 thousand in 2011, itself a 1.0% increase from TL 865,840 thousand in 2010. The Group's taxation charges for 2012 included an increase of deferred tax benefits amounting to TL 414,755 thousand compared to a reduction in deferred tax benefits amounting to TL 391,809 thousand for 2011 (and an increase in deferred tax benefits amounting to TL 192,351 thousand for 2010).

The Group's effective income tax rate (calculated based upon its reported taxation charge divided by its income before tax) for 2012, 2011 and 2010 was 20.75%, 20.46% and 20.15% (each very close to the Turkish corporate income tax rate of 20%), respectively. The deviation from the Turkish tax rate of 20% in 2010 and 2012 was due to the Group incurring certain disallowable expenses. The deviation from the Turkish tax rate of 20% in 2011 was principally due to the TL 90,000 thousand general provision detailed above.

Taxes on income from the Group's non-Turkish operations have been immaterial. For more information on the Group's taxation, see note 20 to the Group's 2012 IFRS Financial Statements provided elsewhere in this Offering Circular.

Financial Condition

The following summary balance sheet data for each of December 31, 2010, 2011 and 2012 have been extracted from the IFRS Financial Statements. This information should be read in conjunction with the IFRS Financial Statements (including the notes thereto) included elsewhere in this Offering Circular.

	As of December 31,					
	2010	**% of Total**	**2011**	**% of Total**	**2012**	**% of Total**
	(TL thousands, except for percentages)					
Assets						
Cash and balances with central banks	5,073,058	3.7	3,429,820	2.1	4,519,405	2.5
Financial assets at fair value through profit or loss	774,843	0.6	419,271	0.3	550,926	0.3
Loans and advances to banks	9,810,401	7.2	15,232,714	9.4	9,409,593	5.3
Loans and advances to customers	71,092,418	52.3	92,653,780	57.4	102,260,080	57.6
Other assets(1)(3)	6,743,827	8.0	11,754,933	7.3	18,761,561	10.6
Investment securities	40,361,866	29.7	35,941,390	22.3	39,861,281	22.5
Investment in equity participations	82,793	0.1	24,593	-	25,340	-
Tangible assets, net	1,584,660	1.2	1,710,768	1.1	1,643,451	0.9
Deferred tax asset	278,849	0.2	233,752	0.1	467,898	0.3
Total assets	**135,802,715**	**100.0**	**161,401,021**	**100.0**	**177,499,535**	**100.0**
Liabilities						
Deposits from banks	2,808,006	2.1	3,096,810	1.9	5,583,786	3.1
Deposits from customers	76,295,528	56.2	90,138,994	55.9	92,191,501	51.9
Obligations under repurchase agreements and money market fundings	11,735,342	8.6	11,738,157	7.3	14,106,944	7.9
Loans and advances from banks	19,964,404	14.7	24,325,549	15.1	25,879,355	14.6
Bonds payable	-	-	3,742,056	2.3	6,125,986	3.5
Subordinated liabilities	978,054	0.7	1,122,090	0.7	148,680	0.1
Current tax liabilities	298,222	0.2	80,437	-	344,820	0.2
Provisions, other liabilities and accrued expenses(2)(3)	6,850,331	5.1	9,007,049	5.6	11,180,747	6.3
Total liabilities	**118,929,887**	**87.6**	**143,251,142**	**88.8**	**155,561,819**	**87.6**
Total shareholders' equity and non-controlling interests	**16,872,828**	**12.4**	**18,149,879**	**11.2**	**21,937,716**	**12.4**
Total liabilities, shareholders' equity and non-controlling interests	**135,802,715**	**100.0**	**161,401,021**	**100.0**	**177,499,535**	**100.0**

(1) Includes "Goodwill, net."
(2) Includes deferred tax liabilities.
(3) Receivables from securities lending market and payables to securities lending market are netted-off in the balance sheet as of December 31, 2012 for presentation purposes. Accordingly, such items, both amounting to TL 737,814 thousand as of December 31, 2011, are also netted-off in the above table for comparison purposes. There was no effect of this presentation change on the 2010 balance sheet.

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

Assets

As of December 31, 2012, the Group's total assets amounted to TL 177,499,535 thousand, an increase of 10.0% from TL 161,401,021 thousand as of December 31, 2011, which was an increase of 18.8% from TL 135,802,715 thousand as of December 31, 2010. Cash and balances with central banks represented 2.5%, 2.1% and 3.7% of the Group's total assets as of December 31, 2012, 2011 and 2010, respectively, as most of the Group's funds are invested in interest-earning assets. The following describes the Group's loans and advances to customers and investment securities, which jointly represented 80.1% of the Group's total assets as of December 31, 2012, 79.7% as of December 31, 2011 and 82.0% as of December 31, 2010.

Loans and Advances to Customers. Loans and advances to customers represented 57.6%, 57.4% and 52.3% of the Group's total assets as of each of December 31, 2012, 2011 and 2010, respectively. The Group's loans and advances to customers amounted to TL 102,260,080 thousand as of December 31, 2012, an increase of 10.4% from TL 92,653,780 thousand as of December 31, 2011, itself an increase of 30.3% compared to TL 71,092,418 thousand as of December 31, 2010. The following table summarizes the Group's loans and advances to customers as of the indicated dates:

	As of December 31,					
	2010	**% of Total**	**2011**	**% of Total**	**2012**	**% of Total**
	(TL thousands, except for percentages)					
Consumer loans	22,327,021	31.4	28,804,750	31.1	34,069,621	33.3
Credit card receivables	*7,689,576*		*9,455,308*		*11,222,929*	
Mortgage loans	*8,119,429*		*9,426,631*		*10,874,185*	
Auto loans	*782,059*		*1,100,089*		*1,289,677*	
General purpose and other consumer loans	*5,735,957*		*8,822,722*		*10,682,830*	
Service sector	7,171,457	10.1	8,840,305	9.5	8,914,845	8.7
Energy	5,490,907	7.7	6,686,124	7.2	7,794,220	7.6
Construction	3,881,854	5.5	5,712,675	6.2	6,460,719	6.3
Transportation and logistics	3,515,850	4.9	4,294,677	4.6	4,773,793	4.7
Food	3,391,408	4.8	4,634,551	5.0	4,044,540	4.0
Textile	2,789,290	3.9	3,480,649	3.8	3,704,404	3.6
Metals and metal products	3,507,717	4.9	3,911,535	4.2	3,471,713	3.4
Tourism	1,390,895	2.0	2,466,146	2.7	3,287,980	3.2
Transportation vehicles and sub-industry	2,246,514	3.2	2,917,806	3.1	2,726,962	2.7
Financial institutions	1,393,375	2.0	2,150,904	2.3	2,243,896	2.2
Agriculture and stockbreeding	1,118,373	1.6	1,829,093	2.0	2,069,407	2.0
Data processing	1,270,558	1.8	2,260,765	2.4	1,921,479	1.9
Other	7,726,328	10.8	9,940,315	10.8	11,433,592	11.2
Total performing loans	**67,221,547**	**94.6**	**87,930,295**	**94.9**	**96,917,171**	**94.8**
Financial lease receivables, net of unearned income	1,512,243	2.1	2,478,834	2.7	2,677,055	2.6
Factoring receivables	1,433,454	2.0	1,232,659	1.3	1,813,595	1.8
Income accrual on loans, factoring and lease receivables	830,070	1.2	1,290,551	1.4	1,254,005	1.2
Total performing loans and advances to customers	**70,997,314**	**99.9**	**92,932,339**	**100.3**	**102,661,826**	**100.4**
Non-performing loans, factoring and lease receivables	2,553,057	3.6	2,209,227	2.4	3,011,273	2.9
Allowance for probable losses from loans, factoring and lease receivables	(2,457,953)	(3.5)	(2,487,786)	(2.7)	(3,413,019)	(3.3)
Loans and advances to customers, net	**71,092,418**	**100.0**	**92,653,780**	**100.0**	**102,260,080**	**100.0**

In 2012 the Group's loan portfolio grew by 10.4%, principally as a result of growth in consumer loans, credit cards and commercial loans, especially in energy, construction and transportation and logistics. During 2011, the Group's loan portfolio grew by 30.3%, as global and domestic economies continued their recovery from the global financial crisis. This growth was reflected across a wide range of groups and industries, but, in particular, the Group achieved growth in its loan portfolio by meeting increased demand for consumer loans, credit card receivables, general purpose loans and loans to the service sector and certain industry sectors, including energy, construction, food and tourism. In 2012, the Group's non-performing loans increased by 36.3% to TL 3,011,273 thousand from TL 2,209,227 thousand as of December 31, 2011, which itself was a 13.5% decrease from TL 2,253,057 thousand as of December 31, 2010.

The proportion of the Group's non-performing loans to gross cash loans was 2.8% as of December 31, 2012, 2.3% as of December 31, 2011 and 3.5% as of December 31, 2010. The decrease in 2011 resulted from effective collection efforts, strong deceleration in new non-performing loans and the growth in the cash loan portfolio. In 2012, the ratio of non-performing loans to gross cash loans increased largely due to new non-performing commercial loans with strong collateralization. The ratio of the Group's non-performing loans to total gross cash loans and non-cash loans was 2.3% as of December 31, 2012, 1.9% as of December 31, 2011 and 2.8% as of December 31, 2010.

For additional information on the Group's loan portfolio, including its non-performing loans and related provisions, see note 7 to the 2012 IFRS Financial Statements provided elsewhere in this Offering Circular and "Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential –

Average Balance Sheet and Interest Data" and "– Cash Loan Portfolio-Types of Loans," "– Cash Loan Portfolio – Risk Elements" and "– Summary of Loan Loss Experience."

Investment Securities. Investment securities, principally Turkish government securities, have historically represented a significant portion of the Group's assets. As of December 31, 2012, 2011 and 2010, investment securities represented 22.5%, 22.3% and 29.7%, respectively, of the Group's total assets. The decline in investment securities as a portion of the Group's assets in 2011 and 2012 was as a result of the growth of lending in response to increasing demand resulting from improving market conditions and reductions in the Group's security portfolio to partially fund such growth. The following table provides information as to the breakdown of the Group's investment securities portfolio as of the indicated dates:

	As of December 31,					
	2010	**% of Total**	**2011**	**% of Total**	**2012**	**% of Total**
Securities available-for-sale						
Turkish government bonds indexed to consumer price index	10,785,629	26.7	11,128,147	31.0	13,018,710	32.7
Turkish government bonds and treasury bills in TL	6,991,731	17.3	4,726,353	13.1	8,118,758	20.4
Turkish government bonds at floating rate	9,334,262	23.1	6,678,750	18.6	8,111,245	20.3
Discounted Turkish government bonds inTL	1,685,871	4.2	3,704,782	10.3	4,270,780	10.7
Bonds issued by financial institutions	1,085,860	2.7	1,019,593	2.8	3,286,844	8.2
Bonds issued by foreign governments	674,107	1.7	886,002	2.5	1,048,636	2.6
Eurobonds (Turkish government)	842,695	2.1	338,562	0.9	304,793	0.8
Bonds issued by corporations	2,965,713	7.3	2,647,282	7.4	304,790	0.8
Other	102,072	0.3	25,389	0.1	29,771	0.1
Total securities available-for-sale	**34,467,940**	**85.4**	**31,154,860**	**86.7**	**38,494,327**	**96.6**
Securities held-to-maturity						
Turkish government bonds at floating rate	1,397,271	3.4	916,647	2.6	910,865	2.3
Eurobonds (Turkish government)	1,286,672	3.2	1,578,712	4.4	441,641	1.1
Turkish government bonds in TL	2,898,959	7.2	2,026,372	5.6	102	-
Other	-	-	-	-	9,455	-
Sub-total	**5,582,902**	**13.8**	**4,521,731**	**12.6**	**1,362,063**	**3.4**
Income accrual on held-to-maturity	311,024	0.8	264,799	0.7	4,891	-
Total securities held-to-maturity	**5,893,926**	**14.6**	**4,786,530**	**13.3**	**1,366,954**	**3.4**
Total investment securities	**40,361,866**	**100.0**	**35,941,390**	**100.0**	**39,861,281**	**100.0**

Securities issued by the Turkish government represented 87.5%, 86.9% and 87.9% of the Group's total securities portfolio as of December 31, 2012, 2011 and 2010, respectively.

The most significant change in the Group's investment portfolio in 2010, 2011 and 2012 was the increase in holdings of Turkish government bonds indexed to the Turkish consumer price index, which increased from 26.7% of the Group's total investment securities portfolio as of December 31, 2010 to 31.0% as of December 31, 2011, to 32.7% as of December 31, 2012. The increase in 2011 and 2012 was a result of the Group's decision to increase its investments in such securities due to the more attractive yield available on such securities compared to fixed rate instruments and thus hedge itself against market volatility. The held-to-maturity portfolio declined from 14.6% as of December 31, 2010, to 13.3% as of December 31, 2011 and further to 3.4% as of December 31, 2012 as a result of the Group's intention to hold fewer securities to maturity and the Group's sale of a large part of its Turkish government eurobonds covered by an exception granted by IAS 39 for the sale of such securities in cases where the regulatory capital requirement increases, such as following the effective date of Basel II.

Pursuant to Turkish market practice, the Group pledges securities to acquire funding under security repurchase agreements. The Group utilizes such funding depending upon the difference in rates paid on deposits compared to Central Bank rates, which vary based upon market conditions as well as Central Bank policy. The securities so pledged amounted to TL 15,415,648 thousand as of December 31, 2012, TL 12,580,108 thousand as of December 31, 2011 and TL 12,286,398 thousand as of December 31, 2010, comprising 38.1%, 34.6% and 29.9%, respectively, of the Group's total securities portfolio.

For additional information on the Group's investment securities portfolio, see note 10 to the 2012 IFRS Financial Statements provided elsewhere in this Offering Circular and "Selected Statistical and Other Information – Securities Portfolio."

Liabilities

As of December 31, 2012, the Group's total liabilities amounted to TL 155,561,819 thousand, an increase of 8.6% from TL 143,251,142 thousand as of December 31, 2011, which was an increase of 20.5% from TL 118,929,887 thousand as of December 31, 2010.

The Group's TL 117,119,290 thousand in average interest-bearing liabilities during 2012 (calculated as the average of the opening, quarter-end and closing balances for 2012) resulted primarily from TL 40,842,864 thousand and TL 30,934,780 thousand in average TL-denominated and foreign currency-denominated time deposits of customers, respectively, TL 11,849,934 thousand in average obligations under repurchase agreements and TL 24,905,838 thousand in average loans and advances from banks.

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

Deposits. Deposits have been and are expected to continue to be the most important source of funding for the Group. The Group's total deposits from customers (including expense accruals) amounted to TL 92,191,501 thousand as of December 31, 2012, which was an increase of 2.3% from TL 90,138,994 thousand as of December 31, 2011, which was itself an increase of 18.1% from TL 76,295,528 thousand as of December 31, 2010. The share of deposits from customers in total liabilities slightly decreased to 59.3% as of December 31, 2012 from 62.9% as of December 31, 2011 and 64.2% as of December 31, 2010, while the share of other funding sources increased. The Bank's management believes that at least some of that decrease is a result of the Group's issuance of Turkish Lira-denominated bonds to individual investors, many of which might otherwise have deposited the invested funds with the Bank. Foreign currency deposits (principally US Dollars and Euro) represented 49.0%, 48.9% and 44.3% of the Group's total deposits as of December 31, 2012, 2011 and 2010, respectively. For additional information on the Group's deposits, see notes 14 and 15 to the Group's 2012 IFRS Financial Statements provided elsewhere in this Offering Circular and "Selected Statistical and Other Information – Deposits."

Obligations under Repurchase Agreements. Obligations under repurchase agreements amounted to TL 14,106,944 thousand as of December 31, 2012, comprising 9.1% of the Group's total liabilities, increasing its share as compared to TL 11,738,157 thousand as of December 31, 2011, which comprised 8.2% of the Group's total liabilities, compared to TL 11,735,342 thousand as of December 31, 2010, which comprised 9.9% of the Group's total liabilities. The share of the outstanding balances of such transactions in the Group's balance sheet changes depending upon the relative costs of funding in the market. For additional information on the Group's obligations under repurchase agreements, see note 16 to the 2012 IFRS Financial Statements provided elsewhere in this Offering Circular.

Loans and Advances from Banks. As deposits are generally of a short-term duration, the Group has obtained wholesale funding on a more limited basis principally to better match the maturity and currency of its longer-term assets. This funding has included (among others) syndicated bank loans and securitizations of certain of the wire transfers and other remittances received by the Bank from its correspondent banks and other senders of such transfers. Loans and advances from banks amounted to TL 25,879,355 thousand as of December 31, 2012 (constituting 16.6% of the Group's total liabilities) as compared to TL 24,325,549 thousand as of December 31, 2011 (constituting 17.0% of the Group's total liabilities) and TL 19,964,404 thousand as of December 31, 2010 (constituting 16.8% of the Group's total liabilities). It is important to note that a portion of these liabilities (either when incurred or as a result of aging) are themselves short-term (as of December 31, 2012, 56.2% of loans and advances from banks had a remaining term-to-maturity of one year or less as compared to 51.3% as of December 31, 2011 and 45.3% as of December 31, 2010). For additional information on the Group's loans and advances from banks, see note 17 to the 2012 IFRS Financial Statements provided elsewhere in this Offering Circular and "Selected Statistical and Other Information – Borrowings and Certain Other Liabilities."

Shareholders' Equity

The Group's total shareholders' equity including non-controlling interests as of December 31, 2012 amounted to TL 21,937,716 thousand, which was an increase of 20.9% from TL 18,149,879 thousand as of December 31, 2011, which was itself also an increase of 7.6% compared to TL 16,872,828 thousand as of December 31, 2010. Shareholders' equity principally changes as a result of the Group's net income and changes in the amount of unrealized gains on available-for-sale assets (which changes are not included in income). The following table summarizes the components of the Group's shareholders' equity and non-controlling interests as of the indicated dates:

	As of December 31,		
	2010	**2011**	**2012**
		(TL thousands)	
Share capital	5,146,371	5,145,012	5,143,305
Share premium	11,880	11,880	11,880
Non-controlling interests	97,461	112,583	140,524
Unrealized gains on available-for-sale assets	1,627,351	92,778	1,093,683
Hedging reserve	(1,482)	(389)	-
Translation reserve	1,222	(16,382)	(20,765)
Legal reserves	553,459	757,480	956,192
Retained earnings	9,436,566	12,046,917	14,612,897
Total shareholders' equity and non-controlling interests	**16,872,828**	**18,149,879**	**21,937,716**

The balance of unrealized gains on available-for-sale assets increased by 1,078.8% as of December 31, 2012. TL 8,753 thousand of this increase was due to the booking of losses to the income statement for the available-for-sale securities sold during the year. The remaining increase resulted from market conditions affecting favorably the fair value of such securities. For additional information on the Group's shareholders' equity and non-controlling interests, see notes 10 and 22 in the 2012 IFRS Financial Statements provided elsewhere in this Offering Circular. In addition, see "Capital Adequacy" below.

Off-Balance Sheet Arrangements

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

The most significant category of such transactions includes letters of guarantee, letters of credit and other support that the Group provides to its import and export customers, as well as off-balance sheet exposure for the Group's commitments to make loans to its borrowers, derivatives and other transactions. For detailed information on the Group's off-balance sheet commitments and contingencies, see notes 24 and 25 to the 2012 IFRS Financial Statements provided elsewhere in this Offering Circular.

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

Letter of credit and similar transactions. As of December 31, 2012, the Group had issued (or confirmed) letters of credit amounting to TL 6,141,429 thousand and guarantee letters and other guarantees amounting to TL 16,918,981 thousand and acceptance credits amounting to TL 720,896 thousand compared to letters of credit amounting to TL 6,231,224 thousand and guarantee letters and other guarantees amounting to TL 15,490,635 thousand and acceptance credits amounting to TL 515,550 thousand as of December 31, 2011, and letters of credit amounting to TL 3,934,455 thousand, guarantee letters and other guarantees amounting to TL 12,366,844 thousand and acceptance credits amounting to TL 164,105 thousand as of December 31, 2010. Most of such letters of credit and guarantees were issued (or confirmed) in connection with the export and trade finance-related activities of the Group's customers. The following table summarizes the Group's exposure under such transactions as of the indicated dates:

	As of December 31,		
	2010	2011	2012
		(TL thousands)	
Letters of guarantee	12,310,098	15,420,399	16,852,681
Letters of credit	3,934,455	6,231,224	6,141,429
Acceptance credits	164,105	515,550	720,896
Others	56,746	70,236	66,300
Total commitments and contingencies	**16,465,404**	**22,237,409**	**23,781,306**

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

Derivatives. The Group's exposure to derivative transactions arises principally in connection with customer-dealing and funding activities. The Group also enters into certain derivatives transactions in order to hedge its currency, interest rate and other risks. The Group enters into derivative transactions with domestic and foreign counterparties that it considers to be credit-worthy (mostly with an investment grade rating) or, in most cases, that are fully-secured. As of December 31, 2012, the Group's commitments arising from various derivatives amounted to TL 53,725,410 thousand, a 22.4% increase from TL 43,880,483 thousand as of December 31, 2011, itself a 42.2% increase from TL 30,847,663 thousand as of December 31, 2010. The increases in 2011 and 2012 resulted from currency swap transactions and options entered into for the Group and its customers mainly in order to hedge the positions against the volatility in exchange rates in the markets. See note 25 to the 2012 IFRS Financial Statements provided elsewhere in this Offering Circular and, for a breakdown of the Group's commitments arising from derivatives as of December 31, 2010, 2011 and 2012, "Selected Statistical and Other Information – Derivative Transactions."

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

Commitments to Customers. The Group's commitments to customers include unused credit limits for credit cards, overdrafts, checks and loans to customers and credit-linked-notes, which amounted to approximately TL 27,955,379 thousand as of December 31, 2012, an increase of 1.7% from TL 27,495,547 thousand as of December 31, 2011, itself an increase of 17.0% from TL 23,496,957 thousand as of December 31, 2010. The increases in 2011 and 2012 are consistent with the general growth of the Group's lending business, including its credit card business.

Capital Adequacy

Each of the Bank and the Group is required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures. The total capital ratio for each of the Bank and the Group is calculated by dividing: (a) its "Tier I" capital (*i.e.*, its "core capital," which mainly comprises its share capital, reserves and retained earnings (reduced by certain items such as leasehold improvements on operational leases, intangible assets and goodwill)) *plus* its "Tier II" capital (*i.e.*, its "supplementary capital," which mainly comprises general provisions, subordinated debts, unrealized gains/losses on available-for-sale assets and revaluation surplus and *minus* items to be deducted from capital (its "deductions from capital," which comprises mainly unconsolidated equity interests in financial institutions and assets held for resale but held longer than five years), by (b) the aggregate of value at credit risk, value at market risk and value at operational risk. In accordance with these guidelines, each of the Bank and the Group is required under BRSA requirements to maintain a total capital ratio in excess of 8%. Although the BRSA recommends a total capital ratio of 12%, the BRSA does not have a separate requirement with respect to "Tier I" capital. For additional information on the rules governing the Group's capital adequacy ratios, see "Turkish Regulatory Environment – Capital Adequacy."

The Group maintains regulatory capital adequacy ratios on both a Bank-only and consolidated basis in excess of the regulatory minimums required and recommended levels. The Bank's total capital adequacy ratios (calculated pursuant to the BRSA Financial Statements) were 18.21% as of December 31, 2012, compared to 16.89% as of December 31, 2011 and 19.62% as of December 31, 2010. While neither the Bank nor the Group is required to maintain a minimum "Tier I" capital ratio, the Bank's "Tier I" capital adequacy ratios (calculated pursuant to the BRSA Financial Statements) were 16.45% as of December 31, 2012, compared to 15.00% as of December 31, 2011 and 16.94% as of December 31, 2010.

The following table sets forth the calculation of the Group's capital adequacy ratios as of each of December 31, 2010, 2011 and 2012 based upon its BRSA Financial Statements; *however*, as the Basel II application became mandatory for all banks operating in Turkey effective from July 1, 2012, the 2010 and 2011 ratios are not comparable with the 2012 ratio that is prepared in accordance with Basel II.

	As of December 31,		
	2010	**2011**	**2012**
		(*TL thousands*)	
Core capital (Tier 1)	14,980,508	18,022,835	20,783,877
Supplementary capital (Tier 2) .	2,354,165	2,167,255	1,984,805
	17,334,673	**20,190,090**	**22,768,682**
Deductions from capital	(106,274)	(80,068)	(169,359)
Total capital	**17,228,399**	**20,110,022**	**22,599,323**
Value at credit risk....................	78,722,539	107,808,578	117,708,805
Value at market risk..................	5,605,375	6,821,925	1,770,050
Value at operational risk...........	11,028,669	12,981,944	14,469,692
Total...	**95,356,583**	**127,612,447**	**133,948,547**
Tier I capital adequacy ratio	15.71%	14.12%	15.52%
Total capital adequacy ratio......	18.07%	15.76%	16.87%

The significant increases in the Group's capital in 2011 and 2012 represented the growth in the Group's retained earnings and (in respect of 2012 only) the significant increase in unrealized gains on available-for-sale assets described above. The Group's capital adequacy ratios decreased by 2.31% in 2011 as a result of an increase in value at credit risk due to the growth in lending and the adverse effect of continuing growth in earnings in the calculation of value at operational risk (which is based upon the prior three fiscal years' earnings). Basel II affected mainly the value at credit and market risks. Despite the overall increase in total value at credit, market and operational risks, the Group's capital adequacy ratio increased by 1.11 points by the end of 2012 as total capital increased.

Liquidity and Funding

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

The ability to replace interest-bearing deposits at their maturity is a key factor in determining liquidity requirements, as well as the exposure to interest and exchange rate risks. The Group's principal source of funding is short-term and demand deposits and the Group has developed a diversified and stable deposit base in each of its retail, commercial, corporate and SME business lines. The Bank's management believes that funds from the Group's deposit-taking operations generally will continue to meet its liquidity needs for the foreseeable future. As of December 31, 2010, 2011 and 2012, the Group's cash loan to total deposit ratio was 89.9%, 99.4% and 104.6%, respectively. For additional information on deposits, see "Selected Statistical and Other Information – Deposits."

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

In 2012, the Bank and some of its financial subsidiaries issued certain bills and notes for purposes of funding a portion of the Group's operations:

- the total face value of the bonds and bills issued by the Bank in the Turkish domestic market reached TL 2,093 million as of December 31, 2012. The issuances are authorized by the Turkish Capital Markets Board,
- in December 2012, Garanti Fleet issued bills with a total face value of TL 77,501 thousand, an interest rate of 6.71% *per annum* and a maturity of 178 days,
- in October 2012, Garanti Leasing issued bills with a total face value of TL 50,000 thousand, an interest rate of 7.57% *per annum* and a maturity of 189 days,
- in September 2012, the Bank issued US$750 million 10-year fixed-rate notes with a maturity date of September 13, 2022 and a coupon rate of 5.25% *per annum* and US$600 million 5-year fixed-rate notes with a maturity date of September 13, 2017 and a coupon rate of 4.00% *per annum* in the international markets,
- in July 2012, Garanti Leasing issued bills with a total face value of TL 125,000 thousand, an interest rate of 9.06% *per annum* and a maturity of 178 days,
- in May 2012, Garanti Leasing issued two-year-floating-rate notes with a total face value of TL 77,201 thousand, a maturity date of May 8, 2014 and a coupon rate of 11.30% *per annum* in the Turkish domestic market.

In each of 2011 and 2012, the Bank also raised funds through its existing "diversified payment rights" program. These fundings, which totaled approximately US$700 million, amortize over their life (each after an initial interest-only period) and have final maturities ranging from 2016 to 2026, including the US$400 million that the Bank obtained on August 23, 2012 with a maturity of 14 years.

The Bank is subject to the BRSA's regulations on the measurement of the liquidity adequacy of a bank, which currently is required to be calculated on a bank-only basis. In November 2006, the BRSA issued a communiqué on the measurement of the liquidity adequacy of banks, which regulation requires Turkish banks to meet a minimum 80% liquidity ratio of foreign currency assets/liabilities and a minimum 100% liquidity ratio of total assets/liabilities on a weekly and monthly basis. The Bank's average weekly and monthly ratios during the indicated periods are shown below:

	2010	**2011**	**2012**
Average weekly foreign currency liquidity ratio	123.99%	135.89%	131.56%
Average monthly foreign currency liquidity ratio	89.16%	94.32%	98.80%
Average weekly total liquidity ratio	203.09%	148.57%	139.73%
Average monthly total liquidity ratio	129.40%	109.14%	104.67%

The following table sets out the calculation of the Bank's weekly average liquidity ratios for 2010, 2011 and 2012, including the "liquidity conversion ratios" that are applied to the applicable asset and liability category in determining (with respect to assets) how much liquidity the Bank maintains and (with respect to liabilities) how much liquidity the Bank is required to maintain:

	Liquidity Conversion Ratios	2010 Foreign Currency	2010 FC + TL	2011 Foreign Currency	2011 FC + TL	2012 Foreign Currency	2012 FC + TL
Assets		*(TL thousands, except liquidity ratios)*					
Cash and Balances with Central Bank (excluding restricted balances)	100%	1,197,143	4,041,040	2,314,309	8,194,559	5,793,387	8,391,423
Financial Assets at Fair Value through Profit/Loss and Available-for-Sale	75-95%	906,026	24,206,839	515,749	19,725,150	650,621	21,909,418
Banks (excluding restricted balances)	100%	1,543,628	1,621,246	1,687,490	1,753,636	1,160,655	1,259,469
Interbank Money Markets, Reserve Deposits and Other Receivables	30-100%	655,960	735,385	1,126,400	1,251,177	1,532,704	1,532,704
Loans (excluding non-performing loans)	45-100%	1,165,480	8,936,362	1,116,816	9,722,542	1,064,461	11,431,217
Investments Held-to-Maturity	50-95%	771,871	2,883,218	769,758	1,643,144	608,890	1,186,624
Receivables from Leases	90%	-	-	-	-	-	-
Derivatives	100%	8,164,903	10,827,719	8,771,661	11,758,711	12,824,318	16,091,583
Total Liquid Assets		**14,405,101**	**53,251,809**	**16,302,183**	**54,048,919**	**23,635,036**	**61,802,438**
Liabilities							
Deposits	20-100%	8,429,421	20,735,049	9,220,208	22,131,559	10,356,069	25,218,935
Central Bank, Interbank Money Markets, Banks	100%	-	-	-	-	-	-
Other Borrowings (including subordinated debts)	100%	210,272	259,549	505,547	531,447	488,457	529,192
Other Sources (including repurchase agreements, payables for lease and factoring transactions, securities issued and payables to government institutions)	50-100%	33,791	6,818,780	446,866	11,679,978	576,133	12,054,400
Commitments and Contingencies (including unused credit limits, underwriting commitments)	2-15%	473,591	2,514,134	766,606	3,384,297	2,015,224	5,100,007
Derivatives	100%	7,009,545	10,824,147	6,343,999	11,793,948	10,485,638	16,143,008
Total Liquid Liabilities		**16,156,620**	**41,151,659**	**17,283,226**	**49,521,229**	**23,921,521**	**59,045,542**
Liquidity Ratios		**89.16%**	**129.40%**	**94.32%**	**109.14%**	**98.80%**	**104.67%**

In addition to the liquidity ratios described above, the Bank is also required to maintain deposits with the Central Bank against a minimum reserve requirement. These reserve deposits are calculated on the basis of TL and foreign currency liabilities taken at the rates determined by the Central Bank. As of December 31, 2012, the reserve deposits for TL and foreign currency liabilities have not earned any interest.

The Group's banks in the Netherlands, Russia and Romania are also subject to similar reserve deposit requirements. For detailed information on the Group's reserve deposits requirements see note 9 to the 2012 IFRS Financial Statements provided elsewhere in this Offering Circular.

Capital Expenditures

As a financial group, capital expenditures are not a material part of the Group's expenses and principally relate to expenses for branch expansion. For example, in 2012 the Group's capital expenditures were TL 357,974 thousand. The following table summarizes the Group's capital expenditures for the indicated years:

	2010	**2011**	**2012**
		(TL thousands)	
Land and buildings	94,033	36,382	15,758
Furniture, fixture, equipment and motor vehicles	226,637	251,811	250,009
Leasehold improvements and software	99,850	100,931	63,200
Construction in progress	10,431	17,812	29,007
Total capital expenditures	**430,951**	**406,936**	**357,974**

SELECTED STATISTICAL AND OTHER INFORMATION

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

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

A. Average Balance Sheet and Interest Data

The following tables set out the average balances of assets and liabilities, and the interest earned or expensed on such amounts, of the Bank for the years ended December 31, 2010, 2011 and 2012. For purposes of the following tables, except as otherwise indicated, the average is calculated on a daily basis for each respective period and is based upon management estimates. For purpose of the following tables: (a) non-accruing credits have been treated as non-interest earning assets and (b) loan fees have been included in interest income.

	For the year ended December 31,								
	2010			2011			2012		
	Average Balance	Avg. Yield	Interest Income	Average Balance	Avg. Yield	Interest Income	Average Balance	Avg. Yield	Interest Income
	(TL thousands, except percentages)								
ASSETS									
Average Interest-Earning Assets									
Deposits with banks[(1)]	13,726,844	2.30%	315,148	19,600,179	1.22%	239,700	20,558,900	1.09%	224,271
TL	5,098,599	5.43%	276,663	7,892,829	2.55%	201,311	4,290,339	4.14%	177,718
Foreign Currency	8,628,245	0.45%	38,485	11,707,350	0.33%	38,389	16,268,560	0.29%	46,553
Investments in securities	33,825,491	11.06%	3,742,070	32,469,776	10.91%	3,542,346	34,312,259	11.31%	3,879,817
TL	30,283,041	11.57%	3,503,852	29,277,033	11.35%	3,324,267	31,834,792	11.72%	3,730,075
Foreign currency	3,542,450	6.72%	238,218	3,192,743	6.83%	218,079	2,477,467	6.04%	149,742
Loans and advances to customers, and other interest-earning assets	60,959,299	8.93%	5,442,658	73,816,849	9.08%	6,701,483	84,397,663	10.15%	8,566,383
TL	33,462,312	12.57%	4,207,739	40,537,775	11.98%	4,857,840	49,542,974	13.27%	6,574,221
Foreign currency	27,496,987	4.49%	1,234,919	33,279,074	5.54%	1,843,643	34,854,689	5.72%	1,992,162
Total for Average Interest-Earning Assets	**108,511,634**	**8.75%**	**9,499,876**	**125,886,804**	**8.33%**	**10,483,529**	**139,268,822**	**9.10%**	**12,670,471**
TL	**68,843,952**	**11.60%**	**7,988,254**	**77,707,637**	**10.79%**	**8,383,418**	**85,668,105**	**12.24%**	**10,482,014**
Foreign currency	**39,667,682**	**3.81%**	**1,511,622**	**48,179,167**	**4.36%**	**2,100,111**	**53,600,717**	**4.08%**	**2,188,457**
Average Non-Interest-Earning Assets									
Cash and cash equivalents	1,360,467			2,049,338			1,972,690		
Tangibles	1,281,076			1,319,619			1,401,707		
Equity participations	1,534,941			1,986,688			2,220,507		
Other assets and accrued income	6,022,100			5,635,280			6,815,872		
Total Average Non-Interest -Earning Assets	**10,198,584**			**10,990,924**			**12,410,776**		
Total Average Assets	**118,710,218**			**136,877,728**			**151,679,598**		

(1) Comprises balances with banks, interbank funds sold and reserve deposits at the Central Bank.

	For the year ended December 31,								
	2010			2011			2012		
	Average Balance	Avg. Rate	Interest Expense	Average Balance	Avg. Rate	Interest Expense	Average Balance	Avg. Rate	Interest Expense
	(TL thousands, except percentages)								
LIABILITIES									
Average Interest-Bearing Liabilities									
Deposits from customers	66,958,193	5.37%	3,598,786	71,064,512	5.57%	3,956,602	80,750,427	6.13%	4,946,321
TL	41,428,543	7.41%	3,070,566	40,390,726	7.70%	3,110,090	46,767,350	8.76%	4,096,220
Foreign currency	25,529,650	2.07%	528,220	30,673,786	2.76%	846,512	33,983,077	2.50%	850,101
Short-term debt and other interest bearing liabilities	265,397	7.22%	19,165	406,219	6.05%	24,580	417,413	7.41%	30,914
TL	177,273	8.08%	14,329	258,296	7.46%	19,268	249,918	8.07%	20,175
Foreign currency	88,124	5.49%	4,836	147,923	3.59%	5,312	167,496	6.41%	10,739
Long-term debt and other interest bearing liabilities	13,249,419	5.40%	715,966	18,494,903	5.92%	1,095,227	18,852,667	6.29%	1,186,342
TL	4,432,747	11.08%	491,065	6,424,697	7.87%	505,901	6,089,923	7.27%	442,688
Foreign currency	8,816,672	2.55%	224,901	12,070,207	4.88%	589,326	12,762,745	5.83%	743,654
Repurchase agreements	7,199,643	5.71%	411,219	11,891,997	6.04%	718,172	10,648,473	7.40%	787,962
TL	6,838,854	5.97%	408,201	9,743,724	6.86%	668,610	9,247,570	8.17%	755,387
Foreign currency	360,789	0.84%	3,018	2,148,273	2.31%	49,562	1,400,903	2.33%	32,575
Total for Average Interest-Bearing Liabilities	**87,672,652**	**5.41%**	**4,745,136**	**101,857,631**	**5.69%**	**5,794,581**	**110,668,980**	**6.28%**	**6,951,539**
TL	**52,877,417**	**7.53%**	**3,984,161**	**56,817,442**	**7.57%**	**4,303,868**	**62,354,760**	**8.52%**	**5,314,470**
Foreign currency	**34,795,235**	**2.19%**	**760,975**	**45,040,189**	**3.31%**	**1,490,713**	**48,314,220**	**3.39%**	**1,637,069**
Average Non-Interest-Bearing Liabilities and Equity									
Deposits-demand	11,445,367			13,757,377			15,725,751		
Accrued expenses and other liabilities	3,618,272			4,739,640			5,753,098		
Current and deferred tax liabilities	204,102			67,849			293,976		
Shareholders' equity and net profit	15,769,825			16,455,231			19,237,793		
Total Average Non-Interest-Bearing Liabilities and Equity	**31,037,566**			**35,020,097**			**41,010,618**		
Total Average Liabilities and Equity	**118,710,218**			**136,877,728**			**151,679,598**		

The following tables set out the average balances of assets and liabilities, and the interest earned or expensed on such amounts, of the Group for the years ended December 31, 2010, 2011 and 2012. For purposes of the following tables, the average is calculated as the average of the opening, quarter-end and closing balances for the applicable year. For the purpose of the following tables: (a) non-accruing credits have been treated as non-interest earning assets and (b) loan fees have been included in interest income.

	For the year ended December 31,								
	2010			2011			2012		
	Average Balance	Avg. Yield	Interest Income	Average Balance	Avg. Yield	Interest Income	Average Balance	Average Yield	Interest Income
	(TL thousands, except percentages)								
ASSETS									
Average Interest-Earning Assets									
Loans and advances to banks[(1)]	8,394,141	4.81%	403,528	9,283,112	3.34%	309,804	9,078,397	3.89%	352,702
Investments in securities	34,999,836	11.04%	3,863,118	35,012,338	10.50%	3,677,404	36,014,851	11.12%	4,005,815
Loans and advances to customers	61,466,309	9.70%	5,960,437	81,702,856	9.06%	7,405,898	95,994,255	9.86%	9,467,617
Total for Average Interest-Earning Assets	**104,860,285**	**9.75%**	**10,227,083**	**125,998,306**	**9.04%**	**11,393,106**	**141,087,503**	**9.80%**	**13,826,134**
Average Non-Interest-Earning Assets	16,664,414			23,705,950			27,536,829		
Total Average Assets	**121,524,699**			**149,704,256**			**168,624,332**		

	For the year ended December 31,								
	2010			2011			2012		
	Average Balance	Avg. Rate	Interest Expense	Average Balance	Avg. Rate	Interest Expense	Average Balance	Avg. Rate	Interest Expense
	(TL thousands, except percentages)								
LIABILITIES									
Average Interest-Bearing Liabilities									
Deposits from banks....	1,254,841	5.78%	72,469	2,305,073	4.65%	107,148	3,645,340	4.51%	164,573
Deposits from customers	57,349,139	6.38%	3,661,582	65,265,075	6.20%	4,047,763	71,777,643	7.02%	5,036,622
Loans and advances from banks and obligations under repurchase agreements......	24,776,108	4.92%	1,218,683	34,666,607	5.06%	1,755,248	36,755,773	5.10%	1,872,825
Bonds payable	-	-	-	2,263,955	7.84%	177,431	4,604,392	6.98%	321,472
Subordinated liabilities.....	940,762	6.37%	59,943	1,022,979	6.81%	69,623	336,142	6.93%	23,280
Total for Average Interest-Bearing Liabilities	**84,320,849**	**5.94%**	**5,012,677**	**105,523,690**	**5.83%**	**6,157,213**	**117,119,290**	**6.33%**	**7,418,772**
Average Non-Interest-Bearing Liabilities and Equity	37,203,850			44,180,566			51,505,042		
Total Average Liabilities and Equity.....	**121,524,699**			**149,704,256**			**168,624,332**		

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

	As of December 31,		
	2010	**2011**	**2012**
	(TL thousands, except percentages)		
Net Interest Income(1)			
TL...	4,004,093	4,077,169	5,167,545
Foreign currency	750,647	611,779	551,387
Total	**4,754,740**	**4,688,948**	**5,718,932**
Net Yield(2)			
TL...	5.82%	5.25%	6.03%
Foreign currency	1.89%	1.27%	1.03%
Total	**4.38%**	**3.72%**	**4.11%**

(1) Net Interest Income represents the difference between total interest earned and total interest expensed.
(2) Net Yield represents the net interest income as a percentage of total average interest-earning assets.

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

	As of December 31,		
	2010	**2011**	**2012**
	(TL thousands, except percentages)		
Net Interest Income(1)	5,214,406	5,235,893	6,407,362
Net Yield(2)	4.97%	4.16%	4.54%

(1) Net Interest Income represents the difference between total interest earned and total interest expensed.
(2) Net Yield represents the net interest income as a percentage of total average interest-earning assets.

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

The following table provides a comparative analysis of net changes in interest earned and interest expensed by reference to changes in average volume and rates for the periods indicated for the Bank. Net changes in net interest income are attributed either to changes in average balances (volume change) or changes in average rates (rate change) for interest-earning assets and sources of funds on which interest is earned or expensed. Volume change is calculated as the change in volume multiplied by the current rate, while the rate change is calculated as the change in rate multiplied by the previous volume. Average balances represent the average of the opening and closing balances for each of the years 2010, 2011 and 2012. For purpose of the following tables, non-performing loans have been treated as non-interest earning assets.

	For the year ended December 31, 2012/2011 Increase (decrease) due to changes in		
	Volume	Rate	Net Change
		(TL thousands)	
Interest Income			
Deposits with banks	(137,392)	121,963	(15,429)
TL	(149,225)	125,632	(23,593)
Foreign currency	11,833	(3,669)	8,164
Investments in securities	256,460	81,011	337,471
TL	299,692	106,117	405,809
Foreign currency	(43,232)	(25,106)	(68,338)
Loans and advances to customers, and other interest-earning assets	1,285,022	579,878	1,864,900
TL	1,194,966	521,415	1,716,381
Foreign currency	90,056	58,463	148,519
Total interest income	**1,404,090**	**782,852**	**2,186,942**
Interest Expense			
Deposits from customers	641,295	348,424	989,719
TL	560,891	425,239	986,130
Foreign currency	80,404	(76,815)	3,589
Short-term debt and other interest-bearing liabilities	279	6,055	6,334
TL	(676)	1,583	907
Foreign currency	955	4,472	5,427
Long-term debt and other interest-bearing liabilities	16,317	74,798	91,115
TL	(24,335)	(38,878)	(63,213)
Foreign currency	40,652	113,676	154,328
Repurchase Agreements	(57,908)	127,698	69,790
TL	(40,528)	127,305	86,777
Foreign currency	(17,380)	393	(16,987)
Total interest expense	**599,983**	**556,975**	**1,156,958**
Net change in net interest income	**804,107**	**225,877**	**1,029,984**

	For the year ended December 31,		
	2011/2010		
	Increase (decrease) due to changes in		
	Volume	**Rate**	**Net Change**
		(TL thousands)	
Interest Income			
Deposits with banks	81,365	(156,813)	(75,448)
TL	71,268	(146,621)	(75,353)
Foreign currency	10,097	(10,192)	(95)
Investments in securities	(138,114)	(61,610)	(199,724)
TL	(114,227)	(65,356)	(179,584)
Foreign currency	(23,887)	3,746	(20,140)
Loans and advances to customers and other interest-earning assets.	1,168,212	90,613	1,258,825
TL	847,887	(197,786)	650,101
Foreign currency	320,325	288,399	608,724
Total interest income	**1,111,463**	**(127,810)**	**983,653**
Interest Expense			
Deposits from customers	62,052	295,764	357,816
TL	(79,912)	119,435	39,523
Foreign currency	141,964	176,329	318,293
Short-term debt and other interest-bearing liabilities	8,191	(2,776)	5,415
TL	6,044	(1,104)	4,940
Foreign currency	2,147	(1,672)	475
Long-term debt and other interest-bearing liabilities	315,706	63,555	379,261
TL	156,853	(142,017)	14,836
Foreign currency	158,853	205,572	364,425
Repurchase Agreements	240,569	66,384	306,953
TL	199,331	61,079	260,410
Foreign currency	41,238	5,305	46,543
Total interest expense	**626,518**	**422,927**	**1,049,445**
Net change in net interest income	**484,945**	**(550,737)**	**(65,792)**

II. Securities Portfolio

The Group's securities portfolio comprises trading securities (financial assets at fair value through profit or loss) and investment securities (both held-to-maturity securities and available-for-sale securities). The Group also enters into purchases (sales) of securities under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Securities sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for the related security portfolio as appropriate.

As of December 31, 2012, the size of the Group's aggregate securities portfolio increased by 11.1% to TL 40,412,207 thousand from TL 36,360,661 thousand as of December 31, 2011, which in turn decreased 11.6% from TL 41,136,709 thousand as of December 31, 2010. These changes resulted primarily from the Group's strategy of seeking selective/controlled growth in lending (that is, excess deposits were invested in securities while loan growth was constrained by the global financial crisis but was used for lending as the global and domestic economies recovered from such crisis).

A. Book Value of Securities

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

	As of December 31,		
	2010	2011	2012
		(TL thousands)	
Trading Securities	**774,843**	**419,271**	**550,926**
TL-denominated	678,061	290,982	468,958
Foreign currency-denominated and indexed	96,782	128,289	81,968
Investment Securities			
Available-for-sale	**34,467,940**	**31,154,860**	**38,494,327**
TL-denominated	29,938,400	27,279,515	34,921,633
Foreign currency-denominated and indexed	4,529,540	3,875,345	3,572,694
Held-to-maturity	**5,893,926**	**4,786,530**	**1,366,954**
TL-denominated	4,580,741	3,176,043	921,090
Foreign currency-denominated and indexed	1,313,185	1,610,487	445,864
Total	**41,136,709**	**36,360,661**	**40,412,207**

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

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

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

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

	As of December 31,		
	2010	2011	2012
		(TL thousands)	
Turkish government bonds and treasury bills(1)	621,556	251,731	187,258
Gold	80,853	80,389	42,364
Others	72,434	87,151	321,304
Total trading portfolio	**774,843**	**419,271**	**550,926**

(1) Turkish currency-denominated securities.

As of December 31, 2012, the size of the Group's trading portfolio increased by 31.4% to TL 550,926 thousand from TL 419,271 thousand as of December 31, 2011 (TL 774,843 thousand as of December 31, 2010). The Group's portfolio of trading securities comprises TL-denominated bonds, eurobonds, bonds issued by corporations (including financial institutions) and foreign governments, gold held for trading and loans held at fair value through profit and loss. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Significant Accounting Policies – Fair Value of Securities."

Investment Securities Portfolio

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

Held-to-Maturity Portfolio

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

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

	As of December 31,		
	2010	**2011**	**2012**
		(TL thousands)	
Turkish government bonds and treasury bills[1]	4,580,741	3,176,043	911,349
Turkish government eurobonds[2]	1,313,185	1,610,487	445,864
Others	-	-	9,741
Total held-to-maturity securities	**5,893,926**	**4,786,530**	**1,366,954**

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

Due to changing market conditions, in 2011 and 2012 the Bank decided not to classify new purchases into this category. Additionally, in 2012 the Bank sold eurobonds from its held-to-maturity portfolio in accordance with the exception granted by IAS 39 for the sale of such securities in cases where regulatory capital requirements increase. Accordingly, as of December 31, 2012 the size of the held-to-maturity portfolio (excluding income accruals) decreased by 69.9% to TL 1,362,063 thousand from TL 4,521,731 thousand as of December 31, 2011, itself a decrease of 19.0% from December 31, 2010. The decrease in this portfolio during 2012 is consistent with the Group's growth strategies and its intention regarding the portfolio size of securities to be held as "held-to-maturity."

Available-for-Sale Portfolio

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

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

	As of December 31,		
	2010	**2011**	**2012**
		(TL thousands)	
Turkish government bonds and treasury bills[1]	28,797,493	26,238,032	33,519,493
Bonds issued by corporations and financial institutions	4,051,573	3,666,875	3,591,634
Foreign government bonds	674,107	886,002	1,048,636
Turkish government eurobonds[2]	842,695	338,562	304,793
Others	102,072	25,389	29,771
Total available-for-sale portfolio	**34,467,940**	**31,154,860**	**38,494,327**

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

As of December 31, 2012, the size of the Group's available-for-sale securities portfolio increased by 23.6% to TL 38,494,327 thousand from TL 31,154,860 thousand as of December 31, 2011, itself a decrease of 9.6% as compared to the

TL 34,467,940 thousand as of December 31, 2010. The 2012 increase is consistent with the Group's strategy of classifying new purchases into this category rather than its held-to-maturity securities portfolio.

As of December 31, 2012, 2011 and 2010, the Group's IFRS Financial Statements included unrealized gains (net of tax) on its available-for-sale portfolio amounting to TL 1,093,683 thousand, TL 92,778 thousand and TL 1,627,351 thousand, respectively, in other comprehensive income under shareholders' equity. In 2012, net losses transferred to income on disposal from other comprehensive income amounted to TL 8,753 thousand, whereas in 2011 and 2010, net gains transferred to income on disposal from other comprehensive income amounted to TL 286,075 thousand and TL 189,822 thousand, respectively.

B. Maturities of Securities

The following tables set out the maturities of the foreign currency-denominated securities in the Bank's securities portfolio (excluding equity shares and income accruals) as of December 31, 2012 and their respective weighted average yields for 2012:

	As of December 31, 2012				
	1 year or less	**After 1 year through 5 years**	**After 5 years through 10 years**	**After 10 years**	**Total**
			(*TL thousands*)		
Turkish government Eurobonds.............	1,213	188,645	344,871	2,998	537,726
Bonds issued by corporations	8,196	300,930	54,193	-	363,320
Foreign government bonds	-	-	-	-	-
Others...	-	748,000	-	-	748,000
Total..	**9,409**	**1,237,575**	**399,064**	**2,998**	**1,649,046**

	As of December 31, 2012				
	1 year or less	**After 1 year through 5 years**	**After 5 years through 10 years**	**After 10 years**	**Total**
Turkish government Eurobonds................	2.68%	6.28%	6.73%	4.56%	6.55%
Bonds issued by corporations	1.71%	3.63%	9.14%	-	4.41%
Foreign government bonds	-	-	-	-	-
Others..	-	4.95%	-	-	4.95%
Total..	**1.83%**	**4.83%**	**7.06%**	**4.56%**	**5.35%**

The following tables set out the maturities of the TL-denominated securities in the Bank's investment portfolio (excluding equity shares and income accruals) as of and for the year ended December 31, 2012 and their respective weighted average yields for 2012:

	As of December 31, 2012				
	1 year or less	**After 1 year through 5 years**	**After 5 years through 10 years**	**After 10 years**	**Total**
			(*TL thousands*)		
Turkish government bonds and treasury bills ...	9,903,012	11,955,519	4,044,327	-	25,902,858
Others...	4,570,634	1,357,749	-	-	5,928,383
Total..	**14,473,646**	**13,313,268**	**4,044,327**	**-**	**31,831,241**

	As of December 31, 2012				
	1 year or less	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total
Turkish government bonds and treasury bills	12.25%	9.48%	9.12%	-	10.48%
Others	7.94%	9.86%	-	-	8.38%
Total	**10.89%**	**9.52%**	**9.12%**	**-**	**10.09%**

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

	As of December 31,		
	2010	2011	2012
		(TL thousands)	
Financial assets at fair value through profit or loss	**678,061**	**290,982**	**468,958**
3 months or less	233,193	91,357	58,019
Over 3 months through 12 months	94,771	52,100	119,139
Over 1 year through 5 years	216,680	139,037	288,273
Over 5 years	133,417	8,488	3,527
Investment securities	**34,519,141**	**30,455,558**	**35,842,723**
3 months or less	4,235,887	2,388,314	971,715
Over 3 months through 12 months	5,227,696	775,981	15,342,237
Over 1 year through 5 year	20,498,191	25,212,463	14,701,464
Over 5 years	4,557,367	2,078,800	4,827,307
Total Turkish Lira-denominated securities	**35,197,202**	**30,746,540**	**36,311,681**

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

	As of December 31,		
	2010	2011	2012
		(TL thousands)	
Financial assets at fair value through profit or loss	**96,782**	**128,289**	**81,968**
3 months or less	79,744	83,278	45,569
Over 3 months through 12 months	7,616	2,447	-
Over 1 year through 5 years	1,731	26,588	7,590
Over 5 years	7,691	15,976	28,809
Investment securities	**5,842,725**	**5,485,832**	**4,018,558**
3 months or less	84,841	1,708	33,363
Over 3 months through 12 months	827,024	141,246	64,157
Over 1 year through 5 year	1,747,471	2,480,332	2,655,838
Over 5 years	3,183,389	2,862,546	1,265,200
Total foreign currency and foreign currency indexed securities	**5,939,507**	**5,614,121**	**4,100,526**

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

	As of December 31,		
	2010	2011	2012
		(TL thousands)	
Turkish Lira-denominated securities	35,197,202	30,746,540	36,311,681
Foreign currency and foreign currency-indexed securities	5,939,507	5,614,121	4,100,526
Total Securities	**41,136,709**	**36,360,661**	**40,412,207**

C. Securities Concentrations

As of December 31, 2012, the Group did not hold debt securities of any one issuer that (in the aggregate) had a book value in excess of 10% of the Group's shareholders' equity, other than securities issued by the Turkish government. As of December 31, 2012, the Group's TL 35,368,757 thousand of Turkish government securities represented 161.2% of the Group's shareholders' equity.

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

	As of December 31,					
	2010		2011		2012	
	Face Value	Carrying Value	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at Istanbul Stock Exchange	6,731,321	8,611,298	6,316,085	7,062,295	7,799,715	9,665,505
Collateralized to foreign banks	6,831,761	7,343,009	11,160,702	11,897,388	13,086,713	14,775,087
Deposited at central banks for repurchase transactions	1,628,955	1,653,529	2,899,219	3,377,536	1,637,828	1,908,053
Deposited at Central Bank for interbank transactions	578,234	604,493	1,763,273	1,929,076	1,237,438	1,321,927
Deposited at Central Bank for foreign currency money market transactions	511,000	531,437	100,000	100,994	100,000	101,032
Deposited at Clearing Bank (Takasbank)	66,100	67,609	158,241	195,744	180,967	220,588
Others		34,851		31,027		38,045
Total		**18,846,226**		**24,594,060**		**28,030,237**

Pursuant to market practice, the Group pledges securities to acquire funding under security repurchase agreements. The securities so pledged amounted to TL 15,415,648 thousand as of December 31, 2012, TL 12,580,108 thousand as of December 31, 2011 and TL 12,286,398 thousand as of December 31, 2010, comprising 38.1%, 34.6% and 29.9% (respectively) of the Group's securities portfolio on such dates. Such securities are included in the above table.

III. Loans and Advances to Customers

The Group's loans and advances to customers (*i.e.*, cash loans) amounted to TL 102,260,080 thousand as of December 31, 2012, increasing by 10.4% compared to year-end 2011, itself a 30.3% increase from year-end 2010. As discussed below, there are several important characteristics of the Group's loans and advances to customers portfolio, including diversification based upon sector and currency.

Loans and advances to customers represent the largest component of the Group's assets. As of December 31, 2012, the Group's total loans and advances to customers, less allowance for probable losses, comprised 57.6% of the Group's total assets. By comparison, as of December 31, 2011 this amount was TL 92,653,780 thousand (57.4% of the Group's total assets). The Group's cash loans portfolio increased by 10.4% as of December 31, 2012 compared to year-end 2011 after having increased by 30.3% in 2011 as global and domestic economies continued their recovery from the global financial crisis.

As of December 31, 2012, on the basis of the total amount of cash loans advanced, 72.8% of the Bank's loans were fixed rate and 27.2% were variable rate. The average interest rate that the Bank charged to borrowers in 2012 was 15.8% for TL-denominated loans and advances and 5.7% for foreign currency-denominated loans and advances, calculated on the basis of daily averages of balances and interest rates and according to the Bank's management's estimates. The average interest rates on the TL-denominated loan portfolio increased to 15.8% in 2012 from 12.0% in 2011 and the average interest rates on the foreign currency-denominated loan portfolio increased slightly to 5.7% in 2012 from 5.5% in 2011.

The Group provides financing for various purposes and although the majority of commercial and corporate loans have an average maturity of up to 18 months, for certain commercial and corporate loans (such as working capital and project finance loans) and for certain retail loans (such as mortgage loans) the maturities are up to 10 years (or occasionally over 10 years). As of December 31, 2012, the Group's loans with remaining maturities over one year and over five years composed 59.2% and 21.5%, respectively, of the Group's total loans and advances to customers.

A. Types of Loans

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

	As of December 31,					
	2010		2011		2012	
	(TL thousands, except percentages)					
Consumer loans	22,327,021	33.2%	28,804,750	32.8%	34,069,621	35.2%
Service sector	7,171,457	10.7%	8,840,305	10.0%	8,914,845	9.2%
Energy	5,490,907	8.2%	6,686,124	7.6%	7,794,220	8.0%
Construction	3,881,854	5.8%	5,712,675	6.5%	6,460,719	6.7%
Transportation and logistics	3,515,850	5.2%	4,294,677	4.9%	4,773,793	4.9%
Food	3,391,408	5.0%	4,634,551	5.3%	4,044,540	4.2%
Textile	2,789,290	4.1%	3,480,649	4.0%	3,704,404	3.8%
Metal and metal products	3,507,717	5.2%	3,911,535	4.4%	3,471,713	3.6%
Tourism	1,390,895	2.1%	2,466,146	2.8%	3,287,980	3.4%
Transportation vehicles and sub-industries	2,246,514	3.3%	2,917,806	3.3%	2,726,962	2.8%
Financial institutions	1,393,375	2.1%	2,150,904	2.4%	2,243,896	2.3%
Agriculture and stockbreeding	1,118,373	1.7%	1,829,093	2.1%	2,069,407	2.1%
Data processing	1,270,558	1.9%	2,260,765	2.6%	1,921,479	2.0%
Chemistry and chemical products	905,464	1.3%	1,373,571	1.6%	1,631,415	1.7%
Electronic/optical/medical equipments	602,029	0.9%	757,366	0.9%	1,229,589	1.3%
Stone/rock and related products	929,303	1.4%	1,106,460	1.2%	1,092,384	1.1%
Mining	746,609	1.1%	1,195,394	1.3%	1,035,816	1.1%
Machinery and equipment	715,966	1.1%	856,329	1.0%	994,576	1.0%
Durable consumption	807,841	1.2%	1,159,667	1.3%	591,183	0.6%
Plastic products	412,273	0.6%	509,628	0.6%	565,871	0.6%
Paper and paper products	325,628	0.5%	413,251	0.5%	356,272	0.4%
Others	2,281,215	3.4%	2,568,649	2.9%	3,936,486	4.0%
Total	**67,221,547**	**100.0%**	**87,930,295**	**100.0%**	**96,917,171**	**100.0%**

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

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

	As of December 31, 2012			
	1 year or less(1)	**After 1 year through 5 years**	**After 5 years**	**Total**
	(TL thousands)			
Commercial, financial and agricultural	25,187,505	9,119,621	10,358,845	44,665,971
Real estate-construction	1,575,133	5,926,112	3,058,248	10,559,493
Retail loans	23,030,962	9,780,584	157,919	32,969,465
Governments and official institutions	-	574,685	326,428	901,113
Banks and other financial institutions	944,696	160,266	67,746	1,172,708
Total	**50,738,296**	**25,561,268**	**13,969,186**	**90,268,750**

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

With respect to the Bank's loans due after one year as of December 31, 2012, 67.4% of such loans had a fixed interest rate and the remaining 32.6% had a floating or adjustable interest rate.

Composition of Loan Portfolio by Currency

As of December 31, 2012, foreign currency-denominated loans comprised 44.1% of the Group's loan portfolio (of which US Dollar-denominated obligations were the most significant), compared to 47.9% as of December 31, 2011 and 48.7% as of December 31, 2010.

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

	As of December 31,					
	2010		**2011**		**2012**	
	(TL thousands, except percentages)					
Turkish Lira	36,486,203	51.3%	48,248,964	52.1%	57,116,015	55.8%
US Dollar	22,000,522	31.0%	28,484,631	30.7%	28,814,907	28.2%
Euro and others	12,605,693	17.7%	15,920,185	17.2%	16,329,158	16.0%
Total	**71,092,418**	**100.0%**	**92,653,780**	**100.0%**	**102,260,080**	**100.0%**

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

C. Risk Elements

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

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

	As of December 31,		
	2010	2011	2012
		(TL thousands)	
Non-performing	2,553,057	2,209,227	3,011,273
Past due but not impaired	1,219,358	909,183	1,202,361
Loans with renegotiated terms	734,012	2,194,532	3,032,988
Total	**4,506,427**	**5,312,942**	**7,246,622**

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

2. Potential Problem Loans

As of December 31, 2012, there were no material amount of loans that are not included in the preceding table but for which information known to the Group about possible credit problems of borrowers caused the Bank's management to have serious doubts as to the ability of such borrower(s) to comply with the present loan repayment terms and that may result in disclosure of such loans in the above table for future years. See "Summary of Loan Loss Experience" below.

3. Loan Concentrations

As of December 31, 2012, the Group's portfolio of cash loans did not contain any concentration of credits that exceeded 10% of its total credits that are not otherwise already disclosed as a category of credits pursuant to "Types of Loans" above. For the purposes of this paragraph, loan concentrations are considered to exist when there are credits to a multiple number of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions.

From an individual borrower perspective, as of December 31, 2012, the gross cash loans to the Bank's 10 largest customers (on a Bank-only basis) represented approximately 7% of its gross loan portfolio, as compared to approximately 9% as of each of December 31, 2011 and 2010. In recent years, as a result of improvements in the Turkish economy, the percentage of smaller loans in the loan portfolio has been on an increasing trend. Although limited to some extent by the Group's selective growth strategy, the percentage of small loans like retail and SME loans increased in 2010, 2011 and 2012, as the economy improved and customer demand increased, and the Bank's management expects it to keep increasing in the near future.

D. Other Interest-Earning Assets

As of December 31, 2012, the Group's other interest-earning assets did not include any assets that would be included in III.C.1. ("Non-performing, Past Due but not Impaired and Loans with Renegotiated Terms") or III.C.2. ("Potential Problem Loans") above if such assets were loans.

IV. Summary of Loan Loss Experience

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

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

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

As of December 31, 2012, the Turkish banking regulations require Turkish banks to provide a general reserve, excluding loans in arrears, calculated as 1.0% of the performing cash loans portfolio *plus* 0.2% of the performing non-cash loans portfolio *plus* 2.0% of the portfolio of cash loans performing but under close watch *plus* 0.4% of the portfolio of non-cash loans performing but under close watch.

The Group's non-performing loans amounted to TL 3,011,273 thousand, TL 2,209,227 thousand and TL 2,553,057 thousand as of December 31, 2012, 2011 and 2010, respectively. The Group's ratios of non-performing loans to total cash loans and to total cash loans and non-cash loans were 2.8% and 2.3%, 2.3% and 1.9%, and 3.5% and 2.8%, respectively, as of December 31, 2012, 2011 and 2010. The Group's ratio of allowances for probable loan losses as a percentage of non-performing loans (excluding allowances made on a portfolio basis to cover any inherent risk of loss) was 93.7%, 94.7% and 85.2% as of December 31, 2012, 2011 and 2010, respectively.

Analysis of the Allowance for Loan Losses

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

	Year ended December 31, 2012			
	Corporate/ Commercial Loans	**Consumer Loans**	**Credit Cards**	**Total**
	(TL thousands)			
Balances at beginning of period	**969,479**	**776,838**	**741,469**	**2,487,786**
Additions and recoveries, (net) (+)	561,807	237,117	334,866	1,133,790
Write-offs (-)	21,631	46,259	140,667	208,557
Balances at end of period	**1,509,655**	**967,696**	**935,668**	**3,413,019**

	Year ended December 31, 2011			
	Corporate/ Commercial Loans	**Consumer Loans**	**Credit Cards**	**Total**
	(TL thousands)			
Balances at beginning of period	**861,313**	**797,566**	**799,074**	**2,457,953**
Additions and recoveries, (net) (+)	137,817	91,517	31,279	260,613
Write-offs (-)	29,651	112,245	88,884	230,780
Balances at end of period	**969,479**	**776,838**	**741,469**	**2,487,786**

	Year ended December 31, 2010			
	Corporate/ Commercial Loans	Consumer Loans	Credit Cards	Total
	(TL thousands)			
Balances at beginning of period	**667,604**	**716,033**	**905,022**	**2,288,659**
Additions and recoveries, (net) (+)	205,563	81,637	(49,874)	237,326
Write-offs (-)	11,854	104	56,074	68,032
Balances at end of period	**861,313**	**797,566**	**799,074**	**2,457,953**

The amount of the net additions to the allowance charged to operating expenses were TL 1,158,033 thousand in 2012, TL 200,954 thousand in 2011 and TL 60,419 thousand in 2010.

V. Deposits

As of December 31, 2012, the Group's major source of funds for its lending and investment activities were deposits from non-bank customers, which accounted for 59.3%of the Group's total liabilities (down from 62.9% as of December 31, 2011 and 64.2% as of December 31, 2010). Loans and advances from banks excluding subordinated liabilities accounted for 16.6%of total liabilities as of December 31, 2012, compared to 17.0% as of December 31, 2011 and 16.8% as of December 31, 2010. Other sources of funding include (*inter alia*) deposits from banks, obligations under repurchase agreements, bonds issued and subordinated liabilities.

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

	As of December 31,					
	2010		2011		2012	
	(TL thousands, except percentages)					
Deposits from banks	2,808,006	2.5%	3,096,810	2.3%	5,583,786	3.9%
Deposits from customers	76,295,528	68.2%	90,138,994	67.2%	92,191,501	64.0%
Obligations under repurchase agreements	11,735,342	10.5%	11,738,157	8.7%	14,106,944	9.8%
Loans and advances from banks	19,964,404	17.9%	24,325,549	18.1%	25,879,355	18.0%
Bonds payable	-	-	3,742,056	2.8%	6,125,986	4.2%
Subordinated liabilities	978,054	0.9%	1,122,090	0.9%	148,680	0.1%
Total	**111,781,334**	**100.0%**	**134,163,656**	**100.0%**	**144,036,252**	**100.0%**

Deposits from Customers

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

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

	As of December 31,		
	2010	2011	2012
	(TL thousands)		
Foreign currency	25,343,052	30,507,169	30,750,133
Saving	24,290,429	27,343,405	29,748,738
Commercial	11,577,159	12,005,304	10,423,464
Gold, public and other	459,907	348,702	346,889
Total	**61,670,547**	**70,204,580**	**71,269,224**

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

	As of December 31,					
	2010		2011		2012	
	Average Deposits	Average Interest Rate	Average Deposits	Average Interest Rate	Average Deposits	Average Interest Rate
	(TL thousands, except percentages)					
Demand deposits[1]	**11,445,367**	**0.07%**	**13,757,377**	**0.06%**	**15,725,751**	**0.01%**
Foreign currency	5,953,130	0.04%	7,084,417	0.04%	8,437,387	0.01%
From banks	-	-	-	-	-	-
From governments and official institutions	-	-	-	-	-	-
From other customers	5,953,130	-	7,084,417	-	8,437,387	-
Turkish Lira	5,492,237	0.10%	6,672,960	0.08%	7,288,364	0.00%
From banks	72,621	-	66,660	-	67,774	-
From governments and official institutions	773,610	-	864,610	-	970,307	-
From other customers	4,646,006	-	5,741,690	-	6,250,283	-
Savings deposits	**21,435,172**	**7.81%**	**25,256,217**	**7.82%**	**29,463,915**	**9.60%**
Foreign currency	-	-	-	-	-	-
Turkish Lira	21,435,172	7.81%	25,256,217	7.82%	29,463,915	9.60%
From banks	-	-	-	-	-	-
From governments and official institutions	-	-	-	-	-	-
From other customers	21,435,172	-	25,256,217	-	29,463,915	-
Time Deposits	**45,523,020**	**4.23%**	**45,808,295**	**4.33%**	**48,845,603**	**4.78%**
Foreign currency	25,529,650	2.07%	30,673,786	2.75%	33,403,413	2.79%
From banks	399,418	-	996,641	-	1,630,769	-
From governments and official institutions	-	-	-	-	-	-
From other customers	25,130,232	-	29,677,145	-	31,772,643	-
Turkish Lira	19,993,370	6.98%	15,134,509	7.52%	15,442,191	9.11%
From banks	549,757	-	502,581	-	859,116	-
From governments and official institutions	99,088	-	40,978	-	32,685	-
From other customers	19,344,524	-	14,590,950	-	14,550,390	-
Total	**78,403,559**	**4.60%**	**84,821,889**	**4.67%**	**94,035,269**	**5.49%**

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

The following table sets out by maturity the amount outstanding of the Bank's time deposits of US$100,000 or more (or its equivalent) as of December 31, 2012:

	As of December 31, 2012			
	3 months or less	Over 3 months through 6 months	Over 6 months through 12 months	Over 12 months
	(TL thousands)			
Deposits over US$100,000				
Foreign currency	13,663,519	436,908	798,458	140,576
Turkish Lira	22,441,137	632,075	174,269	20,355

Deposits from Banks

The Group’s deposits from banks are comprised of demand and time deposits. The Group’s deposits from banks increased by 80.3% to TL 5,583,786 thousand as of December 31, 2012 from TL 3,096,810 thousand as of December 31, 2011, which was TL 2,808,006 thousand as of December 31, 2010.

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

	As of December 31,		
	2010	**2011**	**2012**
		(TL thousands)	
Demand deposits	933,800	827,375	1,327,590
Time deposits	1,869,825	2,260,100	4,249,017
Total	**2,803,625**	**3,087,475**	**5,576,607**

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

	As of December 31,					
	2010		**2011**		**2012**	
			(TL thousands, except percentages)			
Turkish Lira deposits	44,088,894	55.7%	47,647,670	51.1%	49,899,283	51.0%
Foreign currency deposits	35,014,640	44.3%	45,588,134	48.9%	47,876,004	49.0%
Total	**79,103,534**	**100.0%**	**93,235,804**	**100.0%**	**97,775,287**	**100.0%**

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

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

	As of December 31,		
	2010	**2011**	**2012**
		(TL thousands)	
3 months or less	74,228,784	85,443,906	90,867,570
Over 3 months through 12 months	3,599,528	6,105,025	5,423,850
Over 1 year through 5 years	1,104,125	1,519,460	1,463,507
Over 5 years	171,097	167,413	20,360
Total	**79,103,534**	**93,235,804**	**97,775,287**

VI. Return on Equity and Assets

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

	For the years ended December 31,		
	2010	2011	2012
	(TL thousands, except percentages)		
Average total assets[1]	121,524,699	149,706,398	168,624,332
Average shareholders' equity[1]	15,438,393	17,345,958	19,985,936
Average shareholders' equity as a percentage of average total assets	12.7%	11.6%	11.9%
Return on average total assets[2]	2.8%	2.3%	2.0%
Return on average shareholders' equity[3]	22.3%	19.6%	17.0%

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

VII. Borrowings and Certain Other Liabilities

Borrowings

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

	As of December 31,		
	2010	2011	2012
		(TL thousands)	
Short-term borrowings from domestic banks and institutions	1,553,692	1,443,306	1,682,956
Short-term borrowings from foreign banks and institutions	5,420,485	7,817,633	8,461,011
Long-term debts (short-term portion)	2,043,580	2,933,163	4,086,653
Long-term debts (medium and long-term portion)	10,696,096	11,837,417	11,334,110
Total	**19,713,853**	**24,031,519**	**25,564,730**

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

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

	As of December 31,					
	2010		2011		2012	
	(TL thousands, except percentages)					
Turkish currency	6,636,043	33.2%	5,615,138	23.1%	5,591,620	21.6%
Foreign currency	13,328,361	66.8%	18,710,411	76.9%	20,287,735	78.4%
Total	**19,964,404**	**100.0%**	**24,325,549**	**100.0%**	**25,879,355**	**100.0%**

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

	As of December 31,					
	2010		2011		2012	
	Amount	Maximum Month-end Amount	Amount	Maximum Month-end Amount	Amount	Maximum Month-end Amount
	(TL thousands)					
Short-term borrowings from banks and other institutions....	273,942	273,942	499,713	546,620	578,472	656,316
Foreign currency	121,533	121,533	239,241	239,241	348,256	364,753
Turkish Lira	152,409	152,409	260,472	307,379	230,216	291,563
Long-term borrowings	16,982,052	16,982,052	24,375,676	24,641,011	26,622,367	27,339,279
Foreign currency	12,229,814	12,229,814	18,381,865	17,604,837	20,941,025	20,995,532
Turkish Lira	4,752,238	4,752,238	5,993,811	7,036,174	5,681,342	6,343,747
Total	**17,255,994**	**17,255,994**	**24,875,389**	**25,187,631**	**27,200,839**	**27,995,595**

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

	2010		2011		2012	
	Average Amount	Interest Rate	Average Amount	Interest Rate	Average Amount	Interest Rate
	(TL thousands, except percentages)					
Short-term borrowings from banks and other institutions.................................	265,397	7.22%	406,219	5.98%	417,414	7.41%
Foreign currency..................................	88,123	5.49%	147,923	3.39%	167,496	6.41%
Turkish Lira	177,273	8.08%	258,296	7.46%	249,918	8.07%
Long-term borrowings	13,249,419	5.40%	18,494,903	5.92%	18,852,667	6.29%
Foreign currency..................................	8,816,672	2.55%	12,070,207	4.88%	12,762,745	5.83%
Turkish Lira	4,432,747	11.08%	6,424,696	7.87%	6,089,922	7.27%
Total	**13,514,816**	**5.44%**	**18,901,122**	**5.92%**	**19,270,081**	**6.32%**

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

	As of December 31, 2012				
	Interest rate	**Latest maturity**	**Amount in original currency**	**Short-term portion**	**Medium and long-term portion**
			(millions)	*(TL thousands)*	
Deutsche Bank AG	11-13	2017	TL701	-	701,210
DPR Transaction XIV	3	2026	US$396	-	697,103
DPR Transaction VIII	1	2017	US$266	98,514	369,439
DPR Transaction XIII	2	2016	US$224	32,644	362,098
DPR Transaction IX	1	2018	€168	9,284	380,644
EIB I	1-4	2022	US$204	33,653	324,844
DPR Transaction XII	2	2016	€99	57,603	173,218
DPR Transaction VI	1	2016	US$122	61,256	153,167
OPIC	3	2019	US$100	24,640	151,360
DPR Transaction XII	1	2022	€75	13,028	161,047
DPR Transaction XII	2	2022	€75	13,028	161,047
DPR Transaction VIII	1	2017	US$76	28,147	105,554
DPR Transaction VIII	1	2017	US$76	28,147	105,554
DPR Transaction XIII	2	2016	€50	9,509	105,969
EBRD-V	3	2017	US$60	-	105,600
EBRD-IV	2	2017	€40	-	92,651
EBRD-II	1-2	2025	US$46	23,940	56,539
EFSE	3	2017	€25	-	58,793
DPR Transaction VII	1	2014	US$33	29,315	29,319
EBRD-III	2	2015	€17	13,159	26,343
DPR Transaction VIII	1	2015	US$21	14,667	22,000
EBRD-I	4	2014	€13	15,260	15,297
DPR Transaction V	1	2013	US$71	124,420	-
DPR Transaction IV	1	2013	US$63	110,880	-
DPR Transaction VI	1	2013	US$59	103,022	-
DPR Transaction III	1	2013	US$27	48,313	-
Others				3,194,224	6,975,314
Total				**4,086,653**	**11,334,110**

	As of December 31, 2011				
	Interest rate	**Latest maturity**	**Amount in original currency**	**Short-term portion**	**Medium and long-term portion**
			(millions)	*(TL thousands)*	
Deutsche Bank AG	11-13%	2017	TL701	-	701,210
DPR Transaction VIII	1%	2017	US$322	104,394	495,883
DPR Transaction IX	2%	2018	€172	9,686	406,829
DPR Transaction XIII	2%	2016	US$225	-	419,349
DPR Transaction IV	1%	2013	US$191	238,406	117,358
EIB I	1-4%	2022	US$208	7,444	379,973
DPR Transaction V	1%	2013	US$179	201,829	131,982
DPR Transaction VI	1%	2016	US$172	92,598	227,421
DPR Transaction VI	1%	2013	US$165	195,694	111,864
DPR Transaction XII	3%	2016	€100	-	242,160
EIB II	2%	2012	€100	244,380	-
DPR Transaction XII	2%	2022	€75	-	181,620
DPR Transaction XII	2%	2022	€75	-	181,620
OPIC	3%	2019	US$100	-	186,500
DPR Transaction III	1%	2013	US$82	102,405	51,241
DPR Transaction VIII	1%	2017	US$92	29,827	141,681
DPR Transaction VIII	1%	2017	US$92	29,827	141,681
DPR Transaction XIII	3%	2016	€50	-	121,080
EBRD-II	2-3%	2025	US$60	25,437	85,982
DPR Transaction VII	1%	2014	US$50	31,065	62,134
EBRD-I	4%	2014	€30	39,586	32,354
DPR Transaction VIII	1%	2015	US$29	15,531	38,829
EBRD-III	3%	2015	€20	6,719	41,513
Others				1,558,335	7,337,153
Total				**2,933,163**	**11,837,417**

	As of December 31, 2010				
	Interest rate	**Latest maturity**	**Amount in original currency**	**Short-term portion**	**Medium and long-term portion**
			(millions)	*(TL thousands)*	
Deutsche Bank AG	11-13%	2017	TL 701	-	701,210
DPR Transaction VII	1.2%	2016	US$352	30,360	504,530
DPR Transaction VIII	0.5%	2017	US$350	42,514	489,187
DPR Transaction IX	2%	2018	€188	32,600	349,847
EIB	1-4%	2021	US$208	-	315,750
DPR Transaction IV	0.5-1%	2013	US$318	194,055	289,815
DPR Transaction V	0.5-1%	2013	US$286	163,904	271,136
DPR Transaction VI	1%	2016	US$210	59,511	260,423
DPR Transaction VI	1%	2013	US$210	68,116	250,438
DPR Transaction XII	3%	2016	€100	-	203,750
DPR Transaction XII	3%	2022	€75	-	152,813
DPR Transaction XII	2%	2022	€75	-	152,813
OPIC	3%	2019	US$100	-	152,000
DPR Transaction VIII	0.5%	2017	US$100	12,147	139,768
DPR Transaction VIII	0.5%	2017	US$100	12,147	139,768
DPR Transaction III	0.5%	2013	US$137	83,232	124,932
EBRD-II	1-2%	2015	US$60	-	91,200
DPR Transaction VII	1%	2014	US$66	25,214	75,489
EBRD-I	4%	2014	€38	16,653	60,529
DPR Transaction VIII	1%	2015	US$37	12,660	44,297
EBRD-III	3%	2015	€20	-	40,750
DPR Transaction VI	1%	2011	€54	110,049	-
Others				1,180,418	5,885,651
Total				**2,043,580**	**10,696,096**

The Group's short-term borrowings included the following syndicated loan facilities as of December 31, 2012, 2011 and 2010:

- as of December 31, 2012: two one-year-syndicated-loan facilities to be utilized for general trade finance purposes including export and import contracts in two tranches of: (a) US$307,250,000 and €768,113,250 with rates of LIBOR + 1.45% and EURIBOR + 1.45% *per annum*, respectively, and (b) US$308,500,000 and €615,500,000 with rates of LIBOR + 1.25% and EURIBOR + 1.25% *per annum*, respectively.

- as of December 31, 2011: two one-year syndicated loan facilities to be utilized for general trade finance purposes including export and import contracts in two tranches of: (a) US$304,500,000 and €782,500,000, with the rates of LIBOR + 1.1% and EURIBOR + 1.1% *per annum*, respectively, and (b) US$233,587,500 and €576,250,000 with the rates of LIBOR + 1% and EURIBOR + 1% *per annum*, respectively. These were paid upon their maturity.

- as of December 31, 2010: two one-year syndicated loan facilities to be utilized for general trade finance purposes including export and import contracts in two tranches of: (a) US$116,936,000 and €617,075,000, with the rates of LIBOR + 1.5% and EURIBOR + 1.5% *per annum*, respectively, and (b) US$316,400,000 and €513,500,000 with the rates of LIBOR + 1.2% and EURIBOR + 1.2% *per annum*, respectively. These were paid upon their maturity.

Obligations under Repurchase Agreements

The Group's obligations arising from agreements for the repurchase/resale of securities amounted to TL 14,106,944 thousand as of December 31, 2012, as compared to TL 11,738,157 thousand as of December 31, 2011 (TL 11,735,342 thousand as of December 31, 2010). These obligations represented 7.9% of the total assets of the Group as of December 31, 2012, 7.3% as of December 31, 2011 and 8.6% as of December 31, 2010. The securities sold by the Group under such repurchase agreements are recognized in the IFRS Financial Statements as being owned by the Group, but subject to a pledge (see II.C. (Securities Portfolio-Securities Portfolio Concentrations) above).

Bonds Payable

In 2012, the Group issued bonds in Turkish Lira and foreign currencies. The outstanding amount of such bonds amounted to TL 6,125,986 thousand as of December 31, 2012. The following tables set out a description of the Group's bonds payable excluding expense accruals as of the date indicated.

	As of December 31, 2012		
	Latest Maturity	**Interest Rates**	**Carrying Value**
		(TL thousands)	
Bonds of TL 2,093 million	2013	6.3%-8.7%	1,905,440
Bonds of US$750 million	2022	5.25%	1,307,547
Bonds of US$600 million	2017	4.00%	1,048,136
Bonds of US$500 million	2021	6.25%	872,889
Bonds of US$300 million	2016	3-M LIBOR + 2.5%	505,336
Bonds of TL 125 million	2013	9.06%	116,729
Bonds of TL 77 million	2014	8.46%	72,201
Bonds of TL 76 million	2013	6.71%	68,267
Bonds of TL 50 million	2013	7.57%	48,210
Total			**5,944,755**

The total face value of the bonds and bills issued by the Bank in the domestic market reached TL 2,093 million as of December 31, 2012. Such issuances are authorized by the CMB.

In December 2012, Garanti Fleet issued bills with a total face value of TL 77,501 thousand, an interest rate of 6.71% *per annum* and a maturity of 178 days.

In October 2012, Garanti Leasing issued bills with a total face value of TL 50,000 thousand, an interest rate of 7.57% *per annum* and a maturity of 189 days.

In September 2012, the Bank issued US$750 million 10-year fixed-rate notes with a maturity date of September 13, 2022 and a coupon rate of 5.25% *per annum* and US$600 million 5-year fixed-rate notes with a maturity date of September 13, 2017 and a coupon rate of 4.00% *per annum* in the international markets.

In July 2012, Garanti Leasing issued bills with a total face value of TL 125,000 thousand, an interest rate of 9.06% *per annum* and a maturity of 178 days.

In May 2012, Garanti Leasing issued two-year-floating-rate notes with a total face value of TL 77,201 thousand, a maturity date of May 8, 2014 and a coupon rate of 11.30% *per annum*.

In August 2011, Garanti Romania issued bills with a total face value of TL 100,000 thousand, an interest rate of 8.75% *per annum* and a maturity 179 days. Such bills matured in January 2012.

In April 2011, the Bank issued in the international markets US$500 million 10-year fixed-rate notes with a maturity date of April 20, 2021 and coupon rate of 6.25% *per annum* and US$300 million 5-year floating-rate notes with a maturity date of April 20, 2016 and a coupon rate of 3-month LIBOR + 2.50% *per annum*.

Subordinated Liabilities

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

	As of December 31, 2012		
	Latest Maturity	Interest Rates	Carrying Value
		(TL thousands)	
Subordinated debt of €50 million	2021	EURIBOR +3.50%	116,050
Subordinated deposit of €13 million	2021	4.42-7%	30,840
Total			**146,890**

	As of December 31, 2011		
	Latest Maturity	Interest Rates	Carrying Value
		(TL thousands)	
Subordinated debt of US$500 million	2017	6.95%	932,452
Subordinated debt of €50 million	2021	EURIBOR + 3.50%	121,080
Subordinated deposit of €16 million	2021	4.75% - 6.00%	39,734
Total			**1,093,266**

	As of December 31, 2010		
	Latest Maturity	Interest Rates	Carrying Value
		(TL thousands)	
Subordinated debt of US$500 million	2017	6.95%	759,469
Subordinated debt of €50 million	2021	EURIBOR + 3.50%	101,875
Subordinated bonds payable of €30 million	2016	EURIBOR + 1.57%	61,125
Subordinated deposit of €16 million	2016	4.42% - 7.00%	31,607
Total			**954,076**

On February 23, 2009, the Bank obtained a 12-year subordinated loan of €50 million due March 2021 from Proparco (*Société de Promotion et de Participation pour la Cooperation Economique SA*) a company of the French Development Agency Group, with an interest rate of EURIBOR + 3.5% *per annum* and a repayment option for the Bank at the end of the seventh year. This financing was obtained in order to finance clean energy projects.

On February 5, 2007, the Bank obtained a 10-year subordinated fixed rate loan of US$500 million due in February 2017 with a repayment option for the Bank at the end of the fifth year. The Bank repaid this debt benefiting from its early repayment option on February 6, 2012 following the necessary permissions received from the BRSA.

As of December 31, 2012, the Group's subordinated debts also included subordinated deposits of approximately €13 million held by GBI.

Non-Cash Loans and Other Contingent Liabilities

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

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

	As of December 31,		
	2010	**2011**	**2012**
		(TL thousands)	
Letters of guarantee	12,310,098	15,420,399	16,852,681
Letters of credit and acceptance credits	4,098,560	6,746,774	6,862,325
Other guarantees and sureties	56,746	70,236	66,300
Total	**16,465,404**	**22,237,409**	**23,781,306**

As of December 31, 2012, non-cash loans of the Group increased by 6.9% to TL 23,781,306 thousand from TL 22,237,409 thousand as of December 31, 2011 (TL 16,465,404 thousand as of December 31, 2010). The Group issues letters of guarantee, letters of credit, acceptance credits and other payment commitments arising in a wide variety of transactions.

As of December 31, 2012, the Group's commitments for unused credit limits for credit cards, overdrafts, checks and loans to customers, and commitments for "credit linked notes" amounted to TL 27,955,379 thousand, an increase of 1.7% compared to TL 27,495,547 thousand as of December 31, 2011 (TL 23,496,957 thousand as of December 31, 2010).

Derivative Transactions

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

As of December 31, 2012, the Group's outstanding derivative transactions (such as spots, forwards, swaps, future rate agreements, options and forward agreements for gold trading) amounted to TL 53,725,410 thousand compared to TL 43,880,483 thousand as of December 31, 2011 and TL 30,847,663 thousand as of December 31, 2010.

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

	As of December 31,		
	2010	**2011**	**2012**
		(TL thousands)	
Currency/cross currency swaps	**14,423,718**	**20,439,332**	**22,364,739**
Purchases	5,800,064	6,638,095	12,220,856
Sales	8,623,654	13,801,237	10,143,883
Foreign currency options	**7,356,961**	**15,049,770**	**18,175,028**
Purchases	4,006,318	8,035,951	9,249,433
Sales	3,350,643	7,013,819	8,925,595
Securities, shares, interest rate and index options	**3,979,243**	**1,069,990**	**2,104,809**
Purchases	2,026,511	1,023,631	1,048,011
Sales	1,952,732	46,359	1,056,798
Forward exchange contracts	**2,931,665**	**4,959,185**	**4,791,266**
Purchases	1,813,279	2,881,328	2,836,131
Sales	1,118,386	2,077,857	1,955,135
Spot exchange contracts	**1,168,952**	**1,518,641**	**2,930,700**
Purchases	564,441	612,097	2,299,236
Sales	604,511	906,544	631,464
Interest rate swaps[(1)]	**223,624**	**481,508**	**717,676**
Purchases	62,407	208,311	323,438
Sales	161,217	273,197	394,238
Interest rate and other futures	**91,200**	**500**	**172,306**
Purchases	91,200	62	527
Sales	-	438	171,779
Foreign currency futures	**16,097**	**64,508**	**27,720**
Purchases	12,467	5,344	-
Sales	3,630	59,164	27,720
Other forward contracts	**656,203**	**297,049**	**77,659**
Purchases	381,865	46,297	71,100
Sales	274,338	250,752	6,559
Other swap contracts	**-**	**-**	**2,363,507**
Purchases	-	-	436,701
Sales	-	-	1,926,806
Total	**30,847,663**	**43,880,483**	**53,725,410**

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

THE GROUP AND ITS BUSINESS

Overview of the Group

The Group is a leading Turkish banking group with a significant market share in the Turkish banking industry, offering its customers a broad range of financial products and services. The Group's customers are comprised mainly of large, midsize and small Turkish corporations, foreign multinational corporations with operations in Turkey and customers from across the Turkish consumer market.

The Group served approximately 11.7 million customers as of December 31, 2012 (10.2 million retail customers, 1.5 million SME customers, 42,806 commercial customers and 1,846 corporate customers) by offering a broad range of products and services, many of which are tailored to identified customer segments. These products and services include deposits, corporate loans, project finance loans, leasing, factoring, foreign exchange transactions, investment and cash management products, consumer loans, mortgages, pension and life insurance, portfolio management, securities brokerage and trading, investment banking, payment systems (including credit and debit cards), and technology and data processing operations. The Group also acts as an agent for the sale of a number of financial products such as securities, insurance and pension contracts and leasing services. As of December 31, 2012, the Bank's services in Turkey were provided through a nationwide network of 926 domestic branches and offices as well as through sophisticated ADCs such as ATMs, internet banking and mobile phone banking. The Bank also has seven foreign branches (one in Malta, one in the Grand Duchy of Luxembourg and five in Northern Cyprus (together with a Country Directorate in Northern Cyprus that has been established recently in order to comply with the legal requirements in Northern Cyprus)) and three international representative offices (one in each of London, Düsseldorf and Shanghai), together with bank subsidiaries in the Netherlands (Garanti Bank International N.V.), Russia (Garanti Bank Moscow) and Romania (Garanti Bank SA).

As of (and for the year ended) December 31, 2012, according to financial information made publicly available by Turkey's banks, the Group was the second largest private banking group in Turkey in terms of net income and total assets as per its consolidated BRSA Financial Statements. Based upon the 2012 IFRS Financial Statements as of December 31, 2012, the Group had total assets of TL 177,499,535 thousand, total loans and advances to customers (which includes leasing and factoring receivables and income accruals, in each case for both performing and non-performing loans and advances to customers) (as used herein, "*cash loans*") of TL 102,260,080 thousand and shareholders' equity (including non-controlling interests) of TL 21,937,716 thousand. The Group's return on average equity was 17.0% for 2012 compared to 19.6% for 2011. The Bank's shares have been listed on the Istanbul Stock Exchange since 1990 and it listed global depositary receipts on the London Stock Exchange in 1993. In 2012, the Bank joined the top tier of the U.S. Over-the-Counter (OTC) market, OTCQX International Premier.

History

The Bank was incorporated under the laws of Turkey on April 11, 1946 in Ankara as a partnership of 103 businessmen and for much of its history it operated primarily as a private sector bank engaged in commercial activities. In 1975, Koç Holding A.Ş. ("*Koç Holding*") and Hacı Ömer Sabancı Holding A.Ş. ("*Sabancı Holding*"), both large, private conglomerates in Turkey, acquired 56% and 33% (respectively) of the Bank's share capital. The Bank moved its headquarters to Istanbul in 1978. In 1983, Koç Holding and Sabancı Holding sold their respective interests in the Bank to the Doğuş Group, owned by the Şahenk family. In 1990 shares of the Bank were offered to the public and listed on the ISE. On December 22, 2005, Doğuş Holding sold 25.5% of the Bank's issued share capital and 49.2% of the Bank's founders' shares to GEAM, which thereby acquired joint control over the Bank. On December 27, 2007, GEAM sold 4.65% of the Bank's share capital back to Doğuş Holding.

The Doğuş Shareholders and BBVA entered into a share purchase agreement on November 1, 2010 under which BBVA acquired shares representing 6.29% of the Bank's issued share capital from Doğuş Holding. BBVA concurrently entered into a share purchase agreement with (*inter alia*) GE Capital Corporation for the acquisition of shares representing 18.60% of the Bank's issued share capital. On March 1, 2011, the BRSA approved these share transfers, following the closing of which BBVA held a 24.89% stake in the Bank (which, through secondary market purchases, BBVA has since increased to its current 25.01% stake in the Bank without changing the joint control and management principles agreed to between Doğuş Holding and BBVA).

The Doğuş Shareholders and BBVA are parties to a shareholders' agreement pursuant to which they have agreed to act in concert, thereby enabling them to establish a significant voting block to jointly control and manage the Bank. The shareholders' agreement also provides BBVA a call option to purchase from the Doğuş Shareholders a further 1% share of the Bank, which option is exercisable after five years following the share sale. The shareholders' agreement contains an agreement that enables BBVA to appoint four of the Bank's nine directors currently; *however*, if such call option is exercised, then six members of the Board of Directors out of nine will be appointed by BBVA. None of GE Capital Corporation, GEAM or the Bank are parties to the shareholders' agreement between Doğuş Holding and BBVA.

The Doğuş Group is one of the leading conglomerates in Turkey, with its primary interests in the banking, financial services, technology, automotive, construction, transportation, tourism and food sectors. See "Ownership – The Doğuş Group."

Key Strengths

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

- The Group has a robust balance sheet and favorable capital adequacy ratios, as further detailed elsewhere in this Offering Circular.

- The Group has strong liquidity ratios and proven access to funding, including deposits, syndicated loans and securitizations.

- The Group has a strong brand and market position as well as a reputation as a product and service innovator. This is demonstrated by the Group's offering of first-in-kind products in the Turkish market, such as chip-based credit card loyalty programs, air miles on credit cards, direct debit systems, web-based supplier financing systems, inventory financing systems, ATM cardless bill payments and person-to-person mobile money transfers.

- The Group's customer-centric and innovation-driven approach focuses on customer satisfaction and retention rates and allows for greater cross-selling through the use of sophisticated customer segmentation models and advanced technological capabilities, together with its multi-channel distribution. This approach is facilitated by the Bank's dynamic sales force, innovative product offerings and its efforts to improve its processes.

- The Group's high-quality and dynamic employee base (which, as of December 31, 2012, numbered 17,285) is supported by the Group's experienced management team. Approximately 85% of the Group's employees are university graduates and the Group seeks to maintain and improve the quality of the services provided by its employees through its extensive training program. The Bank's management also seeks to foster a culture of innovation, whereby employees are encouraged to submit innovative ideas. Although the Bank hired 2,355 additional employees in 2012, the Bank's management also recognizes the importance of its existing employees' familiarity with the culture of the Group and, accordingly, approximately 90% of posts are filled as a result of internal promotions.

- The Group has a history of significant growth in its operations, which has been achieved while maintaining sound asset quality as a result of the Group's focus on risk management and a disciplined credit approval process.

- The Group has established conservative loan loss provisions that are complemented by a sophisticated and efficient collection procedure in order to seek to decrease the ratio of the Group's non-performing loans.

- The Group benefits from a strong operating platform, including a sophisticated proprietary IT platform that drives efficiency and is well-integrated with the Group's businesses and the Group's strategy. This integration of the IT platform with the Group's business strategy allows the Bank's management to take timely actions. Since the 1990s, the Group has sought to invest in up-to-date IT infrastructure in order to seek to ensure uninterrupted transaction capability and infrastructure security. The Bank's management believes that the Group has a reputation in Turkey as an innovator in relation to its IT operations.

- The Group has established a broad geographic coverage through its extensive branch network (that has coverage over 99% in Turkey in 78 cities). The Bank's management also believes that the Group has demonstrated innovation and leadership in developing digital ADCs. For example, the Group operates over 3,500 ATMs and has significant market shares in the Turkish telephone banking, internet banking and mobile banking sectors.

Strategy

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

- *Identifying opportunities for growth in the Group's lending portfolio while maintaining strong credit quality*. The Group will continue to focus on the credit needs of its customers as the demand for credit is expected to continue in line with the sustained growth trend in the Turkish economy. The Group's strategy is to continue its history of strong loan origination with a view to growth in higher-yielding loan categories such as consumer loans, credit cards and SME lending, but with a continued focus on maintaining the strong credit quality of its loan portfolio. The Bank's management believes that the Group operates a rigorous credit approval process to preserve its asset quality and it intends to maintain such process as it continues to grow its loan portfolio.

- *Continuing efforts to preserve solid and diversified funding mix.* The Bank's management believes that, notwithstanding the availability of alternative sources of funding given the high credibility of the Group in both national and international markets, deposits will continue to be the major source of funding for the Bank. The Group will continue to focus on deposit collection through its extensive distribution network. In particular, a relatively high focus will be placed on small-ticket deposits to diversify the Group's deposit base with less price-sensitive and more sustainable deposits. Alternative funding sources, such as corporate bond issuances, structured financings, repos and international money markets funding, will also be utilized to strengthen and further diversify the Group's funding base.

- *Focusing on sustainable and diverse sources of non-interest revenue*. The Bank's management believes that focusing on sustainable and diverse non-interest revenue streams is a key to its long-term profitability, particularly in a low interest rate environment. Some of the pillars of this strategy include: (a) the Group's focus on business segments that do not require significant capital (such as cash and asset management) and that generate non-interest income and (b) the development of innovative non-interest revenue generating products such as cardless remittances, last-minute EFTs, mobile phone money transfer and shopping, e-trader and collection of invoices via credit cards.

- *Further refining its customer-centric approach*. The Group segments its customers and intends to continue to develop service models tailored to its identified segments. To meet the diverse needs of these segments efficiently, the Group intends to identify locations for the Bank's continuing branch expansion, continue to develop specialized distribution channels and expand its product and service range.

- *Maintaining disciplined control over expenses*. The Group intends to maintain its focus on ensuring favorable expense ratios, including by continuing to make its operations more efficient through the use of technology. The Group plans to continue to invest significantly in technology in order to further lower costs and will promote increased usage of ADCs, which are more cost efficient in the delivery of banking services, for increasing market penetration and minimizing workforce growth even as the Bank expands its branch network.

Business

The Bank is organized into six major business lines: retail (excluding payment systems such as credit cards), payment systems (which includes the Bank's credit card business and is operated together with its subsidiary Garanti Payment Systems), SME banking, commercial banking, corporate banking and treasury. Each of the Bank's business lines is managed by a separate department within the Bank, except for payment systems (which is managed by the Bank together with its subsidiary Garanti Payment Systems). The Bank also conducts certain international banking operations through its foreign branches and subsidiaries. All of the Group's business lines are supported by head office and other support functions. The Bank's subsidiaries (described in "Subsidiaries" below) provide various specialty products to clients of the Group.

Retail Banking

The Bank entered the retail banking sector in 1988 and has increasingly focused on growing its retail business. The Bank aims to become the bank of choice for its retail customers and to sustain its innovative leadership in retail banking, and focuses on relationship management and product innovation aligned to customer needs in order to achieve these goals. The Bank offers a broad range of products to its approximately 10.2 million retail banking customers as of December 31, 2012.

The Bank believes that the strengths of its Retail Banking Department include: (a) a customer-centric approach with an emphasis on customer satisfaction (including dedicated call centers and periodic measurement), (b) the strength of its branch network and ADCs, (c) innovative marketing approach, (d) a strong sales culture, including sales-oriented branch staff and centralized transaction processing and operations, and (e) sophisticated IT systems and customer relationship management ("*CRM*") infrastructure to allow pro-active sales processes and targeted direct marketing campaigns.

The Bank's Retail Banking Department aims to manage market share growth while controlling internal costs. The main pillars of the Bank's retail strategy are targeting and activating employer payroll customers, expanding the branch network to reach more customers and close follow-up of cross-selling opportunities.

Products and Services

Deposits. The Bank offers its customers a range of interest and non-interest bearing current and savings accounts, gold deposit accounts, structured deposits (*i.e.*, deposits linked to an index), flexible term deposits and accumulated savings accounts.

Deposit collection is a principal focus of the Bank as deposits provide low cost funds to be invested in loans and other assets. The Bank has been increasing its branch network for many years (increasing from 478 at the end of 2006 to 936 as of December 31, 2012) with the goal of increasing the number of the Bank's retail customers and obtaining a stronger and more diversified deposit base. Retail banking is the largest funding source of the Bank, reaching TL 27.7 billion of TL deposits and US$7.8 billion of foreign currency deposits as of December 31, 2012.

Consumer Loans (including Overdraft Accounts). The Bank's retail loan portfolio, originated only in Turkish Lira since 2009, comprised of mortgage loans, auto loans, general purpose loans and overdrafts but excluding credit cards, grew by 22% to TL 17.4 billion in 2012.

The Bank's primary consumer loan products are described below:

- *Mortgages*: The Bank's retail mortgage loan book (representing the total amount of mortgage loans granted by the Bank) grew by 20% in 2012, despite the continuing global financial turmoil impacting the housing sector, as a result of the generally very low penetration of mortgages in Turkey. The Bank's retail mortgage offering is focused on both high and medium net worth individuals with strong credit history. Although the Bank's maximum loan-to-value ratio is 75%, which is in line with the maximum limit stated by legislation, the average loan-to-value ratio of the Bank's retail mortgage book at origination was slightly above 60% as of December 31, 2012. The average original term of its mortgages on such date was 7.25 years, with most loans having an original maturity of either 5 or 10 years. The Bank has been a market leader in Turkey since mid-2007, with a market share of 13.14% (with respect to outstanding balance) as of December 31, 2012 according to BRSA data. The Bank maintains strategic partnerships with leading residential construction companies and real estate agencies nationally, and also focuses on mortgage expertise in branches as well as a wide product range and distribution channels, focusing on service quality instead of price competition in order to maintain its profitability. While foreign currency-denominated mortgages were common in previous years, legislation enacted in 2009 requires that consumer mortgages to Turkish citizens can only be denominated in Turkish Lira.

- *Vehicle Loans*: The Bank offers secured loans to finance the purchase of both new and used vehicles. The duration of these loans is around four years and most have fixed rates. In 2012, the Bank's vehicle loan book grew 22.0% and the Bank's market share (by outstanding balance) increased by 1.21%. The Bank's maximum loan-to-value ratio for auto loans is 80%. The Bank's market share at December 31, 2012 was 17.01% according to BRSA data.

- *General Purpose Loans (including other and overdraft loans)*: The Bank offers general purpose loans to finance various needs of its retail customers, such as home improvement, education, marriage and vacations. The average maturity of such loans is approximately three years. The Bank's general purpose loan book grew by 25.5% over 2012 and the Bank's market share (by outstanding balance) increased by 1.79% from 8.16% as of December 31, 2009 to 9.95% as of December 31, 2012 according to the BRSA. The Bank continuously seeks to capture market share through various central marketing approaches. Utilization of new loyalty-based approaches such as pre-approved loan limits is an example of this approach. As general purpose loans are generally unsecured, the Bank's credit analysis for these loans focuses principally on the potential borrower's income and other assets.

- *Overdraft Accounts*: The Bank has registered a stable and strong overdraft account base built upon mainly employer payroll customers and investment accounts. Targeted marketing campaigns are being conducted continuously to increase utilization of overdraft accounts. As of December 31, 2012, the number of overdraft accounts operated by the Group was approximately 1.3 million, with an aggregate overdraft risk of TL 288 million.

Investment Products. The Bank's retail banking investment products include mutual funds, government bonds and equity securities. As of December 31, 2012, the Bank had TL 7.8 billion of assets under management in investment products. The Bank's principal strategies to increase its retail investment product sales and profitability include conducting cross-selling campaigns to deposit customers and utilizing capital-protected mutual funds (*i.e.*, a fund that combines both fixed-income products and option contracts to provide investors with both capital protection and capital appreciation).

Cash Management Products. Being one of the principal banking needs of retail customers, cash management has been an important focus area for the Bank. The Bank offers a leading cash management tool, its Excess Liquidity Management Asset account ("*ELMA*"), and was the first bank to offer such a product in Turkey. The ELMA account automatically converts any excess money in the customer's current account into B type money market funds (which are generally invested in Turkish government securities). The product has been successful to date, reaching approximately 2.9 million customers as of December 31, 2012.

Another cash management facility offered by the Bank is the automatic payment orders of utility bills. The total number of utility payments facilitated by the Bank reached approximately 1.8 million in December 2012. Moreover, the Bank extensively utilizes ADCs in providing cash management services – for example, more than 14 million cardless transactions as of December 31, 2012 (*i.e.*, transactions in which the individual, whether an existing customer of the Bank or not, makes a payment transaction without having a bank card) were executed through the Bank's ATMs (for example, an individual can deposit cash in an ATM and instruct the Bank to make a payment of a utility bill). In addition to providing convenient services to customers, ADCs are both an increasing source of revenue (both fees generated directly as well as through improved cross-selling activities) and cost savings (through use of technology in lieu of adding additional employees).

Retail Banking Customer Segmentation

Retail banking customers are assigned to one of three segments based upon their average total loan, investment and deposit balances (affluent, upscale or mass market) and then to further micro-segments based upon their activity and product penetration levels. Micro-segments are used to understand different customer needs and to develop strategies for offering customers better-targeted services and thereby increasing product penetration and wallet share.

Each segment and micro-segment has a tailored set of strategic objectives, customer propositions, service approach and branch service model. For high volume and well-penetrated customers, key products are deposit and investment products and, consequently, an investment advisory service model is used. For lower volume and less well-penetrated customers with greater borrowing needs, a sales-based service model is used with a particular focus on loan and transactional products.

The Bank's retail banking customer segments are described below:

- *Affluent*: The Bank has approximately 6,600 customers in its "affluent" category. These customers comprised approximately 0.1% of the Bank's retail customers. The criterion for the "affluent" category is US$500,000 in investment and deposit balances. The Bank's primary focus in this segment is to shift customers to high-margin investment products and further advance customer relationships to enhance customer loyalty. There are 12 dedicated branches that are available only to "affluent" customers. Top performing investment sales staffs are assigned to "affluent" customers at the dedicated branches.

- *Upscale*: Segmentation criterion for the "upscale" retail segment is a banking volume of between TL 50,000 and US$500,000. The Bank has approximately 463,000 customers in its upscale segment, including customers with the potential of having personal financial assets of over TL 50,000. These customers comprised approximately 4.5% of the Bank's retail customers. The Bank's focus is to increase these customers' product penetration in order to "lock-in" the relationship. Investment and mortgage advisory services are the other areas of focus for this segment.

- *Mass Market*: In the Bank's "mass market" segment (*i.e.*, customers with average loan, investment and deposit balances with the Bank below TL 50,000), the Bank's focus is on increasing penetration of banking products and trying to migrate these customers to the "upscale" segment. As of December 31, 2012, the Bank had approximately 9.7 million "mass market" customers. These customers comprised approximately 95.4% of the Bank's retail customers. The Bank's lobby-level sales approach for this segment requires sales representatives/managers and tellers to cross-sell to existing customers as well as to non-customers visiting the branch to use non-banking services (for example, bill payments).

New Customer Acquisition Strategies

The Bank uses a number of strategies to attract new retail banking customers, including brand and product marketing, expansion of its branch network, leveraging on its leading market position in cash management (particularly employer payroll and utility payments). As the total number of branches has grown to 936, accessibility of the Bank to bankable customers in the market has continued to expand. For example, the Bank has opened "mini-branches" in locations where the local market might not require a full-service branch. The Bank intends to expand its branch network to 975 branches by the end of 2013.

As of January 31, 2013, the Bank had a field sale force of 2,094 people in its retail business.

New customer acquisition strategies are in place for each customer micro-segment, demographic group and product. In general, however, the three most important entry products for new retail banking customers are loan products, credit cards and employer payroll services. An important source for new "upscale" customer acquisition is the Bank's SME and commercial company clientele, the owners and managers of which are directly targeted by retail relationship managers.

Payment Systems

The Bank, through its subsidiary Garanti Payments Systems, issues debit and credit cards (the loans under which are made by the Bank), acquires merchant vouchers and participates in related product development. In 2012, the Bank was the largest issuer bank in terms of issuing volume and second largest processor of acquiring sales volume in Turkey according to the Interbank Card Center (*Bankalararası Kart Merkezi*) ("*BKM*"). Acquiring, in this context, refers to the purchase from merchants of the card charges made by their customers, reimbursement for which charges is then sought from the relevant card issuer. As of and for the year through December 31, 2012, the Group had approximately 525,000 point of sale ("*POS*") locations (including shared POSs and virtual POSs), with a cumulative market share of 19.2% in acquiring volume for the year according to the BKM (465,000 and 19.9%, respectively, as of December 31, 2011). On the issuance side, as of

December 31, 2012, the total number of credit cards in issue was approximately 9.1 million (of which 5.5 million were active (*i.e.*, used at least once in the last three months)) with an issuing volume market share of 17.9% according to the BKM (8.5 million and 18.9%, respectively, as of December 31, 2011).

Set out below is a description of the Group's principal credit card programs:

- The "Bonus Card," which is the flagship credit card brand of the Group, had more than 5.8 million cards in issue and approximately 275,000 merchant partners as of December 31, 2012. The Group issues VISA and Mastercard brand credit and debit cards pursuant to customary licensing arrangements.

- The "Miles&Smiles" card is designed to serve frequent flyers in cooperation with Turkish Airlines. Miles&Smiles is the only official credit card of Turkish Airlines and offers the cardholders the opportunity to earn flight miles from credit card purchases. As of December 31, 2012, there were over 645,000 Miles&Smiles cards. Turkish Airlines tenders this program every few years and, while an expensive program to participate in, the Group's participation is profitable overall for the Group due to the acquisition of high-quality customers that it provides.

- In February 2006 the Group introduced the first flexible card in Turkey, which is named "Flexi." This program allows cardholders to customize a credit card with respect to the interest rate, reward system and card fee and even enables them to make a card design of their choice. As of December 31, 2012, there were approximately 835,000 Flexi cards in issue.

- "Money Card" was introduced in 2009 and provides the Group access to approximately 1,300 sales points of Migros (a large Turkish grocery store) and affiliated stores (outlets) and their five million customers. As of December 31, 2012, there were approximately 400,000 Money Cards. Migros tenders this program every few years and the Group's participation is profitable for the Group due to the volume of customer acquisition that it provides.

- The Group launched American Express Credit Cards in January 2007 and provides a broad range of American Express products. Moreover, the Group has an active and strong presence in the market for cards for corporate employees and virtual cards.

- Garanti Payment Systems has also licensed the Bonus Card brand to other banks, which as of December 31, 2012 had 5.5 million "Bonus Card" – branded cards in issue. While the Bank does not carry the loans made under these cards, Garanti Payment Services receives fees in connection with this business and the greater volume of Bonus Cards in circulation adds to Garanti Payment Systems' ability to offer an attractive package to merchants hosting POS systems.

Small and Medium Enterprise (SME) Banking

The Bank's SME Banking Department serves clients below the commercial banking threshold (below TL 10,000,000 in annual sales, TL 600,000 transaction volume or TL 2,000,000 loan limit). SMEs differ from commercial and corporate customers in terms of their scale, employment and management structure. With knowledge of SMEs' particular needs, the Bank has developed a tailored service model for SMEs, including different offerings for specific industries.

As of December 31, 2012, the Bank served approximately 1.5 million SME customers through 1,544 customer relationship managers and 797 branches. As of December 31, 2012, the SME Banking Department had a sales force of approximately 2,084 people (of which 540 serve both the SME Banking Department and the Commercial Banking Department).

The Bank believes that the strengths of its SME banking segment include: (a) a customer-centric approach that provides highly-tailored packages of products to SMEs, (b) the strong distribution of its branch network and ADCs and (c) sophisticated IT systems and CRM infrastructure to allow pro-active sales processes.

Set out below is a description of the Bank's SME products and customer segmentation.

Products: As small commercial operations, SMEs require a broad range of services but not the degree of sophistication required by larger commercial and corporate clients. These services include deposits, payment services (particularly for credit cards), cash management, loans (principally working capital loans), trade-related products and advisory services. As the propensity of Turkish SMEs to use bank products and services has traditionally been low, the Bank undertook detailed research in order to identify a comprehensive solution package and service model that would appeal to this segment and has tailored its products in order to provide SMEs with the necessary services at an attractive cost.

The Bank's SME Banking Department intends not only to sell its products to customers but also to help its customers to improve their business and financial management quality. The Bank's goals for assisting its SME clients are not limited to financial solutions. The Bank's SME banking website was re-designed in 2010, permitting SMEs to access more extensive content (including recent data, financial recommendations and solutions for their businesses). In addition, mobile banking, which had 290,000 active customers as of December 31, 2012, helps SMEs to reach their accounts remotely.

Customer Segmentation: In order to differentiate the service model according to the specific needs of clients, the Bank segments its SME clients into sub-segments based upon annual turnover, credit limit and banking volume: "Mass" (being those with annual sales of under TL 500,000), "Small" (being those with annual sales of between TL 500 thousand and TL 3,000 thousand) and "Medium" (being those with annual sales of between TL 3,000 thousand and TL 10,000 thousand). As of December 31, 2012, 68%, 24% and 8% of the SME Banking Department's customers were in the Mass, Small and Medium sub-segments, respectively.

The Bank further segments its SME clients by industry as each industry has different needs that require tailored banking products. For example, SMEs that are in the agricultural business generally have highly seasonal cash flow (*e.g.*, post-harvest) and loan requirements (*e.g.*, at seeding) that require tailored loans, whereas manufacturing exporters require trade-finance support.

Commercial Banking

The Bank's Commercial Banking Department provides products and services to companies with annual sales greater than TL 10,000,000 and/or loan limit over TL 2,000,000 and/or loans from the banking sector over TL 3,000,000. The Bank's offerings for these customers include trade finance instruments, project finance, Turkish Lira- and foreign currency-denominated medium- and short-term loans, cash management, investment products, internet banking and telephone banking.

In order to best serve its commercial banking clients, which consisted of 42,806 customers as of December 31, 2012, the Bank's Commercial Banking Department has been structured with eight dedicated commercial banking branches, 530 customer service representatives and 353 customer relationship managers. Their main responsibilities are to convert existing commercial banking customers into "house bank" customers, to acquire new customers and to increase the profitability of these customers while continuously monitoring the customers' credit quality.

The Bank's management believes that the competitive strengths of the Bank's commercial banking business are as follows: (a) focus on relationship-based banking, including providing tailor-made products and services, (b) pricing the "customer" on the basis of the entirety of its relationships with the Group instead of having a standard price for a product or service, (c) experience in the field of project financing, (d) effective adaptation of new technologies in the sales process, (e) agile loan processes and (f) dedicated commercial banking branches.

Products: The Bank offers a number of products and services to commercial clients. The most important commercial banking offerings are cash loan products (including structured loan products such as project financing), non-cash loan products (such as letters of credit and letters of guarantee), foreign trade financing and cash management services. In addition, a broad range of investment products (such as deposits, government securities and mutual funds) are offered to commercial clients. The most significant commercial banking products by volume and value are (with respect to foreign currency) working capital loans and export loans and (with respect to Turkish Lira) commercial overdraft and general purpose loans. Different types of loan products include spot loans, foreign currency-indexed loans, gold loans, Turkish Eximbank loans and export factoring (such as irrevocable/revocable factoring, collection-guaranteed factoring and collection factoring).

Corporate Banking

The Bank's Corporate Banking Department was formally separated from the Commercial Banking Department in 1995, although the Bank started servicing large corporations in the early 1990s. The Bank was the first Turkish bank to open exclusive corporate branches that provide tailor-made services and sophisticated products to its corporate customers. Corporate banking clients are commercial entities that are local blue-chips and multinational corporations operating in Turkey. There is no material threshold between commercial and corporate customers -- corporate customers are selected subjectively by the Bank according to their total assets, sales turnover, shareholder and professional management structures and other criteria.

The Bank believes that it has become the principal banking partner in Turkey of many major multinational and domestic corporations through a strategic approach that has emphasized long-term reliable commitment to its customers during both stable and volatile market conditions. The Bank's corporate banking mission is to become the "house bank" of its domestic clients and the first choice for multinationals operating in Turkey.

The Bank had approximately 1,800 corporate clients as of December 31, 2012. These clients belonged to 324 corporate groups, of which 168 were multinationals. These corporate customers operate in several industries, including the automotive, food and beverage, chemical, telecommunications, energy, household appliances, oil, iron and steel industries as well as international construction and retail businesses. As of December 31, 2012, the Corporate Banking Department had 40 people in its field sales force.

The pillars of the Bank's corporate banking strengths are: (a) longstanding relationships, enhanced by commitment through difficult market conditions, (b) ability to cross-sell, leveraging on cash management and strength of relationship, (c) advanced technology, including dedicated IT support and developing tailor-made solutions for clients, and (d) high-quality staff.

Products: The Group offers corporate customers a wide range of lending and banking services, including commercial banking products, treasury and derivative products, cash management services, corporate finance advice, trade finance, project finance and other financial services such as insurance and leasing.

The main lending products offered by the Bank's Corporate Banking Department are working capital loans, project finance loans, foreign currency-based loans, revolving loans, short term loans and overdraft loans. Cash management is another field in which corporate banking has significant expertise. Various products are offered in terms of cash management services: direct debiting services, discounting, utility payment systems, supplier finance services, inventory finance services and check collection. In addition, the Bank offers to its corporate customers treasury and derivative products (*e.g.*, options, forwards, swaps, mutual funds, bonds and stocks) as well as a variety of other financial services including (through its subsidiaries) insurance, leasing and factoring.

Treasury

The Group's operations and results rely to a large extent on the Bank's Treasury Department, in which the Group centralizes its asset and liability management operations, trading (both customer driven and proprietary) and certain other important functions.

The Treasury Department principally consists of the Asset and Liability Management department (which continuously monitors the Group's asset and liability positions), the Trading department (which coordinates the Group's trading functions and manages the risks inherent therein), the Treasury Marketing and Financial Solutions department (which allows the Bank's customers easier access to the financial markets) and the Derivatives (Risk Control & Compliance) department (which develops and utilizes structured products with the aim of more efficiently managing the Group's balance sheet). Each of these departments is described in greater detail below.

Asset and Liability Management Department

The Asset & Liability Management ("*ALM*") Department manages the Bank's interest rate, sovereign credit and liquidity risks in accordance with the objectives set by the Asset & Liability Committee ("*ALCO*"). The ALM aims to maximize the Bank's risk-adjusted return-on-capital and the net interest margin of its balance sheet and to minimize the fluctuations in net interest margin. Monitoring the prevailing market conditions, interest rate, volume trends on the balance sheet items and risk parameters, the ALM creates and acts on investment, funding and hedging strategies in spot and/or derivative markets.

Along with conventional market risk management products, the ALM also utilizes a "transfer pricing system" as a tool of balance sheet management. The transfer pricing system isolates the Bank's business lines and branches from the market-related risks arising out of their commercial activities and enables the market risk transfer to ALM. Hence, through FTP, ALM conducts a centralized market risk management. In addition, by differentiating the transfer prices for different products with different risk factors, ALM is able to develop and implement its strategic guidance on products and risk factors.

Trading Department

The Trading department coordinates the Group's trading activities, which include both proprietary transactions and a much larger number of transactions on behalf of customers, with customer-driven transactions representing the most significant portion of the Group's trading activities. The department's role includes the management of risk within the Bank's securities portfolio and ensuring sufficient liquidity to cater to anticipated customer demand.

The Bank's management believes that its quantitative and qualitative approaches to trading with respect to risk management distinguish the Bank from its competitors and have been critical to the Bank's success in volatile markets. The correct allocation of the investment portfolio in light of market trends is of critical importance to the Bank's profitability and financial position. Thus the Treasury Department assesses the ability of the Trading Department to analyze trends, understand implications and shape the Bank's fixed income portfolio or foreign exchange positions accordingly.

The value-at-risk ("*VaR*") limit for the Bank's trading portfolio is calculated by the Risk Management department according to the distribution of capital approved by the Bank's Board of Directors. The Bank updates its VaR limit quarterly based upon changing regulatory capital.

Trading includes management of both customer flows as well as the Bank's own positions. In anticipation of future customer demand, the Bank maintains access to market liquidity by quoting bid and offer prices and carries an inventory of money and capital market instruments including a broad range of cash and securities. The Bank also takes positions in the interest rate, foreign exchange and debt markets based upon expectations of customer demand or a change in market conditions.

The Treasury Department uses real-time position-keeping systems that, with the Bank's information system and a data feed provided by Thomson Reuters, track the financial transactions in which the Bank takes part. Real-time positions are simultaneously reflected to the Bank's online Counterparty Limit Monitoring System, which allows real-time counterparty limit monitoring by the Bank's Internal Control Unit and other divisions and aims to avoid breaches in counterparty limits that are approved by the Bank's Credit Committee.

Derivative products have emerged extensively in recent years providing a wide variety of choices to corporate clients as well as individual investors. The Treasury Department manages the Bank's derivatives exposure within given delta and vega limits. The delta and vega exposures created by the customer flow can be directly hedged against in the markets or can be carried as positions as long as they are within the limits provided by the Bank's board. The Bank also provides competitive pricing in various derivative products (*e.g.*, local currency, foreign currency, domestic treasury bills, eurobonds, equities and commodities) for the Bank's clients. Although the Bank's major derivative activities relate to the foreign exchange market, the Bank provides liquidity to its customers in the above-mentioned products as well. In addition, the department develops and prices tailor-made products for clients in order to fulfill their hedging and yield-enhancement needs. The department prices all derivative transactions whether for proprietary or hedging purposes (including forwards, swaps, futures and options).

Treasury Marketing and Financial Solutions Department

The Treasury Marketing and Financial Solutions Department aims to improve the access of the Bank's customers to the financial markets and to assist in their operations therein.

The Treasury Marketing and Financial Solutions Department consists of five sections: marketing, corporate banking, commercial banking, private banking and financial solutions. The aim is to allow customers in these segments to access the market efficiently. The Marketing and Financial Solutions Department performs the pricing of all treasury products (foreign currencies exchange, forwards, options, swaps, bonds in Turkish Lira and foreign currencies, eurobonds, deposits, loans, etc.) and creates tailor-made solutions in line with the clients' needs by serving directly to a selected client base or servicing through branches.

In addition, the Treasury Marketing and Financial Solutions Department advises corporate and commercial customers on risk management, offers solutions related to balance sheet and financial risk management and structures the necessary products.

Derivatives (Risk Control & Compliance) Department

The Structured Products Unit, one of the units of the Treasury's Derivatives department, develops derivative products required for the effective management of the Bank's balance sheet and liquidity, such as those aimed at increasing profitability and hedging current risks, and also prepares the contracts related to these products. The Structured Products Unit analyzes document-based risks in accordance with applicable legislation and accounting standards (local standards and IFRS). The unit also runs the "master agreement" negotiations process together with the Legal Department.

Day-to-day responsibility for managing exposure to market risks lies with the Risk Control Unit that operates within the Treasury's Derivatives department. The Risk Control Unit also monitors the profitability and volume of treasury transactions and reports the size of the portfolios and stop-loss limits of individual trading desks.

Day-to-day responsibility for managing exposure to operational risks lies within the Middle Office Unit of the Treasury's Derivatives department, which unit also examines the confirmations of treasury transactions in order to audit on- and off-market pricing, trader transaction limits, transaction data inputs and the accuracy of operations.

Subsidiaries

In addition to its core banking operations, the Group is active in the areas of leasing, factoring, investment banking, portfolio management, private pensions and life insurance brokerage in Turkey, each of which is largely operated through a subsidiary of the Bank. In addition, the Bank has wholly-owned banking subsidiaries in the Netherlands (Garanti Bank International NV, which has offices in Amsterdam and Germany), Russia (Garanti Bank Moscow) and Romania (Garanti Bank SA).

The following tables reflect the contribution of the Bank and certain of its consolidated subsidiaries to the Group's net income and total assets as of the indicated dates or for the year then ended, as applicable:

		As of December 31,		
Assets	**Ownership**[(1)]	**2010**	**2011**	**2012**
Türkiye Garanti Bankası	N/A	87.4%	86.7%	86.3%
GBI	100%	5.1%	6.0%	5.8%
Garanti Holding and Romania businesses[(2)]	100%	2.5%	2.5%	2.3%
Garanti Pension and Life	84.91%	1.7%	1.8%	2.3%
Garanti Leasing/Fleet[(3)]	99.96%	1.7%	1.8%	1.7%
Garanti Factoring	81.84%	1.1%	0.8%	1.1%
GBM	100%	0.4%	0.4%	0.4%
Garanti Securities	100%	0.1%	0.0%	0.1%
Garanti Asset Management	100%	0.0%	0.0%	0.0%
Garanti Teknoloji	100%	0.0%	0.0%	0.0%

Net Income[4]	Ownership[1]	For the year ended December 31, 2010	2011	2012
Türkiye Garanti Bankası	NA	93.0%	89.8%	90.9%
GBI	100%	2.4%	3.6%	3.0%
Garanti Pension and Life	84.91%	2.9%	3.2%	4.0%
Garanti Leasing/Fleet[3]	99.96%	2.3%	2.3%	1.8%
Garanti Holding and Romania businesses[2]	100%	(1.8)%	0.4%	(1.2)%
GBM	100%	0.6%	0.3%	0.5%
Garanti Teknoloji	100%	0.1%	0.2%	0.2%
Garanti Factoring	81.84%	0.3%	0.1%	0.6%
Garanti Securities	100%	0.2%	0.1%	0.1%
Garanti Asset Management	100%	0.0%	0.0%	0.1%

(1) Ownership refers to the Bank's direct and indirect ownership in the relevant subsidiary.
(2) Garanti Holding and Romania businesses include 100% ownership in Garanti Holding BV and in the following Romanian businesses as of December 31, 2011 and 2012: Garanti Bank SA, Motoractive IFN SA, Ralfi IFN SA and Domenia Credit IFN SA through G Netherlands BV. The ownership in the Romanian businesses increased from 73.27% to 100.00% in December 2010 following the acquisition of Leasemart Holding BV, the other shareholder of G Netherlands BV.
(3) Garanti Fleet is almost fully owned by the Bank's subsidiaries (principally Garanti Leasing) and subject to a 99.96% consolidation in order to reflect the Bank's and its subsidiaries' ownership of Garanti Leasing.
(4) As fees and commissions paid by one Group member to another increase the recipient's income and the payer's expenses, these numbers do not necessarily reflect fully the benefits that the Bank's subsidiaries provide to the Group.

The following provides brief summaries of each of the Bank's material subsidiaries (as well as Garanti Payment Systems and Garanti Mortgage, which are not consolidated in the IFRS Financial Statements due to the immateriality of their individual balance sheet sizes) but excluding Garanti Teknoloji, which is described in "– Information Technology" below.

Garanti Bank International

GBI, a public limited liability company and the Bank's wholly-owned subsidiary in Amsterdam, commenced operations in early 1991. GBI's principal operations are in the Netherlands and Germany. The core businesses of GBI are international trade finance, private banking and corporate and commercial banking. For the year-ended December 31, 2012, GBI generated net income of €43.9 million (€52.9 million for 2011).

As of December 31, 2012, GBI's total assets amounted to €4,602 million (€4,160 million as of December 31, 2011). Its registered office is located at Keizersgracht 569 575 1017 DR Amsterdam, The Netherlands.

GBI's trade finance division is active in four market segments: transactional, commodity finance, structured trade finance and origination and distribution of trade-related assets. Financing of international trade flows, with a particular focus on Black Sea, Caspian and Mediterranean basin countries, is one of the core activities of GBI. Metals, raw materials for steelmaking, chemicals, coal and agri-business commodities such as grains and fertilizers are the commodity groups in which GBI's trade finance division is most specialized. GBI's private banking division serves its high net-worth clientele as a specialized boutique service provider with a view to create high added value. GBI's structured finance division focuses on four specialized areas: Islamic finance, shipping finance, project finance and cash management.

GBI has a branch in Germany and representative offices in Turkey, Ukraine and Switzerland.

Garanti Pension and Life

Garanti Pension and Life, founded in 1992 in Istanbul, offers life insurance policies and private pensions. The company utilizes its expertise in bancassurance (*i.e.*, the relationship between an insurer and a bank pursuant to which the insurer uses the bank's sales channels in order to sell the insurer's insurance and pension products) to offer its insurance and pension products to the Bank's customers. The company has more than 617,911 pension participants with 19.5% market share as of December 31, 2012 according to the Pension Monitoring Center (*Emeklilik Gözetim Merkezi*). Garanti Pension and Life was one of the sector's most active pension companies, managing a portfolio of TL 3.4 billion, holding a 16.2% market share in pension funds as of December 31, 2012 according to the Pension Monitoring Center (*Emeklilik Gözetim Merkezi*). In connection with its pensions business, the company earns income from fund management and administrative and entrance fees.

In the life insurance business, as of December 31, 2012 the company had 2.6 million insurance policies outstanding, on which it generated TL 263 million in written premiums in 2012 (TL 240 million in 2011). Garanti Pension and Life increased its direct premium production by 9.3% in 2012 as compared to 2011 (the increase in 2011 over 2010 was 2.7%) and, on the basis of insurance industry figures published by the Turkey Insurance and Reinsurance Company Association (*Türkiye Sigorta ve Reasürans Şirketleri Birliği*), increased its market share in life insurance from 9.1% in 2011 to 10.0% in 2012. Garanti Pension and Life ranks second in risk life, generating a significant portion of its premiums through alternative distribution channels.

On June 21, 2007, Garanti Pension and Life and Eureko Sigorta A.Ş entered into a general insurance agency agreement (the "*Eureko Agency Agreement*"), pursuant to which Garanti Pension and Life agreed to market, promote and sell certain general insurance products of Eureko Sigorta A.Ş to bancassurance customers through the Group's distribution network. On July 19, 2011, the Group transferred its entire interest in Eureko Sigorta A.Ş (being approximately 20% of Eureko Sigorta A.Ş's share capital) to Achmea, the Dutch insurance provider. Accordingly, the parties to the Eureko Agency Agreement have entered into an amended and restated agency agreement that has replaced the Agency Agreement in its entirety.

Garanti Pension and Life had net income of TL 133,977 thousand in 2012 (TL 112,996 thousand in 2011).

Garanti Leasing and Garanti Fleet

In 1990, the Bank established a leasing company, Garanti Leasing, in which it currently has a 99.96% equity interest. In 2012, Garanti Leasing executed 2,953 new financial leasing deals (principally for the leases of construction machinery) and recorded a total of US$777 million in new leases, following the execution of 2,916 new financial leasing deals (US$861 million in new leases in 2011). In 2012, the company was the leader in the Turkish leasing sector with a 16.6% share of its new contracts and second with a 14.5% share of transaction volume, each according to the Turkish Leasing Association (*Finansal Kiralama Derneği*). As of December 31, 2012, Garanti Leasing's consolidated total assets (including Garanti Fleet) were TL 3,144,969 thousand (TL 2,935,461 thousand as of December 31, 2011).

Garanti Fleet was established in 2007 under Garanti Leasing in order to serve in operational leasing. The company started its activities by leasing light commercial vehicles and passenger cars, the most common application for operational leasing in Turkey. Garanti Fleet, besides sales-marketing teams located in its head office, also uses the regional sales teams of Garanti Leasing and the Bank's widespread branch network for sales and marketing activities. The company launched a high service quality approach in 2009 and reached TL 316,820 thousand in total assets as of December 31, 2012 (TL 256,423 thousand as of December 31, 2011) and a fleet size of 7,982 vehicles.

For 2012, Garanti Leasing (on a consolidated basis with Garanti Fleet) had net income of TL 61,561 thousand (TL 80,750 thousand in 2011).

Garanti Holding and Romania Businesses

Garanti Holding BV, having its official seat in Amsterdam, the Netherlands, was incorporated on December 6, 2007, as a private limited liability company. On May 27, 2010, the Bank purchased from Doğuş Holding all of the shares of Garanti Holding BV. Garanti Holding BV is the shareholder of G Netherlands BV, which is the shareholder of Garanti Bank SA, Motoractive IFN SA, Ralfi IFN SA and Domenia Credit IFN SA, each founded in Romania.

G Netherlands BV was incorporated on December 3, 2007 in Amsterdam, the Netherlands and is an intermediate holding company with no trading activities. As of December 31, 2012, G Netherlands BV had investments in four Romanian companies specializing in financial services: Garanti Bank SA (99.9958%), which provides banking activities; Motoractive IFN SA (99.99997%), which provides financial leases; Domenia Credit IFN SA (99.999996%), which provides mortgage loans; and Ralfi IFN SA (99.9994%), which provides consumer loans (sales finance and private label credit cards).

Motoractive Multiservices SRL, a company providing operating leasing and related services, was incorporated by Motoractive IFN SA in April 2007 and is a 100% subsidiary thereof.

Garanti Bank SA was active in the Romanian market as a branch of GBI since 1998, which branch was transferred into the newly licensed bank, incorporated in Romania, in May 2010. As of December 31, 2012, Garanti Bank SA operated 78 branches, 28 of which were located in the capital city, Bucharest. The bank offers a full scope of universal banking products and services to its 258,860 customers from the retail, SME and Corporate segments. With more than 109,600 credit cards (224,572 in total of which 114,953 are debit cards and 109,619 are credit cards) and 3,467 active (7,365 in total) POS terminals, Garanti Bank SA ranked in the top ten in terms of the numbers of issued credit cards (with a market share of 7%) and POS terminals (with a market share of 6%) in Romania, according to the public figures available as of December 31, 2012.

Motoractive IFN SA is a joint-stock company incorporated in Romania. Motoractive IFN SA undertakes leasing activities, mainly motor vehicles but also industrial plant and office equipment. Motoractive IFN SA had 3,630 customers with 5,591 active contracts as of December 31, 2012 and has an extensive partnership network.

Domenia Credit IFN SA is a mortgage lending institution and provides long-term financing for the purchase, construction, renovation and refinancing of residential real estate mainly for sale to individuals. As of December 31, 2012, the company had 3,405 customers.

Ralfi IFN SA’s main activity is to provide consumer loans to retail customers, particularly sales finance and personal loans. As of December 31, 2012, Ralfi IFN SA had 163,709 clients and partnerships with major retailers in Romania.

These entities were consolidated in the Group beginning May 28, 2010. The consolidated asset size of Garanti Holding BV and its subsidiaries was approximately €1,782 million as of December 31, 2012 (€1,735 million as of December 31, 2011). In the Group’s consolidated net income for the year ended December 31, 2012, a consolidated loss of €17.5 million (a consolidated income of €5.2 million in 2011) was included for these entities.

Garanti Factoring

Garanti Factoring, founded in 1990, is one of Turkey’s oldest factoring companies. 81.84% of the company’s shares are owned by the Bank, 9.78% of its shares are owned by Export Credit Bank of Turkey and the remaining shares are traded on the ISE National Market. With a broad customer base, Garanti Factoring makes use of the Bank’s delivery channels to provide high-quality factoring products and services to its customers. Following US$3,101 million in volume of receivables financed through factoring in 2011, the company recorded US$4,204 million in 2012, increasing its market share to 10.3% as of December 31, 2012 in Turkey according to the Factoring Association (*Faktoring Derneği*) from 7.8% as of December 31, 2011. In the Group’s consolidated net income for the year ended December 31, 2012, a net income of TL 19,996 thousand was included for the company (TL 4,701 thousand in 2011). The company’s total assets amounted to TL 1,952,686 thousand as of December 31, 2012 (TL 1,275,071 thousand as of December 31, 2011).

Garanti Bank - Moscow

The Bank’s subsidiary in Russia, GBM, commenced operations in October 1996. GBM is focused on delivering corporate and commercial banking services in Russia. GBM had net income of US$9.6 million for 2012 (US$6.4 million for 2011). GBM’s registered office is located at “Capital City” Business Center, 8, Bld. 1, 10th Floor, Presnenskaya nab. 123317 Moscow.

A member of the Russian Savings Deposit Insurance System, GBM had one branch and 80 employees as of December 31, 2012. As of December 31, 2012, GBM’s total assets amounted to US$462 million (US$386 million as of December 31, 2011).

Having defined its core businesses as corporate and commercial banking, GBM is providing services to well-known medium- to large-size Russian companies as well as leading Turkish companies operating in the country. The loan portfolio is diversified and is focused on key sectors of the economy, such as the manufacturing, metal and metal products, food and beverage, transportation, automobile and trade sectors. GBM also offers services to large-scale Turkish tourism operators in Russia.

Garanti Securities

Garanti Securities is a wholly-owned subsidiary of the Bank and one of Turkey's leading securities houses and investment banks. Garanti Securities serves Turkish and international customers in the areas of corporate finance and capital market brokerage. As one of the sector's leaders in the business of corporate finance, over the years the company has provided numerous customers with advice on company mergers, acquisitions, public offerings and privatizations.

Garanti Securities' other principal business activity is brokerage services. Corporate share trading, which is supported by research, is delivered to customers via the Bank's extensive service network. As of December 31, 2012, Garanti Securities provided brokerage services to nearly 286,140 customers.

Garanti Asset Management

Founded in June 1997 as the first asset management company in Turkey, Garanti Asset Management is a wholly-owned subsidiary of the Bank. As of December 31, 2012, Garanti Asset Management managed 24 mutual funds of the Bank and Garanti Securities, eight principal-protected funds and the Istanbull Hedge Fund of the Bank, 15 pension funds of Garanti Pension and Life and the portfolio of Garanti Investment Trust (a closed-end fund listed on the ISE). The company also provides portfolio management services for both institutional and individual clients. Garanti Asset Management's market share in terms of mutual funds was 15.54% as of December 31, 2012 according to Rasyonet, a third-party data vendor. Total assets under management amounted to TL 8,443,277 thousand as of December 31, 2012. Market shares of pension funds and discretionary portfolio management were 16.20% (according to Rasyonet) and 6.83% (according to the Capital Markets Board), respectively, as of December 31, 2012. The mutual funds managed by the company had a market value of US$2.6 billion as of December 31, 2012 and Garanti Asset Management distributes its mutual funds solely through the Bank's branches and ADCs.

Garanti Payment Systems

Garanti Payment Systems ("*GPS*") was established by the Bank in 1999 to provide services in the cards market as the product developer of chip-based multi- and joint-branded card programs, commercial cards, virtual cards, business-based marketing and e-commerce services. The Bank owns a 99.92% stake in GPS, which as of December 31, 2012 booked total issuing volume amounting to US$36 billion on approximately 9.1 million credit cards, approximately 7.0 million bank debit cards and approximately 525,000 point of sale devices. As of December 31, 2012, total merchant partner acquiring volume was US$39 billion. GPS earns the interchange fee for processing credit card payments and certain other revenues whereas the Bank is the lender, takes the credit risk and earns all interest and certain fees.

Garanti Mortgage

Garanti Konut Finansmanı Danışmanlık Hizmetleri A.Ş. ("*Garanti Mortgage*"), wholly owned by the Bank and established in October 2007, specializes in housing loans and offers consultancy and support services to mortgage companies. The Group's market share in Turkish mortgage loans was 13.14% by outstanding mortgage loan balances as of December 31, 2012 and the Group sustained the market leadership position it has held since 2007. Garanti Mortgage has established collaborative relations with more than 172 construction firms and projects around Turkey. Various products have been launched by Garanti Mortgage, each of which addresses different product and payment method needs of consumers.

International Operations

The Group's international operations include foreign branches of the Bank in the Turkish Republic of Northern Cyprus (five branches (together with a Country Directorate in Northern Cyprus that has been established recently in order to comply with the legal requirements in Northern Cyprus)), Luxembourg and The Republic of Malta and an international representative office in each of London, Düsseldorf and Shanghai. The Bank's Domestic and Overseas Subsidiaries Coordination department also coordinates with the Bank's non-Turkish subsidiaries such as GBI, Garanti Bank SA and Garanti Bank Moscow, additional information about which can be found in "Subsidiaries" above.

The Shanghai representative office started its operations in May 1999 and was the first Turkish bank outlet in Far East Asia. The Bank's management believes that its Shanghai office puts the Group in a favorable position in establishing relations with Chinese banks and to initiate and develop business contacts with Turkish and Asian companies. Likewise, the London and Düsseldorf representative offices contribute to the Bank's international marketing efforts. The Republic of Malta, Turkish Republic of Northern Cyprus and Luxembourg branches are principally focused on servicing the needs of the Bank's Turkish customers in these locations.

Supporting the Bank's efforts in trade and other cross-border transactions, the Bank relies upon its network of international correspondent banks. Currently the Bank's international network includes more than 3,000 correspondent banks in 154 countries around the world. The Bank cooperates with these correspondent banks in trade financings, remittances and other tailor-made transactions of interest to its customers.

The Group's focus on international banking and trade finance operations has, together with its diversified range of credit products, resulted in an increased demand for contingent loan products such as letters of guarantee, letters of credit and export financing. According to the foreign trade statistics announced by TurkStat, the Group is one of the leading Turkish banks in foreign trade, having a share of 12.0% in Turkey's imports by value for 2012. As it is a large fee generator, the Group intends to utilize its knowledge of trade finance, customer-oriented branch network, sophisticated technology and worldwide correspondent network to further strengthen its trade finance business.

Marketing and Distribution Channels

The Group is a well-recognized brand in Turkey. Over time, through the introduction of successful products such as Bonus Card, Miles&Smiles, ELMA and www.garanti.com.tr, the Group's brand has strengthened. The market's perception of the Group is periodically monitored by the Bank through brand tracking surveys and customer satisfaction surveys. These surveys have been useful in identifying customer perceptions of the Group's attributes.

All of the Bank's customer-facing divisions pursue a relatively sophisticated marketing strategy that is innovative and visible as well as customer-tailored, as further described below. Cross-selling is at the core of most product campaigns and the Group continuously focuses on enhancing the effectiveness of its activities to increase the profitability of its customer base while maintaining its focus on risk management principles. For example, the Bank's Retail Banking Department utilizes media advertising, direct mailings (paper and electronic), SMS messaging and posters/brochures in branches. The Bank's SME Banking Department reaches potential customers in various manners, including sponsoring a monthly magazine that reviews aspects of the business and SME markets in Turkey. Marketing to potential commercial and, in particular, corporate customers is tailored to those customers' individual needs.

The Bank sells and cross-sells its customers either reactively or pro-actively using CRM tools.

From a reactive sales perspective: (a) for mass customers who walk into branches of the Bank, the Bank serves them using the Sales Lead Systems ("*SLS*"), and (b) for both upscale and mass market customers, the Bank implements a system called the Sales Opportunities Tool ("*SOT*") to inquire regarding customer product usage levels in each case in order to enable sales representatives or relationship managers to identify those products that can be sold reactively to these customers. SLS uses propensity and business rules, whereas SOT uses propensity and attrition rules and is designed around a unique customer profile.

From a pro-active sales perspective, the Bank targets its mass market customers with outbound calls from its call center and the eligibility of these customers is identified using propensity and business rules. Within a branch, for both upscale and mass customers, the Bank has a system called *Pusula* (Compass). This system identifies customer needs and, subsequently, propensity, business rules and some external data are used to meet those needs with the relevant products. The Bank offers these products to its customers as product bundles rather than as individual products, thereby seeking to meet both the customers' main and secondary needs. Finally, groups of upscale and mass market customers with similar needs are combined as lead lists for the Bank's sales representatives and relationship managers to pro-actively target.

As the Bank believes that selling additional products to its existing customers is the most effective method of increasing revenues and profitability, cross-selling opportunities are actively sought and implemented.

Branch Network

Since 2000, as a result of organic growth and mergers, the Bank increased the number of its domestic branches and offices to 478 as of December 31, 2006. The Bank has grown its branch network in each year since 2006 and, as of December 31, 2012, the Bank had 926 domestic branches and offices. The Bank conducts cost-benefit studies on an on-going basis in order to determine and maintain the best geographical distribution of branches in Turkey. The Bank operates in 78 of the 81 cities in Turkey, covering 99% of Turkey's total population. Approximately 50% of the Bank's branches are located in the three largest cities (namely Istanbul, Ankara and İzmir). The Bank plans to expand its branch network to approximately 975 branches by the end of 2013 and approximately 1,000 branches by the end of 2014. The Group's branch network growth has been partly driven by the increase in the number of smaller "mini-branches."

Alternative Delivery Channels

In addition to its large branch network, the Bank has developed an extensive ADC network that includes online banking, ATMs, two call centers, mobile banking and kiosks. The increasing use of ADCs by the Bank's customers has increased the Bank's cost-efficiency, has provided improved convenience to its customers and has helped the Bank develop deeper relationships with its customers.

The main benefits of the ADC distribution strategy can be segmented into four groups:

- *Improving branch performance*: By substantially expanding the use of ADCs, the Bank has significantly reduced less productive branch tasks (such as customer inquiries), freeing up the sales force and allowing them to focus on more profitable commercial activities and sales. Also, the migration to ADCs has reduced the branch operating load and costs, with average cost per transaction being significantly lower for ADC transactions.

- *Improving customer service and therefore retention*: Through ADCs and their extended hours of operations (24/7), the Bank provides quick and convenient problem resolution.

- *Enhancing revenues*: The Bank exploits new sales opportunities by cross-selling and by telemarketing to potential customers through ADCs, which also provide opportunities for incremental fees and charges. Accumulated commission income generated solely by transactions on ADCs was TL 313.5 million in 2012.

- *Deepening relationships with customers*: ADCs not only lead to operational efficiency in relation to transactions, but also portfolio efficiency via upsell and cross-selling opportunities on these channels. In 2012, almost two million banking products were sold to customers through the internet, mobile banking and ATMs.

In addition to high-quality banking services, ADCs also provide convenience-oriented value-added services like Western Union remittances both online and via ATMs, cardless remittances via ATMs, mobile remittances, video agent services as well as online/mobile instant stock exchange services. Regarding the latter, in early 2010 the Bank launched a unique trading platform called "e-Trader" including a desktop application, iPhone, iPad and BlackBerry mobile applications and online investment consulting service over videoconference. These value-added services contribute both to commission income and high levels of customer satisfaction.

The Bank has created nearly 30 mobile finance applications, which have been downloaded from garanti.com.tr under the name of the Garanti Application Store more than two million times through December 31, 2012. Applications developed for the iPhone and Android phones for CepBank have been launched and downloaded over 120,000 times through December 31, 2012. The Bank has also launched money transfer services via CepBank on Facebook and Twitter.

The Bank designed the first financial application for the Windows 8 application store. In collaboration with Casper, the Bank's application is available on all computers introduced to the market with Windows 8 and on the Nokia Lumia 920, the first mobile phone model to be marketed in Turkey that is built on the Windows 8 operating system. After developing mobile banking applications for iPhones, iPads and Android phones, an application specially developed for Android tablets was also put into service. The design of wap.garanti.com.tr and Mobile Banking, accessed via wap, was also renewed.

Consistent with advances in technology and customer preferences, the Bank's customers are shifting their choice of distribution channel. In 2012, 80% of all comparable transactions were realized using ADCs – all of which otherwise would have had to have been accomplished through tellers. The Bank's principal ADCs are described below:

- *Online Banking:* The Bank had almost 2.5 million active internet banking users as of December 31, 2012. The Bank's market share of active online banking users was 23.1% as of September 2012 (according to the Banks Association of Turkey). The Bank's internet banking service processes over 140 million financial transactions per year and offers more than 400 types of transactions.

- *Mobile Banking:* The Bank offers mobile banking services on four different platforms including on iOS devices (the iPhone operating system), iPad devices, all Android-operated devices and all WAP browsers. As of December 31, 2012, the Bank had approximately 500,000 unique mobile customers, with a market share across all its mobile banking channels of 39.04% in terms of numbers of customers and a 41.36% market share of financial transactions made on mobile banking channels. As of September 2012, the Bank's iPhone application had been downloaded over 700,000 times across all platforms.

- *ATMs*: The Bank's over 3,500 ATMs, as of December 31, 2012, provide around 140 different transactions (including remittances and cardless transactions). 50% of the transactions executed via the Bank's "Paramatik" ATMs are transactions other than cash withdrawals. The Bank's ATM network includes over 500 "Cash Recycling ATMs," which use deposited cash to provide withdrawals and have helped reduce operational costs. Additionally, the Bank estimates that more than one million unbanked customers (*i.e.*, customers without any bank accounts) use the Bank's ATM network each month, for many of which transactions the Bank receives a fee.

- *Call Centers*: The Bank's first call center was opened in February 1998, making the Bank the first in Turkey with both online and phone banking channels. Almost all of the Bank's core banking services, including bill payments, tax payments, card payments and investment transactions, are offered through the Bank's two call centers. The call center personnel seek to actively cross-sell the Group's products. In 2012, the call centers had 64 million customer contacts and the accumulated individual sales of products through call centers was 2.5 million.

Human Resources Management and Planning

The Bank's Human Resources department works in coordination with all of the Bank's departments to support the Bank's strategic plans. As of December 31, 2012, the Bank had 17,285 employees and the Group had 20,950 employees.

While the Bank does hire some senior employees from outside the Group, non-entry level positions are generally filled through the promotion of existing employees of the Bank.

Incentive policies are designed to enhance the performance achievement of each employee by applying the proper amount of incentive compared to base salary and using job-specific measurable performance criteria. Thus, for sales teams, incentive payments constitute a higher portion of benefits compared to back-office specialized jobs (*e.g.*, headquarters jobs). In contrast, specialized jobs may have higher salary packages with regard to their salary bands. None of these incentive policies include arrangements for the involvement of employees in the capital of the Bank.

Properties

As of December 31, 2012, the total net book value of the Group's tangible assets (including land, buildings and furniture) was TL 1,643,451 thousand, which was 0.9% of its total assets. The Group maintains comprehensive insurance coverage on all of the real estate properties that it owns.

Information Technology

The Group believes that it differentiates itself in part through the high quality of its information technology. The Group has organized its IT functions within the Bank's wholly-owned subsidiary, Garanti Teknoloji.

The IT solutions created by Garanti Teknoloji have enabled the Group to improve its efficiency and effectiveness in serving its customers and to provide a better customer experience across all channels. The integrated solutions created in-house by Garanti Teknoloji are pervasive across all channels and all levels of the Group. The services provided by Garanti Teknoloji include business development (including marketing and management support), IT strategy, process and security services, software development, systems and operations, help desk, networking and field engineering.

Garanti Teknoloji also provides services to other companies in the Doğuş Group, including its tourism, media and automotive operations. See "Related Party Transactions."

Approximately 99% of the Group's operational transactions are processed through Garanti Teknoloji, which aims to provide access and monitoring with a 99.99% availability and makes real-time copies of transaction records. In 2012, Garanti Teknoloji was responsible for the processing of approximately 290 million transactions a day on average, with up to 345 million transactions a day on peak days. The financial and core banking applications within Garanti Teknoloji are developed by a team of more than 586 software and computer engineers.

The development of business continuity management standards in all of the Bank's subsidiaries is coordinated by the Bank's Internal Control Unit. The Bank has developed a Business Continuity and Disaster Recovery Plan in case of natural disaster or significant disruption. This plan aims to ensure that in the event of such circumstances arising, the Group can continue to provide services to its customers, fulfill its legal obligations, minimize financial losses arising from the disruption and safeguard information assets. The plan is revised and tested on an annual basis. These tests include stress tests against various different scenarios. The Bank has alternative locations for ensuring the continuity of banking services against unexpected incidents. The plan also includes specific directives to personnel to instruct them to react appropriately in a disaster situation. All personnel have access to the plan's guidelines through the Bank's intranet. The plan also sets out a communication strategy in order to seek to ensure appropriate communication with internal and external target stakeholders.

Insurance

The Group's fixed assets, cash-in-transit and cash-on-hand are covered by general insurance arrangements with third parties covering normal risks, and the Group also maintains blanket liability insurance (including in relation to electronic computer crime, professional indemnity and directors' and officers' liability). Loans that are secured by real estate are also required by the Group to be supported by fire and asset protection insurance with respect to secured assets. The Group does not have any credit risk insurance in relation to defaults by its customers and this is generally not available in Turkey.

Anti-Money-Laundering Policies

Turkey has been a member country of the FATF since 1991 and has enacted laws and regulations to combat money-laundering, terrorist financing and other financial crimes. In Turkey, all banks and their employees are obliged to implement and fulfill certain requirements regarding the treatment of activities that may be referred to as money-laundering.

The main provisions of the applicable law include regulation of: (a) client identification, (b) reporting of suspicious activity, (c) training, internal audit and control, risk management systems and other measures, (d) periodical reporting, (e) information and document disclosure, (f) retention of records and data, (g) data access systems to public records, (h) protection of individuals and legal entities and (i) written declaration of beneficial owners by transacting customers, among other provisions. Suspicious transactions must be reported to the Turkish Financial Crimes Investigation Board.

To ensure the Bank is not used as an intermediary in money-laundering and other criminal activities, a program of compliance with the obligations of anti-money-laundering and combating the financing of terrorism rules, which is to be undertaken by all employees, has been implemented. This program includes written policies and procedures, assigning a compliance officer to monitor this matter, an audit and review function to test the robustness of anti-money-laundering policies and procedures, monitoring and auditing customer activities and transactions in accordance with anti-money laundering legislation and regulations and employee training. In addition, the CFT Law is awaiting presidential approval to come into force; *however*, if adopted, it will not meaningfully require the Bank to alter its policies.

Compliance with Sanctions Laws

OFAC administers regulations that restrict the ability of US persons to invest in, or otherwise engage in business with, SDNs, and similar rules have been put in place by the European Union, the United Kingdom, the United Nations and Turkey. The Bank maintains policies and procedures designed to ensure that it complies with all such laws, regulations and orders (including those of OFAC and the FATF) regarding doing business with, maintaining accounts for, or handling transactions or monetary transfers for Sanction Targets.

Before opening an account for, or entering into any transaction with, a customer, the Bank ensures that such customer is not listed as a Sanction Target. In addition, the names of all customers and all incoming and outgoing transactions are continuously and automatically screened against the list of Sanction Targets. All daily transactions are further reviewed for compliance with sanction lists by the Bank or a third party screening company.

Accordingly, the Bank's current policies restrict the Bank from engaging in any prohibited business investments and transactions with Sanction Targets, including Iran and Syria.

Credit Ratings

Each of the Bank's credit ratings from Standard & Poor's, Moody's and Fitch as of the date of this Offering Circular 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 (May 4, 2012)

Outlook	Stable
Long Term Foreign Currency Issuer Credit Rating:	BB
Long Term Turkish Lira Issuer Credit Rating:	BB
Stand-alone Credit Profile:	bbb-

Moody's (July 10, 2012)

Long Term Foreign Currency Deposit Outlook:	Stable
Long Term Foreign Currency Deposit:	Ba2
Long Term Turkish Lira Deposit:	Baa2
Short Term Turkish Lira Deposit:	Prime-2
Short Term Foreign Currency Deposit:	NP
Financial Strength Rating (FSR):	D+
Financial Strength Rating Outlook:	Stable
Long Term National:	Aa2.tr
Short Term National:	TR-1

Fitch (December 14, 2012)

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)

Litigation and Administrative Proceedings

The Group is subject to various ongoing legal proceedings, as described below, but the Bank's management does not believe that such proceedings, individually or taken together, are likely to have a significant effect on the Group's financial position or profitability.

Salary and Deposit Programs Investigation

The Turkish Competition Board issued decisions in August 2009 initiating an investigation into the salary and deposit programs operated by eight major banks in Turkey, including the Bank. Under these programs, corporate and commercial customers of the Bank agree to deposit the salary payments of their employees with the Bank in exchange for remuneration from the Bank. The subject of the investigation is whether the eight banks made a collective agreement for the level of fees that they pay in connection with these programs. Similar to the practice of the other major banks in Turkey, the Bank enters into protocols with its customers regarding these programs, the terms of which protocols vary with respect to the level of fees the Bank pays and the length of the relevant protocol. In connection with this investigation, the Turkish Competition Board has served a summary of its initial findings and the banks that are under investigation responded to this initial report. On August 20, 2010, the investigation committee established by the Turkish Competition Board served its detailed report on each of the banks involved, which report recommended that the Turkish Competition Board impose a substantial fine upon the banks. On March 8, 2011, the Turkish Competition Board announced that it imposed an administrative fine amounting to TL 11,641,860 (approximately US$7.6 million) on the Bank with the possibility of the Bank's appealing the decision to the Council of State. The Bank has appealed such fine following its receipt of the detailed decision of the Turkish Competition Board; *however*, according to the Law on Protection of Competition No. 4054, appealing a decision of the Turkish Competition Board will not stop the implementation of the Turkish Competition Board's decisions and the consequent collection of administrative fines. Accordingly, the Bank paid the administrative fine within one month of its receipt of the detailed decision. The appeal process is currently pending.

Interest Rates Investigation

In a decision dated November 2, 2011, the Turkish Competition Board resolved to initiate an investigation against more than ten banks operating in Turkey to determine whether they have acted in concert and violated Turkish competition laws in respect of interest rates applicable to banking products that they offer. As part of this investigation, the Competition Board is investigating the Bank and two of its subsidiaries, Garanti Payment Systems and Garanti Mortgage. The Bank was served with an investigation report on August 9, 2012 and responded to the report. The Turkish Competition Board resolved to hold a hearing on February 25, 2013 and, pursuant to the Law on Protection of Competition No. 4054, a decision should be made within 15 days of the hearing. Accordingly, the investigation is expected to be completed by mid-March 2013. The Bank's management anticipates that an administrative fine might be imposed as a result of this investigation; *however*, the Bank would likely appeal any such fine. Should such a fine be imposed, then individual customers claiming to have suffered damages resulting from such activities could sue the Bank. The Bank's management believes that the amount of any such fine (and any related damages successfully proven by a customer) would be sufficiently covered by the Bank's existing special reserves.

Garanti Payment Systems Tax Audit

The Istanbul Large-Scale Taxpayers Office of the Tax Inspection Board held inspections of the Bank concerning the banking and insurance transaction tax ("*BITT*"). As a result of the inspections, authorities claimed that payments made by the Bank's contracted merchants to an institution other than the Bank itself categorized as a "service fee" in the years 2007, 2008, 2009 and 2010 should have been collected by the Bank. Because of this determination, the tax authorities claim that the Bank undercalculated the BITT and, accordingly, tax audit reports for the relevant years were prepared.

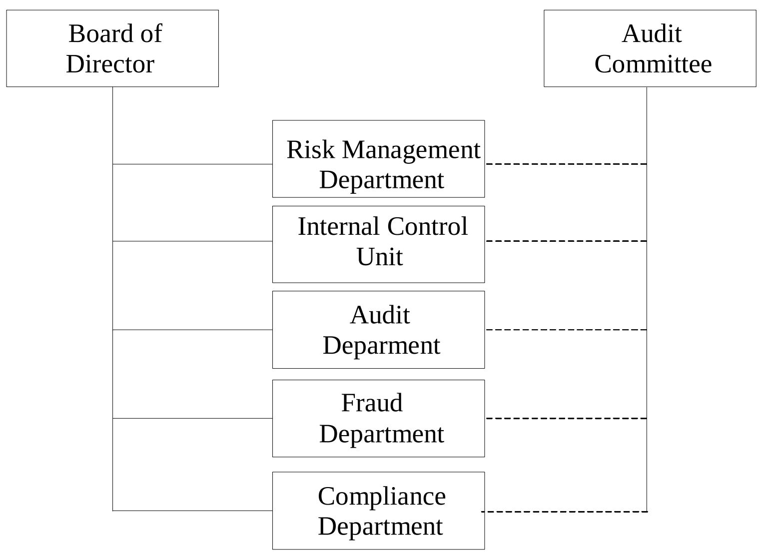
The Bank received a tax audit report and tax/penalty notifications for the year 2007. The Bank's management expects to receive notifications of audit reports for the other relevant years. The Bank's management estimates that the total tax assessment including fines for the years 2007, 2008, 2009 and 2010 will amount to approximately TL 36,300 thousand. In the Bank's management's assessment, the Bank's practice is in compliance with the relevant legislation and the Bank will take legal actions against the tax authority's assessments.

RISK MANAGEMENT

General

As with any financial institution, the Bank is exposed to various risks inherent to its business such as credit risk, liquidity risk, market risk and operational risk. The Bank's Board of Directors is ultimately responsible for developing and monitoring the Bank's internal control, audit and risk management policies and strategies to address the risks that the Bank is exposed to, including the Bank's exposure to risk through its investments in its subsidiaries. For further information on the risks faced by the Bank, please see "Risk Factors."

In fulfilling such responsibilities, and in line with applicable law, the Board of Directors has established within the Bank an Internal Audit department, an Internal Control department, a Risk Management department, an Anti-fraud department and a Compliance department. Each of these is independent of executive functions and directly reports to the Board of Directors. The following diagram shows the interaction between these various departments.



In line with the importance given by the Bank to the corporate governance principles, the Bank's Board of Directors created an Audit Committee whose job is to ensure that the Board of Directors' supervision and review functions are duly carried out. The Audit Committee reports to the Board of Directors on the results of internal control, risk management and audit activities and on any action that it deems necessary as well as its views on any other issue that it deems to be important from the standpoint of the continued well-being of the Bank and the conduct of its activities. For more information on the Audit Committee, see "Management – Board of Directors – Corporate Governance – Risk Management Committees."

The principal responsibility for risk management is held by the Risk Management department, which is responsible for the establishment of an integrated risk management system that measures and manages risks arising from the activities of the Bank (including in accordance with applicable legislation) and seeks to obtain an optimum risk-return-capital balance. The risk management system consists of processes for the establishment of standards, information flow, compliance, monitoring, decision-making and implementation necessary to monitor, control and change, when deemed necessary, the risk-return structure and the future cash flows of the Bank and the nature and level of related activities.

Fostering a risk management culture throughout the Bank and guided by a vision of having an integrated risk management system, the Bank employs analytical methods that use international standards (such as Basel II) to quantify and monitor market, credit and other risks (benefiting from its many years of detailed operations data). As of December 31, 2012, 16 employees (including a senior vice president) worked for the Risk Management department of the Bank, a further 117 employees worked for the Internal Audit department and 106 employees worked for the Internal Control Unit.

A summary of the Bank's management of credit, market, operational and liquidity risks is set forth below. See note 26 to the 2012 IFRS Financial Statements for additional information on the management of these and other risks.

Credit Risk Management

The Bank is subject to credit risk through its trading, lending, hedging and investing activities and in cases where it acts as an intermediary on behalf of third parties. For credit risk relating to lending activities, which constitute the Bank's primary credit risk exposures, the Bank uses various statistical-based internal risk rating models and scorecards based upon customer segmentation and also obtains information from certain credit reporting bureaus. Risk ratings and scores generated by these models are used in the credit assessment process. Risk rating is also one of the parameters in determining credit authorization limits.

In the risk-rating models and scorecards, statistical methods are applied to information concerning customers' previous performance in order to rate them on the basis of objective criteria and assess the likelihood of a particular customer's defaulting in the future. Different models are currently in use for corporate/commercial companies, retail customers and SMEs.

The model for corporate/commercial/medium-sized companies employs financial and qualitative criteria and assigns a probability of default for each borrower, classifying them within a scale of 17 grades. Using these ratings, the expected and unexpected losses and the associated amounts of economic capital needed for the portfolio are calculated. Due to the changing structure of the Bank's credit portfolio since 2003, the Bank has developed this model further by splitting it into different models tailored to the specific circumstances of each of its corporate, commercial and medium-sized enterprise segments. The models will be used after integration into the system is complete.

For the retail loan and credit card portfolio, once they have been fully integrated, application and behavioral scorecards are used in the application and granting process. The Bank frequently updates these systems based upon market conditions and advances in experience.

Loan applications from SME sole-traders are assessed by application scorecards, which generate scores for general purpose loans, auto loans, home/office loans, overdrafts and credit cards. For the rest of the SME portfolio, the Bank employs an experience-based scoring model that also serves as a tool for data collection. Behavioral scorecards are also being developed by the Bank. It is expected that the implementation of these new scorecards will further enhance the Bank's credit approval process for SME borrowers.

Assessment models have also been developed for Specialized Lending loans using a Supervisory Slotting Criteria approach developed by the Risk Management Department.

The Corporate Banking Unit-Bank Credit Analysis and International Network Service is in charge of the bank and country risk analysis and the assessment of credit lines. The country limits are set on a yearly basis through extensive sovereign analysis. The department monitors the associated bank and country risks on a daily basis. These analyses are based upon the Bank's country risk rating model, which takes both objective and subjective risk factors into account. Objective risk factors make up 70% of the total score. While the subjective part forms the minority, it plays an essential role in differentiating the risk. The risk rating methodology includes a country's economic performance, political structure, ratings from major agencies, banking sector performance and Turkey's relations with the specific country. On a yearly basis, the results are approved by the Bank's senior management.

The medium to high level risk-rated countries are monitored through daily news, rating actions/rating reports and other analysis on a regular basis. Brief country reports for high or moderate risk countries are prepared on a case by case basis and, when needed, included in the credit folders of the banks for whom line proposals are made to the Credit Committee.

The Bank has established an internal Basel Steering Committee under the coordination of the Risk Management Department. This committee has planned all the activities that will be necessary for compliance by the Bank with the new Basel II rules. The BRSA's standardized method is used for the calculation of credit risk exposure, which is a component of the regulatory capital adequacy ratio. The Bank has adopted procedures to monitor its compliance with the BRSA's capital adequacy requirements.

Market Risk Management

As described in "Risk Factors – Risks Relating to the Group and its Business - Securities Portfolio Risk," "Trading Activities Risk," "Interest Rate Risk" and "Foreign Exchange and Currency Risk," the Bank's operations are exposed to significant market risks such as fluctuations in interest rates and exchange rates. The Bank's asset and liability management personnel, including its ALCO, monitor market risk and adopt and implement procedures and policies to optimize net income within the approved risk levels.

Among these procedures, the Bank's trading risk and the associated economic capital is calculated on each business day using a VaR model to determine the risks to which the Bank is exposed on account of market price movements in the trading positions that are maintained both on and off its balance sheet. For the purpose of determining the risks that could arise in major market fluctuations, the VaR model is regularly employed to perform stress tests and scenario analyses. Before taking a position in a considerable amount or trading a new type of instrument, effects on the portfolio are measured by a "what-if" analysis. The reliability of the VaR model is regularly checked by means of back tests.

The VaR limit is determined according to the distribution of capital approved by the Bank's Board of Directors and is monitored each business day. In addition, trading desk, transaction and stop loss limits are tracked. VaR figures and VaR limit utilizations are reported each business day to the Bank's Treasury Department, CEO and the board member in charge of risk management and also weekly to the ALCO. Approval, update, follow-up, breach and notification procedures of these limits are executed and modified upon the approval of the Bank's Board of Directors.

For regulatory capital adequacy purposes, the BRSA's standard method is used. The Bank has adopted procedures to monitor its compliance with the BRSA's capital adequacy requirements (further details of which can be found in "Turkish Regulatory Environment"). Balance sheet management is performed by the ALM in line with the main strategies determined by the ALCO. Hedging transactions for the Bank's own balance sheet are carried out in accordance with the policies and procedures adopted by the ALCO. From an internal management perspective, the ALM eliminates the market risk from the Bank's branches and departments through a transfer pricing system, which thus enables the Bank to manage its market risks on a centralized and net basis.

Reports on duration/gap and sensitivity analyses are prepared to determine the interest rate risk the Bank faces as a result of maturity mismatches on its balance sheet. The ALCO and the ALM use the duration/gap reports to manage balance-sheet interest rate risk.

The banking book's interest rate risk is limited by a regulatory limit that is calculated by the standard shock method. The legal limit is monitored by the Bank and reported to the BRSA on a monthly basis.

Operational Risk Management

As described in "Risk Factors – Risks Relating to the Group and its Business – Operational Risk," the Bank is subject to various operational risks, including risks relating to the failure of internal controls, *force majeure* events and the failure of IT systems. For the measurement and management of the Bank's operational risks, a risk matrix has been developed in which the existing and potential operational risks of the Bank are grouped according to the business lines, causes, consequences and categories to which these risks apply. A loss database has been created for the principal business lines in this matrix. For the control of operational risks, the status, impact and probabilities for each risk are evaluated within the matrix. The Bank's Internal Control and Internal Audit departments have primary responsibility for monitoring and updating the operational risk matrix.

Credit cards, internet banking and application fraud teams that were previously working under different departments were brought together under a centralized Fraud department in September 2007. The purpose of this department is to prevent fraudulent acts with an enterprise approach, to minimize the risks arising from such acts, to reduce the losses incurred by the Bank in this regard and to take more effective operational security measures.

Capital requirements relating to operational risk are, per BRSA requirements, calculated according to the Basel II basic indicator approach for operational risk. Nevertheless, it is the Bank's goal to measure for internal purposes operational risk with the Basel II advanced measurement approach. For this purpose, the Bank: (a) in December 2008, completed an internal database to gather operational risk loss data in a more systematic centralized environment in accordance with Basel II standards, (b) in August 2009, implemented the operational risk economic capital software and (c) in December 2009, built a framework to define operational risk-related key risk indicators and to collect data for them. The Bank's management believes that these more advanced standards will further enhance its operational risk management.

The Bank seeks to manage reputational risk as part of its risk management. The Bank's policy for the management of reputational risk is to avoid transactions and activities that can cause reputational risk. The Bank executes all transactions and activities in the context of the following principles:

- compliance with legal regulations,
- compliance with corporate governance principles, and
- compliance with social, ethical and environmental values.

Management of reputational risk is ultimately the responsibility of the Board of Directors but it is also a responsibility of all the employees of the Bank.

Liquidity Risk Management

Liquidity risk is defined as the risk that the Bank may not be able to fulfill its payment obligations in a timely manner due to the lack of available cash or cash inflows in quality and in quantity to cover the cash outflows in a complete and timely manner due to imbalances in the cash flows of the Bank. The Bank's policy in liquidity management is to maintain sufficient levels of liquid assets to sustain the current funding, benefit from investment opportunities and meet loan demands and eventual liquidity shortages. The Bank has established a Liquidity Risk Management Committee, a description of which can be found in "Management – Corporate Governance." Trends of the early warning indicators, benchmark ratios and limits are followed by the Risk Management Department and reported to the LRMC on a monthly basis.

The Bank maintains a desired level of liquidity by maintaining foreign currency and Turkish Lira assets in the form of short-term money market placements and marketable securities. In creating assets in the context of effective liquidity management, the Bank considers their ability to be liquidated easily, having a regular cash flow and being able to liquidate easily any collateral taken. Oversight of compliance with legal liquidity ratios is also monitored.

The Bank has a contingency funding plan that includes mechanisms designed to prevent a liquidity risk increase under ordinary operations and liquidity crisis scenarios under various conditions and levels of stress. Available liquidity sources are determined by considering the liquidity risk scenario. Within this plan, the Bank monitors the liquidity risk within the scope of written early warning signals, stress levels determined according to probable scenarios and stress levels where liquidity risk may arise, and measures that could be taken for each stress level. Early warning signals are taken into account in determining the stress levels identified in the plan. Practices that will be executed in accordance with the scenarios and stress levels defined in the contingency funding plan are included in this plan.

Daily liquidity management is performed by the ALM. In executing this duty, the ALM considers legal liquidity ratios and monitors early warning signals associated with eventual liquidity shortages. Medium- and long- term liquidity management is executed by the ALM in line with ALCO decisions.

Risk Management of Subsidiaries

The Bank's subsidiaries have their own risk management teams and procedures, which (in the context of their respective businesses and regulatory environment) are generally consistent with those of the Bank. The Bank's audit and risk committees coordinate with, and monitor the risk management policies and positions of, the Bank's subsidiaries.

MANAGEMENT

Board of Directors

The Bank's Board of Directors meets regularly and, with the guidance of the Bank's senior management, is instrumental in planning the medium- and long-term strategy of the Group. The Bank's Board of Directors makes all major management decisions affecting the Bank. The Board of Directors acts as a supervisory body for the Bank's activities and determines the code of ethics and business conduct of the Bank.

Pursuant to the Bank's articles of association, the General Assembly of the Bank's shareholders sets the number of members on the Bank's Board of Directors, which should consist of at least seven members. Currently, the General Assembly has set the number of members at nine. Each member has a right of one vote and it is not permissible that members vote on behalf of another member by proxy. The members of the Board of Directors are appointed for a period of three years and a member may be re-elected.

The members of the Board of Directors may not participate in discussions relating to or vote for personal matters or any matter concerning interests of relatives such as their spouses and children. The shareholders' agreement executed between the Doğuş Shareholders and BBVA (and to which the Bank is not a party) provides that the Doğuş Shareholders and BBVA will vote their respective shares in the Bank to procure that they each may each nominate for appointment four of the Bank's nine directors. On March 22, 2011, the four directors nominated by BBVA (being Messrs. Angel Cano Fernandez, Carlos Torres Vila, Jose Maria Garcia Meyer and Manuel Castro Aladro) were appointed to fill the vacancies created by the resignations of the four directors previously nominated by GEAM for the remaining terms of office. GEAM had previously enjoyed a similar right to appointment under a previous shareholders' agreement with members of the Doğuş Group. These BBVA appointments were affirmed by the Bank's shareholders at the Bank's annual shareholders' meeting held on March 31, 2011.

The CMB recently issued new corporate governance rules, which banks will need to comply with at their first ordinary general assembly meeting (but no later than June 2013). These new rules will not affect the shareholders' agreement between the Doğuş Group and BBVA or the composition of the Board of Directors. The Bank intends to pass all the necessary resolutions to comply with such rules in its general assembly meeting scheduled to take place in April 2013 and the Bank's shareholders will be appointing one independent director to the Board of Directors increasing the total number of directors to ten. In line with the recent amendments to the Corporate Governance Communiqué, the Bank has established a corporate governance committee.

Members of the Board of Directors

The directors of the Bank (the "*Directors*") are the following:

Director	Year First Appointed	Current End of Term
Ferit Faik Şahenk (Chairman)	1990 (Chairman since 2001)	May 2015
Süleyman Sözen (Vice Chairman)	1997 (Vice Chairman since 2003)	May 2015
Sait Ergun Özen (President and CEO)	2003	May 2015
A. Kamil Esirtgen, PhD	1992	May 2015
Cüneyt Sezgin, PhD	2004	May 2015
Angel Cano Fernandez	2011	May 2015
Carlos Torres Vila	2011	May 2015
Manuel Pedro Galatas Sanchez-Harguindey	2012	May 2015
Manuel Castro Aladro	2011	May 2015

Additional information on each of the Directors is set forth below:

Ferit Faik Şahenk (Chairman)

Mr. Şahenk has an undergraduate degree in Marketing and Human Resources from Boston College. He attended Harvard Business School for its "Owner/President" Management Program. He was a founder of Garanti Securities. He has previously served as Vice President of Garanti Securities, CEO of Doğuş Holding and Chairman of Doğuş Otomotiv. Currently, Mr. Şahenk is the Chairman of Doğuş Holding and is a director of Doğuş Otomotiv Servis ve Ticaret A.S.. He served as the Chairman of the Turkish-American Business Council of the Foreign Economic Relations Board (DEİK) and is currently serving as Chairman of the Turkish-German Business Council and is a member of the Turkish-United Arab Emirates Business Council. He is a member of the World Economic Forum and the Alliance of Civilizations Initiative. He is also the Regional Executive Board Member of Massachusetts Institute of Technology's (MIT) Sloan School of Management Europe, Middle East, South Asia and Africa.

Süleyman Sözen (Vice Chairman)

Mr. Sözen is a graduate of the Faculty of Political Sciences of Ankara University. He worked as a Chief Auditor at the Turkish Ministry of Finance and the Treasury. Since 1981, he has served in various positions in the private sector, mainly in financial institutions. Mr. Sözen has been serving on the board of directors of various Doğuş Group entities and subsidiaries of the Bank since 1997. He holds a Certified Public Accountant license.

Sait Ergun Özen (President and CEO)

Mr. Sait Ergun Özen earned a Bachelor's degree in Economics from New York State University and is a graduate of the Advanced Management Program at Harvard Business School. He is a Board Member of Garanti Bank Moscow, GBI, the Banks Association of Turkey, the Institute of International Finance (IIF), the Turkish Industrialists' and Businessmen's Association (TÜSIAD), the Istanbul Foundation for Culture and Arts (IKSV) and the Trustees of TED Istanbul Koleji Foundation. He is also the Chairman of Garanti Securities, Garanti Asset Management, Garanti Pension and Life, Eureko Sigorta A.Ş., Garanti Factoring and Garanti Leasing.

A. Kamil Esirtgen, PhD

After graduating from the Faculty of Economics of Istanbul University, Mr. Esirtgen received an MBA from Stanford's Graduate School of Business and a PhD from Istanbul University's School of Business Administration. He worked at various private sector corporations after concluding his academic career in 1975. In 1987, he joined the Doğuş Group as Finance Group President. He is a board member of several subsidiaries of the Bank, as well as some other companies in the private sector.

Cüneyt Sezgin, PhD

Mr. Sezgin received a Bachelor of Arts degree from the Middle East Technical University, an MBA from Western Michigan University and a PhD from Istanbul University's School of Economics. He has served in executive positions at several private banks. Mr. Sezgin is the Country Director of the Global Association of Risk Professionals. He is a board member at Garanti Pension and Life, Garanti Factoring, Garanti Leasing, Eureko Sigorta A.Ş. and the World Wildlife Fund-Turkey.

Angel Cano Fernandez

Mr. Cano Fernadez has an undergraduate degree in Economics and Business from Oveido University. He is the President and Chief Operating Officer of BBVA.

Carlos Torres Vila

Mr. Torres Vila received a B.S. in electrical engineering and management science from Massachusetts Institute of Technology (MIT). After receiving an MBA from Massachusetts Institute of Technology, he earned a law degree from El Rector de la Universidad Nacional de Educación a Distancia. He worked at various private sector corporations and is currently the Head of Strategy and Corporate Development of BBVA.

Manuel Pedro Galatas Sanchez-Harguindey

Mr. Manuel Galatas Sanchez-Harguindey has a degree in Business Administration and International Finance from Georgetown University. In 1994, after working as an executive at various private corporations, he joined Argentaria (now BBVA). Before joining the Bank, he was based in Hong Kong as the General Manager in charge of all BBVA branches and representative offices in the Asia-Pacific region. He is also the General Manager of BBVA's representative office in Turkey.

Manuel Castro Aladro

After graduating from Universidad Pontificia Comillas (ICADE), Mr. Castro Aladro received an MBA from the University of Chicago. After working as an executive at various private companies and banks, he joined BBVA in 1999. He is the Chief Risk Officer and a member of the Executive Board of BBVA.

The Executives

In addition to the Bank's President and CEO, Sait Ergun Özen, the Bank's senior executives (the "*Executives*") as of the date of this Offering Circular include the following:

Executive	Title	Responsibility	Year Joined Bank
Didem Dincer Baser	Executive Vice President	Branchless Banking/ADCs	2005
Aydın Düren	Executive Vice President	Legal Services	2009
B. Ebru Edin	Executive Vice President	Project Finance	1997
Ali Fuat Erbil	Executive Vice President	Financial Institutions and Corporate Banking	1997
Halil Hüsnü Erel	Executive Vice President	Technology and Operational Services	1994
Gökhan Erün	Executive Vice President	Treasury	1994
Onur Genç	Executive Vice President	Retail Banking and Credit Cards	2012
Turgay Gönensin	Executive Vice President	Subsidiary Coordination	1987
F. Nafiz Karadere	Executive Vice President	SME Banking	1999
Adnan Memiş	Executive Vice President	Support Services	1978
Murat Mergin	Executive Director	Strategic Planning	1994
Aydın Şenel	Executive Vice President	General Accounting	1981
Erhan Adalı	Executive Vice President	Loans	1989
Recep Baştuğ	Executive Vice President	Commercial Banking	1989

Additional information on each of the Executives is set forth below.

Didem Dincer Baser

Ms. Baser graduated from the Department of Civil Engineering of Boğaziçi University and earned her graduate degree from the University of California, Berkeley College of Engineering. She worked at McKinsey & Company for seven years as an Associate Partner before joining the Bank in 2005 as a coordinator in the Bank's Retail Banking division. In March 2012, Ms. Baser was appointed to her current position.

Aydın Düren

Mr. Düren graduated from the Law Department of Istanbul University and the master of laws program at American University's Washington College of Law. He worked as a lawyer, managing partner and co-founder at various companies. He was appointed as the Executive Vice President for Legal Services in 2009.

B. Ebru Edin

Mrs. Edin graduated from the Civil Engineering Department of Boğaziçi University. She has been the Executive Vice President of the Bank's Project Finance Department since 2009. She worked as a senior executive at various private banks prior to joining the Bank in 1997.

Ali Fuat Erbil, PhD

Mr. Erbil graduated from the Computer Engineering Department of Middle East Technical University. He obtained an MBA from Bilkent University and a PhD in Banking and Finance from Istanbul Technical University. After working as an executive at various private companies and banks, he joined the Bank as the Senior Vice President of the Distribution Channels Department in 1997. Mr. Erbil served as the Executive Vice President of Retail Banking and Distribution Channels between the years 1999 to 2012 where he was also responsible for mortgages and private banking. In 2012, Mr. Erbil was appointed as the Executive Vice President of Financial Institutions and Corporate Banking. He is also a board member of Garanti Pension and Life, Garanti Securities and Garanti Bank Pension Fund Foundation.

Halil Hüsnü Erel

Mr. Erel graduated from the Electronics and Communications Engineering Department of Istanbul Technical University. Prior to joining the Bank he served as an executive at various private companies and banks. He joined Garanti Teknoloji as General Manager in 1994 and was appointed to his current position in 1997. Mr. Erel is a board member of Garanti Payment Systems.

Gökhan Erün

Mr. Erün earned an undergraduate degree from the Electronics and Communications Department of Istanbul Technical University and a graduate degree from the Business Administration Department of Yeditepe University. He joined the Bank's Treasury Department in 1994 and served as Senior Vice President of the Commercial Marketing and Sales Department between 1999-2004. He became CEO of Garanti Pension and Life in September 2004 and was appointed to his current position in 2012. Mr. Erün is Chairman of T. Garanti Bankası A.Ş. Emekli ve Yardım Sandığı Vakfı, Vice Chairman of Garanti Pension and Life and Teacher's Academy Foundation and a board member of Eureko Sigorta A.Ş., Garanti Asset Management and Garanti Securities.

Onur Genç

Mr. Genç graduated from the Department of Electrical and Electronics Engineering at Boğaziçi University and earned his graduate degree from Business Administration at Carnegie Mellon University. He started his career in 1996 in the US and, prior to joining the Bank, he held the position of Senior Partner and Country Director at a global management consultancy. In March 2012, Mr. Genç joined the Bank as Executive Vice President responsible for Retail and Private Banking. In May 2012, Mr. Genç's responsibilities were extended as a result of his appointment as Chief Executive Officer of Garanti Payment Systems.

Turgay Gönensin

Mr. Gönensin graduated from the Business Administration Department of Boğaziçi University. In 1987 he joined the Bank, where he worked at various departments. Between 1997-2000, he served as CEO of Garanti Bank International and was the CEO of Osmanlı Bankası from 2000-2001. Mr. Gönensin was appointed to his current position in 2012 and is the Vice Chairman of Garanti Leasing and Garanti Factoring and a board member of GBI.

F. Nafiz Karadere

Mr. Karadere graduated from the International Relations Department of Ankara University. He worked as a senior executive at various private banks and was appointed to his current position in 1999. Mr. Karadere is a board member of Garanti Pension and Life, Garanti Payment Systems and Teacher's Academy Foundation.

Adnan Memiş

Mr. Memiş obtained an undergraduate degree from the Economics Department of Istanbul University and a graduate degree from the Managerial Economics Institute of the same university. He joined the Bank as an Assistant Internal Auditor in 1978 and was appointed to his current position in 1991. Mr. Memiş is currently the President of the Financial Restructuring

Working Group of the Banks Association of Turkey, a director of Darüşşafaka Association and T. Garanti Bankası A.Ş. Emekli ve Yardım Sandığı Vakfı and Leader of Denizyıldızları Project Group.

Murat Mergin

Mr. Mergin graduated from the Economics and Finance Departments of City University of New York. He assumed executive responsibilities in various private banks before joining the Bank in 1994. Mr. Mergin was appointed to his current position in 2002.

Aydın Şenel

Mr. Şenel graduated from the Commercial Sciences Faculty of Marmara University. Between 1981 and 1999, he worked as Internal Auditor, Head of the Human Resources, Credit Cards Manager, Financial Analysis Coordination Manager and Financial Monitoring Manager at the Bank. Mr. Şenel was appointed as the Head of General Accounting in 1999 and promoted to his current position in 2006. He is Vice Chairman of T. Garanti Bankası A.Ş. Emekli ve Yardım Sandığı Vakfı.

Erhan Adalı

Mr. Adalı graduated from the Public Administration Department of Istanbul University. He joined the Bank as an Internal Auditor in 1989 and was appointed to his current position in 2012 after working as the CEO of Garanti Insurance.

Recep Baştuğ

Mr. Baştuğ graduated from the Economics Department of Cukurova University. He joined the Bank as an Internal Auditor in 1989 and was appointed to his current position in 2012 after working as the Commercial Banking Marketing Department Coordinator.

Conflicts of Interest

Except as described below, there are no actual or potential conflicts of interest between the duties of any of the Directors and any of the Executives and their respective private interests or other duties:

Under the terms of the Shareholders' Agreement, BBVA and the Doğuş Shareholders have agreed to vote their shares in the Bank to procure that each of the Directors are, during the term of the agreement, appointed by BBVA and/or members of the Doğuş Group. Furthermore, a number of Directors, including the Bank's Chairman, also currently hold management positions at BBVA or Doğuş Holding. As such, there may be a conflict of interest between the Directors' respective duties to the Bank and any duties they may owe to either BBVA or the Doğuş Group.

Address

The business address of the Bank's executive management and the Board of Directors is Garanti Bank's headquarters at Nispetiye Mahallesi, Aytar Caddesi No: 2 Levent, Beşiktaş 34340, Istanbul, Turkey. The Bank's telephone number is +90 212 318 18 18.

Corporate Governance

In connection with the Bank's corporate governance obligations, the Bank's Board of Directors has established various committees (or directors participate in certain Bank committees) that have been given primary responsibility for certain matters relating to the operation of the Bank. These committees include, among others, the Credit Committee, the Assets and Liabilities Committee, the Remuneration Committee, the Corporate Governance Committee and multiple risk management committees. Certain information relating to these committees and their members is set out below.

Credit Committee

In accordance with the Banking Law, the Board of Directors has delegated a certain amount of its loan allocation authority to the Bank's Credit Committee. The Credit Committee holds weekly meetings to review loan proposals sent by the branches to the head office that exceed the head office's loan authorization limit. The Credit Committee reviews these loan proposals, decides on those that are within its approval limits and submits those that exceed its authorized limits but it deems appropriate to the full Board of Directors for further review.

The Directors currently on the Credit Committee are Messrs. Özen, Sözen, Esirtgen, Torres Vila and Castro Aladro.

The individuals named below may attend the meetings of the Credit Committee to facilitate information being delivered throughout the organization notwithstanding that they are not permanent members of the committee: Erhan Adalı (Executive Vice President), Turgay Gönensin (Executive Vice President), Ali Fuat Erbil (Executive Vice President), B. Ebru Dildar Edin (Executive Vice President), Mustafa Tiftikçioğlu (Coordinator), Recep Baştuğ (Executive Vice President), Fulya Göyenç (Senior Vice President) and Emre Hatem (Senior Vice President).

Assets and Liabilities Committee

The Committee is chaired by the Chief Executive Officer and holds weekly meetings. The ALCO is charged with managing the assets and liabilities of the Bank, and its objective is to assess interest rate risk, exchange rate risk, liquidity risk, and market risks. Based upon these assessments and taking into account the Bank's strategies and competitive conditions, the Committee adopts the decisions to be executed by the relevant units in relation to the management of the Bank's balance sheet and monitors their practices.

The Directors currently on the Assets and Liabilities Committee are Messrs. Özen, Sezgin and Sanchez-Harguindey.

The individuals named below may attend the meetings of the Assets and Liabilities Committee to facilitate information being delivered throughout the organization notwithstanding that they are not permanent members of the committee: Hüsnü Erel (Executive Vice President), Turgay Gönensin (Executive Vice President), Nafiz Karadere (Executive Vice President), Ali Fuat Erbil (Executive Vice President), Aydın Şenel (Executive Vice President), Onur Genç (Executive Vice President), Didem Başer (Executive Vice President), Erhan Adalı (Executive Vice President), Gökhan Erün (Executive Vice President), Ebru Dildar Edin (Executive Vice President), İbrahim Aydınlı (Financial Coordinator), Alpaslan Özbey (Executive Vice President), Murat Mergin (Executive Vice President), Recep Baştuğ (Executive Vice President), Esra Kıvrak (Coordinator), Burak Ali Göçer (Coordinator), Mahmut Akten (Senior Vice President), Aydın Güler (Coordinator), Metin Kılıç (Senior Vice President), Ali İhsan Gelberi (Senior Vice President), Handan Saygın (Senior Vice President), Ebru Ogan Knottnerus (Senior Vice President), Batuhan Tufan (Senior Vice President), Çağrı Memişoğlu (Senior Vice President) and Fulya Göyenç (Senior Vice President).

Remuneration Committee

Established on January 1, 2012 according to the Regulation regarding Corporate Governance Principles of Banks published by the BRSA, the Remuneration Committee is fully operational in accordance with such regulation. The establishment and operation of this committee satisfy also the Corporate Governance Communiqué requirements. The Remuneration Committee reports directly to the Board of Directors.

The Committee is responsible for:

- overseeing the execution of the monitoring and auditing processes required to ensure that the Bank's remuneration policies and practices comply with applicable laws, regulations and risk management principles,

- reviewing the Bank's remuneration policy annually to ensure compliance with applicable laws and regulations in Turkey as well as with market practices and updating the remuneration policy as required,

- presenting a report including findings and proposed action plans to the Board of Directors at least one time per calendar year, and

- setting and approving salary packages for executive and non-executive members of the Board of Directors, the CEO and the Executive Vice Presidents.

The Directors currently on the Remuneration Committee are Messrs. Şahenk and Deschamps Gonzalez.

Corporate Governance Committee

The Bank's Board of Directors established a Corporate Governance Committee at its meeting held on February 14, 2013 in order to comply with the requirements of both the Regulation regarding Corporate Governance Principles of Banks published by the BRSA and the Corporate Governance Communiqué. This committee is responsible for:

- monitoring the Bank's compliance with the corporate governance principles,

- performing improvement studies,

- determining independent director nominees, and

- offering any possible suggestions to the Board of Directors.

The Directors currently on the Corporate Governance Committee are Messrs. Sezgin and Sanchez-Harguindey.

Risk Management Committees

The Bank's Board of Directors has established various committees tasked with overseeing identified categories of risk in the Bank's operations and portfolio, including the Audit Committee and the Liquidity Risk Management Committee. Please see "Risk Management" for further information.

Audit Committee. The Audit Committee is comprised of two non-executive members of the Board of Directors. The Audit Committee was set up to assist the Board of Directors in the performance of its audit and supervision functions and is responsible for:

- monitoring the effectiveness, operation and adequacy of the Bank's internal control, risk management and internal audit systems and accounting and reporting systems in accordance with applicable regulations and the integrity of resulting information,

- ensuring that the internal audit functions of entities that are subject to consolidation are performed in a consolidated and coordinated manner, including monitoring their compliance with internal control regulations and internal policies and procedures approved by the Board of Directors,

- monitoring whether the auditors perform their duties in an independent and unbiased manner,

- performing the preliminary studies required for the election of independent audit firms and regularly monitoring their activities, evaluating outsourcing service companies and monitoring the services provided, and

- confirming that the financial reports of the Bank and the Group are accurate, contain all necessary information and are prepared in accordance with applicable legislation (and ensuring that errors and irregularities are resolved).

In this context, the duties and authorities of the Audit Committee are defined as follows:

- monitoring compliance with regulations regarding internal control, internal audit and risk management and with internal policies and procedures approved by the Board of Directors and advising the Board of Directors on measures that are deemed necessary,
- monitoring the Internal Audit Unit's fulfillment of its obligations in accordance with internal policies,
- verifying that the internal audit system covers existing and planned activities of the Bank, including risks arising from such activities, and reviewing the Bank's internal audit regulations, which will become effective upon the approval of the Board of Directors,
- advising the Board of Directors on the election and dismissal of the managers of internal systems units reporting to the Audit Committee,
- monitoring whether auditors perform their duties in an independent and unbiased way,
- reviewing internal audit plans,
- monitoring the measures taken by senior management and affiliated units in response to issues identified by auditors and independent auditors,
- confirming that methods, tools and procedures are in place to identify, measure, monitor and control the Bank's risks,
- reviewing and evaluating the independent auditing firm's conclusions relating to the Bank's accounting practices' compliance with applicable legislation,
- confirming that the rating agencies, independent auditing firms and valuation firms with which the Bank enters contracts (including their managers and employees) are able to act independently in their dealings with the Bank and confirm that adequate resources have been set aside for these purposes,
- evaluating the risks involved in the support services obtained by the Bank and monitoring the adequacy of the support services provided by the relevant firms, and
- ensuring that the financial reports of Garanti Bank are accurate, contain all necessary information and are drawn up in accordance with applicable legislation and ensuring that any identified errors and irregularities are corrected.

The committee members are Messrs. Sezgin and Sanchez-Harguindey.

Liquidity Risk Management Committee. The duties and responsibilities of the Liquidity Risk Management Committee (“*LRMC*”) include:

- determining the Bank's excess liquidity held in foreign currencies,
- reviewing the various liquidity risk management reports and monitoring early warning signals,
- determining the Bank's present stress level and monitoring internal and external data that may affect the Bank's liquidity in a liquidity crisis,
- ensuring the execution of the Bank's liquidity contingency action plan, and

- creating a strategy to ensure the Bank's safe operation, cost of funding, profitability and customer confidence and ensuring internal communication and coordination within the Bank to ensure the implementation of its decisions.

The Directors on the committee are Messrs. Özen and Sezgin. Various executives of the Bank are also on this committee, including Barış Karaayvaz (Senior Vice President), Ebru Ogan Knottnerus (Senior Vice President) and Metin Kılıç (Senior Vice President).

Anti-Fraud Monitoring Committee. The Anti-Fraud Monitoring Committee is chaired by a non-executive Board Member. Committee members include the Senior Vice Presidents and Executive Vice Presidents of Technology and Operation Services, Branchless Banking and Retail Loans, the Executive Vice President in charge of Retail Banking and the Executive Vice President in charge of Finance and Risk Management of Garanti Payment Systems, the Senior Vice President of the Anti-Fraud Monitoring Department, the Director of the Internal Audit Department and the Senior Vice President of the Internal Control Unit.

The Anti-Fraud Monitoring Committee is responsible for:

- providing feedback and suggestions regarding the strategies and precautionary actions performed by the Anti-Fraud Monitoring Department to prevent external fraud attempts and incidents,

- providing feedback on the strategies and precautionary actions that are implemented or in the process of implementation to prevent fraud attempts and incidents and to minimize resulting financial and non-financial losses,

- assessing the impact of new products and processes to be launched at the Bank to address fraud risk and providing suggestions when necessary,

- communicating all decisions regarding strategies and precautionary actions carried out by the Anti-Fraud Monitoring Department to the business lines in a timely manner, and

- creating a corporate culture of fraud prevention and awareness.

The Director on the committee is Mr. Sezgin. Various executives of the Bank are also on this committee, including Hüsnü Erel (Executive Vice President), Onur Genç (Executive Vice President), Ali Fuat Erbil (Executive Vice President), Didem Başer (Executive Vice President), Erhan Adalı1 (Executive Vice President), Beyhan Kolay (Senior Vice President), Osman Bahri Turgut (Director of Internal Audit Department), Faruk Ergin (Senior Vice President), Alpaslan Özbey (Garanti Payment Systems Executive Vice President), Deniz Güven (Senior Vice President), Emre Özbek (Senior Vice President), Feridun Aktaş (Senior Vice President).

Sustainability Committee. Established in 2010, the Sustainability Committee is chaired by a non-executive Board Member. Committee Members include the Executive Vice Presidents of Support Services, Loans and Project Finance, a Corporate and Commercial Loans Coordinator, the Senior Vice Presidents of Project Finance, Investor Relations, Financial Institutions, Corporate Brand Management and Marketing Communications and Internal Control and Compliance. Direct Impact and Indirect Impact task forces were established to evaluate risks arising from the Bank's direct or indirect impact on the environment.

The Sustainability Committee is responsible for:

- monitoring energy consumption, waste, and similar matters, as well as assessing risks that might arise from the Bank's direct impact on the environment,

- overseeing the assessment of risks that might result from indirect environmental, social and economic effects via projects and other loans financed and providing feedback to relevant decision-making bodies when necessary,

- ensuring the development of an environmental impact assessment system at the Bank to be employed in loan disbursement processes,

- establishing necessary task forces to guarantee the effectiveness of sustainability-related activities and efforts,

- supervising the activities of task forces so formed, and

- providing information to the Board of Directors on the committee's activities when needed.

The Director on the committee is Mr. Sezgin. Various executives of the Bank are also on this committee, including Adnan Memiş (Executive Vice President), Erhan Adalı (Executive Vice President), Ebru Dildar Edin (Executive Vice President), Mustafa Tiftikçioğlu (Coordinator), Emre Hatem (Senior Vice President), Handan Saygın (Senior Vice President), Elif Güvenen (Senior Vice President), Batuhan Tufan (Senior Vice President), Emre Özbek (Senior Vice President), İnci Soysal (Senior Vice President), Sedef Alpay (Senior Vice President).

Basel Steering Committee. The Committee is formed by a Board Member, the Executive Vice Presidents of Technology and Operation Services, Loans, General Accounting and Financial Reporting, Treasury, Financial Institutions and Corporate Banking, and the Financial Coordinator. An execution committee was also set up under the committee, as well as task forces thereunder.

The Basel Steering Committee is responsible for:

- ensuring the Bank's alignment with Basel guidelines,

- creating the Bank's Basel roadmap and obtaining the approval of the Board of Directors therefor,

- approving and monitoring efforts to be undertaken to achieve compliance with Basel guidelines,

- setting up task forces and planning the human resources for such acticities, and

- planning, determining and supervising the activities of the task forces.

The Director on the committee is Mr. Sezgin. Various executives of the Bank are also on this committee, including Hüsnü Erel (Executive Vice President), Erhan Adalı (Executive Vice President), Aydın Şenel (Executive Vice President), Ali Fuat Erbil (Executive Vice President), İbrahim Aydınlı (Financial Coordinator).

Other Risk Management Committees. Sub-committees for market risk, credit risk and operational risk have been set up to facilitate exchange of information and views with the relevant units of the Bank and to promote the use of risk management and internal audit systems within the Bank. These include:

(a) The market risk committee, which monitors market risk arising from trading activities, interest rate risk arising from maturity mismatches, liquidity risk, risk limits and limit utilizations of the trading portfolio and ensures flow of information on changes in the positions exposed to market risk. The committee also reviews the scenarios created and the models and assumptions employed by the Bank to identify the Bank's risk exposure, evaluates their relevance and ensures that necessary adjustments are made. In addition, the committee discusses market projections and evaluates potential risks associated with a new position prior to making any major change in the positions held.

(b) The credit risk committee, which monitors the effectiveness of the methods and models that are being used to measure credit risk results and ensures flow of information on changes in the positions exposed to credit risk.

(c) The operational risk committee, which performs activities related to the control and management of an operational risk loss database and the follow-up of actions to be taken. The committee also coordinates key risk indicators, risk and control self-assessment and operational risk scenario analysis activities so as to roll them out across the Bank.

Compensation

The Group aims to provide compensation that allows it to attract and retain individuals with the skills necessary to manage successfully and grow its business. The Group's compensation policy seeks to provide total compensation that is competitive with other financial organizations similar to it in terms of size and complexity of operations. The Group's policy is to link a significant portion of its senior executives' compensation to the performance of the business through incentive plans. Therefore, in structuring remuneration packages, the Group aims to link potential rewards to the performance of the business, as well as to the performance of the individual.

Since the Board of Directors has delegated its authority to determine the remuneration of the Directors and Executives, including the Bank's President and CEO, to the Remuneration Committee, this committee determines the remuneration paid to the Directors and the Executives.

The total remuneration paid to the Executives and the Directors (including deferred or contingent compensation accrued for the year and benefits in kind) during 2012 amounted to approximately TL 82,512 thousand.

There is no private pension plan paid for by the Bank for its executives other than the fund for all its Turkish employees (T. Garanti Bankası A.Ş. Emekli ve Yardım Sandığı Vakfı – Retirement and Support Fund), which fund has similar liabilities to Turkey's Social Security Institution. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Significant Accounting Policies – Defined Benefit Plan."

The Group does not have any directors' service contracts providing for benefits upon termination of employment, nor does it offer any share-based incentive programs to directors or employees.

OWNERSHIP

The Bank was established in 1946 as a partnership of 103 businessmen. In 1975, a 56% interest in the Bank was acquired by Koç Holding and a 33% interest by Sabancı Holding. In 1983, the two groups sold their shareholdings in the Bank to Mr. Ayhan Şahenk and various companies of the Doğuş Group. These companies are now controlled by the Bank's Chairman, Mr. Ferit Şahenk, after the death of Mr. Ayhan Şahenk in 2001.

Under the terms of an agreement between Doğuş Holding and GEAM, on December 22, 2005, GEAM acquired from Doğuş Holding 53,550,000,000 shares in the Bank (representing 25.50% of the shares in the Bank then in issue) for a cash consideration of US$1,555.5 million and 49.2% of the Bank's founders' shares for a cash consideration of US$250 million, making a total cash consideration of US$1,805.5 million. The parties also entered into a shareholders' agreement under which the Bank became jointly-controlled by the Doğuş Group and GEAM. In connection with this transaction, GEAM acquired certain additional shares of the Bank in a tender offer.

On December 24, 2007, GEAM transferred 53,550,000,000 shares in the Bank (representing 4.65% of the shares in the Bank then in issue) back to the Doğuş Group for a consideration of US$674.3 million. This transaction reduced GEAM's holding in the Bank to 20.85% with a 30.52% interest being controlled (directly and indirectly) by Doğuş Holding.

All but two of the Bank's founders' shares were purchased by the Bank and cancelled on March 1, 2010. The remaining founders' shares do not have any dividend or other rights but the owners of such founders' shares have a right to redeem such shares for the sum of TL 3,876,307.00 each.

On March 22, 2011, BBVA acquired 26,418,840,000 shares in the Bank (representing 6.29% of the shares in the Bank then in issue) from the Doğuş Shareholders and 78,120,000,000 shares in the Bank (representing 18.6% of the shares in the Bank then in issue) from (*inter alia*) GEAM.

On April 7, 2011, BBVA acquired 503,160,000 shares in the Bank, thereby increasing its shareholding in the Bank to 25.01% of the Bank's share capital.

The Bank's shares are traded on the Istanbul Stock Exchange. The Bank has established Level I and Rule 144A American Depositary Share facilities that provide for the conversion of shares in the Bank into American Depositary Shares and vice versa. The Bank of New York Mellon acts as the depositary bank and, at present, the American Depositary Shares are tradable on the Market and on OTCQX International Premier (the US over-the-counter market).

The Shareholders' Agreement

The Doğuş Shareholders and BBVA are parties to the Shareholders' Agreement pursuant to which they have agreed to act in concert, thereby enabling them to establish a significant voting block in the Bank. None of the Bank, GE Capital Corporation or GEAM are parties to the Shareholders' Agreement.

Shareholdings

The Bank's issued shares are held as follows:

Shareholder	Shares held	% of issued share capital	% of voting rights
Doğuş Shareholders(1)	101,747,654,520	24.89%	24.95%
BBVA(1)	105,042,000,000	25.01%	24.95%
Other shareholders	213,210,345,480	50.10%	50.10%
Total	**420,000,000,000**	**100.00%**	**100.00%**

(1) Pursuant to the shareholders' agreement to which they are party, the Doğuş Shareholders and BBVA have agreed that, prior to the occurrence of certain events, they will each exercise an equal number of voting rights in the shares in the Bank held by each of them. As such, the Doğuş Shareholders and BBVA each exercise voting rights equivalent to 24.95% of the Bank's issued share capital.

As far as the Bank is aware, other than BBVA and the Doğuş Shareholders, no other person holds a greater than 5% interest in the issued share capital of the Bank.

The Doğuş Group

Established in 1951, the Doğuş Group is owned by the Şahenk family and is one of Turkey's largest private sector conglomerates, having TL 53.821 billion in assets as of September 30, 2012and TL 7.881 billion in revenues for the first nine months of 2012. The Doğuş Group provides services in sectors including:

- *Financial Services*: The financial services business is the flagship of the Doğuş Group, and the Bank is the flagship of the Doğuş Group's financial services business.

- *Automotive:* Doğuş Otomotiv is the leading automotive importer and one of the biggest automotive distributors in Turkey. The company represents 14 leading international brands in the following sectors: passenger cars, light commercial vehicles, heavy commercial vehicles, industrial and marine engines, and cooling systems. Doğuş Otomotiv is able to offer its individual and corporate customers with a portfolio of more than 80 models within the following brands: Volkswagen passenger cars, Audi, SEAT, Skoda, Bentley, Bugatti, Lamborghini, Porsche, Volkswagen commercial vehicles, Scania, Krone and Meiller. In addition, the company competes in the industrial and marine engines market by representing Scania Engines and in the cooling systems market by representing Thermo King. Aside from its activities in automotive financing, spare parts and accessories, logistics, customer services, used car dealership, fleet management and leasing, vehicle inspection and insurance, Doğuş Otomotiv has also heavily invested in production. In addition to the "Meiller Doğuş Damper" factory established in 2008 in Sakarya with the partnership of leading damper producer Meiller, the establishment of a trailer factory in Tire, İzmir is finalized and is ready to start production. Doğuş Otomotiv also is involved in new investments to convey its successful operations overseas. As a result of the close cooperation developed with VW Group, the company has opened D-Auto Suisse SA, a Porsche Dealer and Service station.

- *Construction*: The Doğuş Group is currently one of the most active participants in the Turkish regional construction market. Construction activities are diversified and include large infrastructure projects (such as dams and hydroelectric power plants, tunnels, highways, roads, bridges, viaducts, over and under passages and buildings) as well as industrial plants and social facilities.

- *Media*: The Doğuş Media Group is one of the leading companies in the Turkish media industry. Since 1999, the group has created/acquired many brands and now cooperates with global brands and organizations such as: MSNBC, CNBC, Condé Nast, Virgin and National Geographic. The group operates eight television channels, eight radio stations, seven periodicals, seven internet portals and NTV Publications, reaching over 50 million people. Star, NTV and CNBC-e are the group's flagship television channels.

- *Tourism:* The Doğuş Tourism Group consists of 12 facilities. The Doğuş Group undertakes joint ventures with Hyatt International LLC, HMS International Hotel GMBH, Giorgio Armani S.p.A., Guccio Gucci S.p.A., Loro Piana S.p.A., Hublot S.A. and Porsche Co. KG. The Doğuş Group owns six 5 star hotels and a boutique hotel.

- *Marinas:* D Marin Group owns the largest international chain of marinas in the eastern Mediterranean basin and Adriatic Sea. D Marin Group commenced its operations in 2003 with its first marina, D Marin Turgutreis. D Marin Group's operations include D Marin Turgutreis, Didim, Göcek in Turkey, Mandalina Marina, Marina Dalmacija, Marina Borik in Croatia and Zea Marina, Gouvia Marina and Lefkas Marina in Greece.

- *Real Estate*: The Doğuş Group is also active in the Turkish real estate sector, managing a large estate portfolio owned by the Doğuş Group and working on potential developments in relation to proposed residential, commercial, hospitality and logistics projects. The Doğuş Group operates İstinye Park (one of Turkey's leading shopping malls) as well as Gebze Center (the region's first shopping center).

- *Energy:* The Doğuş Group has interests in hydroelectric and other clean and/or renewable energy sources. The group has designated new investment projects as well as the operation of these assets and energy trading as the core areas of its energy business. Its current portfolio has 1 GW licensed installed capacity, comprising Artvin Hydroelectric Power Plant (332 MW), in which D Energy holds 100% share, the Boyabat Hydroelectric Power Plant (513 MW), in which it holds a 34% share, and the Aslancık Hydroelectric Power Plant (120 MW), in which it holds a 33% share. The total amount of investments of these three projects exceeds US$2,280 million.

- *Entertainment, Food and Beverage:* The Doğuş Group currently promotes 37 brands and 73 operations in the food and beverage and entertainment industries and seeks to expand operations into areas such as production and distribution.

(*Source: Doğuş Group*)

BBVA

The BBVA Group is a global retail financial group founded in 1857 that provides its customers around the world a full range of financial and non-financial products and services. The BBVA Group has a presence in 33 countries and has approximately 115,850 employees. As of December 31, 2012, the BBVA Group's consolidated total assets were €637,860 million and its net attributable profit for 2012 was €1,676 million.

On an operational basis, the BBVA Group subdivides its business into the following geographic business units:

- banking, pension and insurance businesses in Spain and Portugal,
- banking and insurance businesses in Mexico,
- banking business in the US and Puerto Rico, and
- banking and insurance businesses in the South American region.

Additionally, the BBVA Group has two cross-sectional business units segmented by customer type:

- *Corporate & Investment Banking*: this unit includes the services and products provided by the BBVA group to large companies and corporations. It is also responsible for the group's operations in Asia.
- *Retail Bank*: this unit comprises the group's activities in retail banking, SME and commercial banking, insurance, payment systems, consumer finance, asset management and private banking. It is also responsible for the group's operations in Turkey.

(Source: BBVA)

Dividends and Dividend Policy

In accordance with Turkish law, the distribution of profits and the payment of any annual dividend in respect of the preceding fiscal year are recommended by the Bank's Board of Directors each year for approval by the Bank's shareholders at the annual shareholders' meeting, which must be held following the end of the preceding fiscal year. In addition, while not required by law, Turkish banks (including the Bank) generally consult with the BRSA before announcing any dividends. The Bank's dividend policy in recent years has been to reinvest a substantial portion of the cash amount of any dividends in its capital.

Each common share of the Bank entitles the holder thereof to the same amount of dividend. Distribution of dividends can be made in the form of cash or bonus shares.

In accordance with the new corporate governance rules, the Bank will form a written dividend policy and submit it for the approval of its shareholders at the general assembly meeting scheduled to take place in April 2013. Subsequently the Bank will publish such policy in the upcoming years' annual reports and on its web-site.

RELATED PARTY TRANSACTIONS

During the period from January 1, 2010 to the date of this Offering Circular, the Group had three types of exposure to related parties: its ownership in certain Doğuş Group companies, loans extended to the Doğuş Group, GEAM and its affiliates (the "*GE Group*") and, from March 22, 2011, BBVA and its affiliates (the "*BBVA Group*") and guarantees and other contingent liabilities issued on behalf of such entities. All of the related-party credit applications must go through the Group's normal credit review process. All extensions of credit to the related parties are made on an arm's-length basis and the credit and payment terms in respect of such credits are no more favorable than those offered to third parties.

Turkish banking regulations limit exposure to related parties to 20% of the total capital, and the Group's exposure to the Doğuş Group, the BBVA Group and the GE Group are well within the limit permitted by the regulations. See "Turkish Regulatory Environment – Lending Limits." The following tables indicate the level of the Group's relationships with members of the Doğuş Group, the BBVA Group and the GE Group (for dates as of which they were related parties of the Group) as of the dates indicated:

Doğuş Group	**As of December 31,**		
	2010	**2011**	**2012**
	(TL thousands)		
Equity interests in Doğuş Group companies (other than the Bank's own subsidiaries)	996	996	576
As a % of assets	0.0%	0.0%	0.0%
As a % of shareholders' equity	0.0%	0.0%	0.0%
Cash loans	255,431	357,236	442,286
As a % of assets	0.2%	0.2%	0.2%
As a % of shareholders' equity	1.5%	2.0%	2.0%
Contingent obligations	380,973	553,757	497,366
As a % of contingent obligations	2.3%	2.5%	2.1%
As a % of shareholders' equity	2.3%	3.1%	2.3%
Total Doğuş Group Exposure	**637,400**	**911,989**	**940,228**

BBVA Group	**As of December 31,**		
	2010	**2011**	**2012**
	(TL thousands)		
Cash loans	-	26	34
As a % of assets	-	0.0%	0.0%
As a % of shareholders' equity	-	0.0%	0.0%
Contingent obligations	-	32,708	119,076
As a % of contingent obligations	-	0.1%	0.5%
As a % of shareholders' equity	-	0.2%	0.5%
Total BBVA Group Exposure	**-**	**32,734**	**119,110**

GE Group	As of December 31,		
	2010	2011	2012
	(TL thousands)		
Cash loans	61,031	-	-
As a % of assets	0.0%	-	-
As a % of shareholders' equity	0.4%	-	-
Contingent obligations	43,836	-	-
As a % of contingent obligations	0.3%	-	-
As a % of shareholders' equity	0.3%	-	-
Total GE Group Exposure	**104,867**	**-**	**-**

The Group's exposure to the Doğuş Group and the BBVA Group is principally denominated in foreign currencies as was the case for the GE Group. All the related-party loans are performing and the Group has never had to take provisions for, or to write-off any loan to, any of the companies of the Doğuş Group, the BBVA Group or the GE Group.

The contingent exposure to the Doğuş Group, the BBVA Group and the GE Group primarily consists of bid bonds and performance bonds provided in connection with construction contracting work awarded mainly to the Doğuş Group.

The Group had deposits from members of the Doğuş Group, the BBVA Group and the GE Group as of December 31, 2010, 2011 and 2012 as follows:

	As of December 31,		
	2010	2011	2012
	(TL thousands)		
Doğuş Group	514,701	1,431,387	278,106
BBVA Group	-	25,649	35,278
GE Group	142,157	-	-

On March 22, 2011, BBVA acquired certain of the Bank's shares owned by Doğuş Holding A.Ş. and General Electric Capital Corporation, representing 6.2902% and 18.60% of the Bank's share capital at that date, respectively. On April 7, 2011, BBVA acquired further shares in the Bank, increasing its interest to 25.01% of the Bank's share capital at that date.

Please refer to the IFRS Financial Statements included elsewhere in this Offering Circular for additional information on related party transactions.

TURKISH BANKING SYSTEM

Structural Changes in the Turkish Banking System

The Turkish financial sector has gone through major structural changes as a result of the financial liberalization program that started in the early 1980s. The abolition of directed credit policies, liberalization of deposit and credit interest rates and liberal exchange rate policies as well as the adoption of international best standard banking regulations have accelerated the structural transformation of the Turkish banking sector. Since the 1980s, the Turkish banking sector has experienced a significant expansion and development in the number of banks, employment in the sector, diversification of services and technological infrastructure. The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001, this resulted in the collapse of several institutions. The banking sector also experienced a sharp reduction in shareholders' equity in 2001, with the capital for 22 private sector banks declining to US$4,916 million at the end of 2001 from US$8,056 million for 28 banks at the end of 2000, according to the Banks Association of Turkey.

The Turkish money markets and foreign exchange markets have stabilized since 2001, in large part due to regulatory reform and other governmental actions (including a three-part audit undertaken in 2001 and 2002, after which all private commercial banks were either found to be in compliance with the 8% minimum capital requirement, transferred to the SDIF or asked to increase their capital level). The transparency of the system has improved along with the establishment of an independent supervisory and regulatory framework and new disclosure requirements. Structural changes undertaken have strengthened the private banking sector and resulted in a more level playing field among banks. Certain advantages for state banks were diminished while the efficiency of the system increased in general as a result of consolidation. According to the SDIF's official data, since *1994*, a total of 25 private banks have been transferred to the SDIF due to, among other things, weakened financial stability and liquidity, and efforts are continuing on the resolution of the SDIF banks while restructuring and privatization of the state banks is progressing.

In August 2004, in an attempt to reduce the regulatory costs inherent in the Turkish banking system, the government reduced the rate of the Resource Utilization Support Fund ("*RUSF*") applicable on short-term foreign currency commercial loans lent by banks domiciled in Turkey to zero; *however*, the 3% RUSF charge for some types of loans provided by banks outside of Turkey with an average repayment term of less than one year remains valid. The government also increased the RUSF charged on interest of foreign currency-denominated retail loans from 10% to 15% in order to curb domestic demand fueled by credit, which was in turn perceived to be adversely affecting Turkey's current account balance. The Council of Ministers determined the RUSF charged on consumer credits to be utilized by real persons (for non-commercial utilization) to 15% with its decision numbered 2010/974, which was published in the Official Gazette dated October 28, 2010 and numbered 27743.

The Turkish Banking Sector

The Turkish banking industry has undergone significant consolidation over the past decade with the total number of banks (including deposit-taking banks, investment banks and development banks) declining from 81 in 1999 to 45 on December 31, 2008, which stayed at that level until February 2011 when Fortis Bank A.Ş. merged with Turk Ekonomi Bankası A.Ş. In October 2012, Odea Bank A.Ş. commenced operations. A number of banks were transferred to the SDIF and eventually removed from the banking system through mergers or liquidations.

The table below shows the evolution of the number of banks in the Turkish banking system as of the end of each indicated year.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of banks.................	54	50	48	47	46	46	45	45	45	44	45

Source: Banks Association of Turkey (www.tbb.org.tr)
Note: Total number of banks includes deposit-taking banks, investment banks and development banks, but excludes participation banks (Islamic banks).

As of December 31, 2012, 45 banks were operating in Turkey, including the newest Turkish bank (Odea Bank A.Ş.), which was granted an operating license in September 2012 and is the first bank since 1997 to obtain a license to establish a deposit bank in Turkey. Thirty-two of these were deposit-taking banks and the remaining banks were investment and development banks (four participation banks, which conduct their business under different legislation in accordance with Islamic banking principles, are not included in this analysis). Among the deposit-taking banks, three banks were state-controlled banks, 11 were private domestic banks, 16 were private foreign banks and one was under the administration of the SDIF. On December 20, 2012, the BRSA resolved to permit the establishment of a new deposit bank to be controlled by Bank of Tokyo-Mitsubishi UFJ Ltd; *however*, the operating license for this bank has not yet been issued.

The Banking Law permits deposit-taking banks to engage in all fields of financial activities, including deposit collection, corporate and consumer lending, foreign exchange transactions, capital market activities and securities trading. Typically, major commercial banks have nationwide branch networks and provide a full range of banking services, while smaller commercial banks focus on wholesale banking. The main objectives of development and investment banks are to provide medium-and long-term funding for investment in different sectors.

Deposit-taking Turkish banks' total balance sheets have grown at a compound average growth rate ("*CAGR*") of 18.3% from December 31, 2005 to September 30, 2012, driven by loan book expansion and customer deposits growth, which increased by a CAGR of 25.9% and 16.8%, respectively, between December 31, 2005 and September 30, 2012, in each case according to the BRSA. Despite strong growth of net loans and customer deposits since 2005, the Turkish banking sector remains significantly under-penetrated compared with banking penetration in the Eurozone. Loans/GDP and deposits/GDP ratios of the Turkish banking sector were 48.7% and 49.5%, respectively, as of September 30, 2012 according to BRSA data, whereas the Eurozone's banking sector had loan and deposit penetration ratios of 118.0% and 114.2%, respectively, as of the same date based upon the European Central Bank's data.

The following table shows key indicators for deposit-taking banks in Turkey as of (or for the year ended on) the indicated dates.

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012[(1)]**	**CAGR**
	(TL billions, except CAGR)								
Balance sheet									
Net loans	144.7	203.2	263.7	340.5	358.4	481.9	624.8	686.0	25.9%
Total assets	384.1	470.6	543.3	683.8	773.4	932.4	1,119.9	1,193.0	18.3%
Customer deposits	243.1	296.5	342.0	435.6	487.9	583.9	656.3	692.8	16.8%
Shareholders' equity	47.5	50.4	64.5	72.1	93.8	115.0	123.0	144.7	17.9%
Income statement									
Operating income[(2)]	27.1	29.7	36.0	40.9	55.0	54.8	55.4	48.7	13.3%
Operating expenses[(3)]	13.3	13.9	16.3	19.4	20.3	23.4	26.0	21.3	11.5%
Net income	5.0	10.2	13.5	11.9	18.5	20.5	18.2	15.5	22.4%
Key ratios									
Loans/deposits	59.5%	68.5%	77.1%	78.2%	73.5%	82.5%	95.2%	99.0%	
Net interest margin[(4)]	5.6%	4.9%	5.1%	4.9%	5.8%	4.6%	4.0%	4.5%	
Cost / income[(5)]	54.4%	48.7%	46.8%	53.6%	44.2%	46.8%	51.3%	49.0%	
Return on average equity	11.4%	20.9%	23.5%	17.7%	22.3%	19.8%	15.4%	15.5%	
Capital adequacy ratio	21.6%	19.9%	17.4%	16.6%	19.3%	17.7%	15.5%	15.8%	

Source: BRSA monthly bulletin (www.bddk.org.tr)
Note: Sector data for deposit-taking banks only
(1) As of September 30, 2012.
(2) Including net interest income, net fee and commission income, net trading income including foreign exchange gain/loss, and other operating income; excluding income from sales of assets, extraordinary income / expense, net monetary position profit / loss and dividend income.
(3) Including personnel costs, administration expenses and other operating expenses.
(4) Net interest income / average interest-earning assets.
(5) Operating expenses / operating income (adjusted for provisions for loan losses and for securities).

Competition

The Turkish banking industry is highly competitive but the Bank's management believes that the Group is well-positioned to compete in the market with its market leadership position in numerous key areas, advanced infrastructure, highly qualified personnel and deep experience in the sector. The Turkish banking sector is relatively concentrated with the top 10 deposit-taking banks accounting for 90.3% of total assets of deposit-taking banks as of September 30, 2012 according to the BRSA. Among the top 10 Turkish banks, there are three state-controlled banks – Ziraat Bank, HalkBank and Vakıfbank, which were ranked second, sixth and seventh, respectively, in terms of total assets as of September 30, 2012 according to the Banks Association of Turkey. These three state-controlled banks accounted for 28.6% of deposit-taking Turkish banks' performing loans and 33.6% of total deposits as of September 30, 2012 according to the BRSA. The top four privately-owned domestic banks are Türkiye İş Bankası A.Ş. ("*Işbank*"), the Bank, Akbank A.Ş. ("*Akbank*") and Yapı ve Kredi Bankası A.Ş. ("*Yapı Kredi Bank*"), which in total accounted for approximately 50.5% of deposit-taking Turkish banks' performing loans and approximately 46.5% of total deposits as of September 30, 2012 according to the BRSA. The remaining banks in the top 10 deposit-taking banks in Turkey include three mid-sized banks, namely Finansbank A.Ş. ("*Finansbank*"), Turk Ekonomi Bankası and DenizBank A.Ş. ("*DenizBank*"), which were controlled by National Bank of Greece, BNP Paribas and Sberbank, respectively, as of September 30, 2012.

The following table shows major shareholders, key indicators and market shares of the top 10 deposit-taking banks ranked by total assets in the Turkish banking sector as of September 30, 2012 according to the Banks Association of Turkey.

Rank by Assets	Bank	Major Shareholders(1)	Assets (US$ millions)	Assets market share	Loans market share(2)	Deposits market share	Branches
1.	Işbank	Işbank pension fund (40.7%), Cumhuriyet Halk Partisi (28.1%)	93,487	14.0%	14.4%	13.7%	1,234
2.	Ziraat Bank	Treasury (100%)	86,705	13.0%	9.9%	14.6%	1,510
3.	Garanti Bank	Doğuş Group (24.2%), BBVA (25.0%)	86,597	13.0%	13.0%	12.1%	928
4.	Akbank	Sabancı Holding, affiliates and family (49.0%), Citigroup (9.9%)	84,183	12.6%	12.5%	11.6%	963
5.	Yapı Kredi Bank	Koç Financial Services(3) (81.8%)	66,240	9.9%	10.5%	9.0%	922
6.	HalkBank	Privatization Administration (51.1%)	57,185	8.6%	9.2%	10.3%	807
7.	Vakıfbank	General Directorate of Foundations (58.6%)	55,034	8.2%	9.4%	8.7%	741
8.	Finansbank	National Bank of Greece (94.8%)	27,961	4.2%	5.1%	4.2%	530
9.	Turk Ekonomi Bankası	TEB Holding (55.0%)(4), BNP Paribas (40.4%)	23,816	3.6%	4.2%	3.8%	510
10.	DenizBank	Sberbank of Russia (99.8%)	22,669	3.4%	3.8%	3.3%	600

Source: Banks Association of Turkey (www.tbb.org.tr)

Note: Rankings and market shares among deposit-taking banks only.

(1) As of December 2012

(2) Performing loans only are included

(3) Koç Financial Services is a 50/50 joint venture owned by the Unicredit Group and Koç Holding.

(4) TEB Holding is a 50/50 joint venture owned by BNPP Fortis Yatırım Holding A.Ş. and Çolakoğlu Group.

While the Group faces competition from the state-owned banks referenced above in certain products such as deposit collection and SME lending, the Bank's management perceives the other private banks as its primary competitors. The table below compares certain financial information for the Bank's branches and those of the three largest private competitors mentioned above as of September 30, 2012:

Banks	Number of Branches	Per Branch Total Assets	Loans[1]	Customer Deposits
			(TL millions)	
Garanti	928	166.5	95.5	93.2
İşbank	1,234	135.2	79.6	79.8
Akbank	963	156.0	88.6	76.1
Yapı Kredi	922	128.2	77.8	71.3

Source: BRSA and the banks' respective financial statements as of September 30, 2012.

Note: The Banks Association of Turkey's definition of "branch" varies from the Bank's definition. Therefore, the information provided above may differ slightly from what is provided elsewhere in this Offering Circular.

(1) Performing loans only are included.

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 and the Central Bank

In June 1999, the Banks Act No. 4389 established the BRSA, which is responsible for ensuring that banks observe banking legislation, supervises the application of banking legislation and monitors the banking system. The BRSA has administrative and financial autonomy. Historically, the BRSA's head office has been in Ankara; *however*, as of February 13, 2011 and pursuant to Law No. 6111, the head office was relocated to Istanbul with the migration of functions from Ankara to Istanbul to be completed within two years of such date. Pursuant to Law No. 6111, the Council of Ministers of Turkey has been authorized to extend the migration deadline as necessary.

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, 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 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 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 auditor's 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.

Official certified bank auditors, who are responsible for the on-site examination of banks, implement the provisions of the Banking Law and other related legislation, examine on behalf of the BRSA all banking operations and analyze the relationship between assets, liabilities, net worth, profit and loss accounts and all other factors affecting a bank's financial structure.

Pursuant to a regulation regarding the internal systems of banks issued by the BRSA, 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 the 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 Banks Association of Turkey

The Banks Association of Turkey acts as a limited organization of supervision 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 13% 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 authorized 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 authorization. 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 limits on the asset profile of 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 and shareholding interests. 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%. 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 Mass Housing Administration, 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 organized 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

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 November 1, 2006 (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:

I. *Standard Loans and Other Receivables*: This group involves loans and other receivables:

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

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

(3) 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

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

The terms of a bank's loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; *however*, in the event that such modification is related to the extension of the initial payment plan under the loan or receivable, a general loan provision, not being less than five times the sum of 1% of the cash loan portfolio *plus* 0.2% of the non-cash loan portfolio (letters of guarantee, acceptance credits, letters of credit undertakings and endorsements) is 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 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.

II. *Closely Monitored Loans and Other Receivables*: This group involves loans and other receivables:

(1) 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,

(2) 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,

(3) that are very likely to be repaid but where the collection of principal and interest has not been made for justifiable reasons and is delayed for more than 30 days; *however*, which cannot be considered as loans or other receivables with limited recovery as grouped in Group III below, or

(4) 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, then all of the bank's loans to such customer will be classified in this group even though some of the bank's loans to such customer would otherwise have been included in Group I above. The terms of a bank's loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; *however*, in the event that such modification is related to the extension of the initial payment plan under the loan or receivable, a general loan provision, not being less than 2.5 times the sum of 2% of the cash loan portfolio *plus* 0.4% of the non-cash loan portfolio for closely-monitored loans 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 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.

III. *Loans and Other Receivables with Limited Collection Ability*: This group involves loans and other receivables:

(1) 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,

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

(3) 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

(4) 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.

IV. *Loans and Other Receivables with Remote Collection Ability*: This group involves loans and other receivables:

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

(2) 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,

(3) 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

(4) 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.

V. *Loans and Other Receivables Considered as Losses*: This group involves loans and other receivables:

(1) that are deemed to be uncollectible,

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

(3) 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 one year.

Pursuant to Article 53 of the Banking Law, banks must calculate the losses that have arisen, or are likely to arise, in connection with loans and other receivables. Such calculations must be regularly reviewed. Banks must also reserve adequate provisions against depreciation or impairment of other assets, qualify and classify assets, receive guarantees and security and measure the reliability and the value of such guarantees and security. In addition, banks must monitor loans under review and monitor the repayment of overdue loans and establish and operate systems to perform these functions. All provisions set aside for loans and other receivables in accordance with this article are considered expenditures deductible from the corporate tax base in the year they are set aside. Pursuant to the amendment dated September 21, 2012 made on 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 on which the payment of such loans and receivables has been delayed.

The Regulation on Provisions and Classification of Loans and Receivables also requires Turkish banks to provide a general reserve calculated at 1% of the cash loan portfolio *plus* 0.2% of the non-cash loan portfolio (letters of guarantee, acceptance credits, letters of credit undertakings and endorsements) for standard loans; and a general reserve calculated at 2% of the cash loan portfolio *plus* 0.4 % of the non-cash loan portfolio for closely-monitored loans. In addition, 25% of such rates will be applied for each check that remains uncollected for a period of five years after issuance. Pursuant to the amendment dated September 21, 2012 made on Regulation on Provisions and Classification of Loans and Receivables, at least 40% of the reserve amount calculated according to the above mentioned ratios shall be reserved by December 31, 2012, at least 60% shall be reserved by December 31, 2013, at least 80% shall be reserved by December 31, 2014 and 100% shall be reserved by December 31, 2015.

Banks with consumer loan ratios greater than 20% of their total loans and banks with non-performing consumer loan (classified as frozen receivables (excluding vehicle and housing loans)) ratios greater than 8% of their total consumer loans (excluding vehicle and 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 vehicle and housing loans) under Group I, and an 8% general provision for outstanding (but not yet due) consumer loans (excluding vehicle and 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 Regulation on Equity of Banks, 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 November 1, 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 in the amounts of 20%, 50% and 100%, respectively.

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 amendment dated September 21, 2012 made to the Regulation on Provisions and Classification of Loans and Receivables, the BRSA is entitled to increase the provision rates taking into account the sector and country risk status of the borrowers.

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

Category I Collateral: Cash, deposits, profit sharing funds and gold deposit accounts that are secured by pledge or assignment agreements; repurchase agreement proceeds secured by promissory notes, debenture bonds and similar securities issued directly or guaranteed by the Central Bank, the Treasury, the Mass Housing Administration or the Privatization Administration and B-type investment profit sharing funds; member firm receivables arising out of credit cards and gold reserved within the applicable bank; 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*") and securities issued directly or guaranteed by the European Central Bank; transactions made with the Treasury, the Central Bank, the Mass Housing Administration or the Privatization Administration or transactions that are guaranteed by securities issued directly or guaranteed by such institutions; guarantees issued by banks operating in OECD member countries; sureties and letters of guarantee issued by banks operating in Turkey in compliance with their maximum lending limits; and bonds and debentures issued by banks operating in Turkey.

Category II Collateral: Precious metals other than gold; shares quoted on a stock exchange; A-type investment profit sharing funds; asset-backed securities and private sector bonds except ones issued by the borrower; credit derivatives providing protection against credit risk; the assignment or pledge of accrued entitlements of persons from public agencies; liquid securities, negotiable instruments representing commodities, other types of commodities and movables pledged at market value; mortgages on property registered with the land registry and mortgages on real property built on allocated real estate, provided that their appraised value is sufficient; export documents appurtenant to bill of lading or carrier's receipt and negotiable instruments obtained from real or legal persons based upon actual commercial relationships.

Category III Collateral: Commercial enterprise pledges, export documents, vehicle pledges, mortgages on aircraft or ships, suretyships of creditworthy natural persons or legal entities and other client promissory notes of natural persons and legal entities.

Category IV Collateral: Any other security not otherwise included in Categories 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 borrower will be deducted from the frozen 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 may be 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.

The Regulation on Provisions and Classification of Loans and Receivables was amended on April 9, 2011 and December 25, 2012. According to Provisional Article 5 of the regulation, which is not applicable after December 31, 2013, debt classified as Closely Monitored Loans and Other Receivables (*i.e.*, Group II receivables) granted to real persons or legal entities residing in Libya or engaged in activities relating to Libya can be restructured twice. Furthermore, such restructured debt may be classified Standard Loans and Receivables (*i.e.*, Group I receivables), provided that at least 10% of the total debt has been repaid. Any such debt classified under Group I that is reclassified as Group II or that is restructured or is continued to be monitored under Group II as the agreed conditions for reclassification were not adhered to and are restructured once again may be reclassified as Group I, provided that at least 15% of the total debt has been repaid. If such debt becomes subject to a redemption plan for a second time as a result of new loans having been utilized, then such debt shall be classified as Loans and Receivables with Limited Collection Ability (*i.e.*, Group III receivables) until 5% of the total debt has been repaid. As long as such percentage of payments foreseen in the redemption plan are made within the payment periods envisaged for Group III, it is in the bank's discretion to set aside special provisions for such loans and receivables.

In addition, pursuant to Provisional Article 5 described above, if real persons or legal entities residing in Libya or having business activity relating to Libya (other than those described in the preceding paragraph) incur other debt that is classified under Group III, IV or V, then the debt relating to Libya will be reclassified in the same group as such debt; *however*, setting aside special provisions in the ratio foreseen by the related group for these loans is in the discretion of the bank. So long as the classification methods as set out in the regulation are complied with, if a borrower fails to repay such debt due to a temporary lack of liquidity, then a bank is allowed to refinance the borrower with additional funding in order to strengthen its liquidity position or to structure a new repayment plan up to three times.

Any debt restructured pursuant to the paragraph above may be reclassified as "Refinanced/Restructured Loans and Receivables Account" if:

- at least 5% of the total debt in the first restructuring has been repaid and the restructured loans have been monitored under their respective group(s) for a period of at least three months,

- at least 10% of the total debt in the second restructuring has been repaid and the restructured loans have been monitored under their respective group(s) for a period of six months,

- at least 15% of the total debt in the third restructuring has been repaid and the restructured loans have been monitored under their respective group(s) for a period of one year, and

- the payments foreseen in the payment plan are not delayed.

Banks must provide information on the loans and receivables defined above that are subject to the terms of a new contract or restructured in their annual and interim financial reports.

The Regulation on Provisions and Classification of Loans and Receivables was amended on September 21, 2012. According to Provisional Article 7 of the regulation, which will be effective until December 31, 2013, restructured debts classified as Group II receivables granted by the banks to real persons or legal entities residing in Syria or engaged in activities relating to Syria may be classified as Group I receivables; *provided* that at least 10% of the total debt has been repaid. Any such debt classified under Group I that is reclassified as Group II debt or that is restructured or is continued to be monitored under Group II as the agreed conditions for reclassification were not adhered to and are restructured once again may be reclassified as Group I debt; *provided* that at least 15% of the total debt has been repaid. If such debt becomes subject to a redemption plan for a second time as a result of new loans having been utilized, then such debt shall be classified as Group III debt until 5% of the total debt has been repaid. As long as such percentage of payments foreseen in the redemption plan are made within the payment periods envisaged for Group III, it is in the bank's discretion to set aside special provisions for such loans and receivables.

In addition, pursuant to Provisional Article 7 described above, if there are loans or any other receivables classified under Groups III, IV and V (excluding loans granted to real persons or legal entities residing in Syria or engaged in activities relating to Syria), then such debt shall be reclassified in the same group as the debt relating to Syria as described in the preceding paragraph; *however*, setting aside special provisions in the ratio foreseen by the related group for these loans is in the discretion of banks. So long as the classification methods as set out in the regulation are complied with, if a borrower fails to repay such debt due to a temporary lack of liquidity, then a bank is allowed to refinance the borrower with additional funding in order to strengthen its liquidity position or to structure a new repayment plan up to three times.

According to Provisional Article 6 of the regulation, which will be effective until December 31, 2013, debt classified as Group II receivables granted by the banks to be used in the maritime sector can be restructured twice.

Any debt restructured pursuant to the paragraph above may be reclassified to the "Refinanced/Restructured Loans and Receivables Account" if:

- at least 5% of the total debt in the first restructuring has been repaid and the restructured loans have been monitored under their respective group(s) for a period of at least three months,

- at least 10% of the total debt in the second restructuring has been repaid and the restructured loans have been monitored under their respective group(s) for a period of six months,

- at least 15% of the total debt in the third restructuring has been repaid and the restructured loans have been monitored under their respective group(s) for a period of one year, and

- the payments foreseen in the payment plan are not delayed.

Banks must provide information on the loans and receivables defined above that are subject to the terms of a new contract or restructured in their year-end and interim financial reports to be disclosed to the public.

Capital Adequacy

In order to implement Basel II into Turkish law, on June 28, 2012, the BRSA issued a new regulation on measurement and assessment of capital adequacy of banks, which entered into force on July 1, 2012. 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 authorized 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%.

Under the Regulation on Equity of Banks, subordinated loans (which as defined can also include bonds) to a bank are grouped as "primary subordinated loans" and "secondary subordinated loans" and are listed as one of the items that constitute "Tier II" capital. The portion of primary subordinated loans equal to an amount from 15% up to 50% of "Tier I" capital is included in the calculation of "Tier I" capital. The portion of total subordinated debts and primary subordinated debts that exceed 50% of "Tier I" and the portion of general reserves that exceeds 125 per 10,000 of the total of the sum as a basis for credit risk, market risk and operational risk is not taken into consideration in calculating the "Tier II" capital.

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

Tier II Rules under Turkish Law. Secondary subordinated debts are regulated under the Regulation on Equity of Banks. According to this regulation, the net worth of a bank (*i.e.*, the bank's own funds) consists of main capital and supplementary capital *minus* capital deductions. In the relevant definition, "secondary subordinated loans" are listed as one of the items that constitute a bank's supplementary capital (*i.e.*, "Tier II" capital); *however*, loans provided to the banks by their affiliates or debt instruments issued to their affiliates do not fall within the scope of such "secondary subordinated loans." The portion of primary subordinated debts that is not included in the calculation of "Tier I" capital *plus* the total secondary subordinated debts that, in aggregate, exceeds 50% of "Tier I" capital is not taken into consideration in the calculation of "Tier II" capital. During the final five years of a secondary subordinated debt, the amount thereof to be taken into account in the calculation of the "Tier II" capital would be reduced by 20% per year. In addition, any secondary subordinated debt with a remaining maturity of less than one year is not included in the calculation of "Tier II" capital. Any cash credits extended by the bank to the provider(s) of the "secondary subordinated loans" (if debt instruments, to the investor(s) holding 10% or more thereof) and any debt instruments issued by such provider(s) (or investor(s)) and purchased by the bank are also deducted from the amount to be used in the calculation of the Tier II capital. A secondary subordinated debt is taken into account in the calculation of "Tier II" capital on the date of the accounting of such secondary subordinated debt on the books of the relevant bank.

The Regulation on Equity of Banks requires banks to obtain the prior permission of the BRSA for a debt to be classified as a "secondary subordinated loan". In order to obtain such permission, the bank must submit to the BRSA the original copy or a notarized copy of the applicable agreement(s), and if an applicable agreement is not yet signed, a draft of such agreement (with submission of its original to be made after receipt of the BRSA's consent). The BRSA would, in considering any such request for its permission, determine if the credit in question meets the following criteria:

(a) the debt must have an initial maturity of at least five years and the agreement must contain express provisions that prepayment of the principal cannot be made before the expiry of the five-year period and the creditors waive their rights to make any set-offs against the bank with respect to such debt; *it being understood* that interest and other charges may be payable during such five year period,

(b) there may be no more than one repayment option before the maturity of the debt and, if there is a repayment option before maturity, the date of exercising the option must be clearly defined,

(c) the creditors must have agreed expressly in the agreement that in the event of dissolution and liquidation of the bank, such debt will be repaid before any payment to shareholders for their capital return and payments on primary subordinated debts but after all other debts,

(d) it must be stated in the agreement that the debt is not related to any derivative operation or contract violating the condition stated in clause (c) or tied to any guarantee or security, in one way or another, directly or indirectly, and the debts cannot be assigned to any affiliates of the bank,

(e) it must be utilized as one single drawdown if utilized in the form of a loan and it must be wholly collected in cash if in the form of a debt instrument, and

(f) payment before maturity is subject to approval of the BRSA.

If the interest rate applied to a secondary subordinated debt is not explicitly indicated in the loan agreement or the text of the debt instrument or if the interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorize the inclusion of the loan or debt instrument in the calculation of "Tier II" capital.

In cases where the parties subsequently agree that a secondary subordinated debt be prepaid prior to its stated maturity (but in any event after the fifth anniversary of its utilization), they would be required to apply for the BRSA's permission. Upon any such application, the BRSA would, in its sole discretion, determine if any such prepayment would adversely affect the bank's credit lines and limits or its compliance with the applicable standard ratios and give or decline to give its consent accordingly.

In connection with secondary subordinated debts pursuant to which it has been agreed that a prepayment option shall be available and the remaining maturity is calculated by way of taking into account the originally agreed maturity date (*i.e.*, not on the basis of the prepayment option date), such prepayment option can only be exercised with the consent of the BRSA, which would apply the criteria stated above.

The most significant difference between the capital adequacy regulations in place before July 1, 2012 and the new Basel II regulations (discussed further in "Basel II" below) is on 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 100% risk weighting for Turkey; *however*, the Turkish law implementing Basel II 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 exchange-denominated claims on the Central Bank will also have a 0% risk weight. As a result of these implementation rules, the impact of the new regulations is expected to be fairly limited when compared to the previous regime. The BRSA has announced that these new regulations will result in a decrease of 0.20% in the capital adequacy levels of the Turkish banking system as of July 31, 2012. This figure is consistent with the Bank's own experience 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.

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.

Effective from March 1, 2013, 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, precious metal deposit accounts, deposit accounts, deposit/participation accounts up to 1-month, 3-month, 6-month and 1-year maturities	12.5%
Deposit/participation accounts and precious metal deposit accounts up to 1-year and longer maturities and cumulative deposits/participation accounts	9%
Other liabilities up to 1-year maturity (including 1-year)	12.5%
Other liabilities up to 3-year maturity (including 3-year)	10.5%
Other liabilities longer than 3-year maturity	6%
Special fund pools	Ratios for corresponding maturities above

Effective from March 1, 2013, 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	11.50%
Deposits/participation accounts up to 1-month maturity (including 1-month)	11.50%
Deposits/participation accounts up to 3-month maturity (including 3-month)	11.50%
Deposits/participation accounts up to 6-month maturity (including 6-month)	8.50%
Deposits/participation accounts up to 1-year maturity	6.50%
Deposits/participation accounts up to 1-year and longer maturities and cumulative deposits/participation accounts	5%
Other Turkish Lira liabilities up to 1-year maturity (including 1-year)	11.50%
Other Turkish Lira liabilities up to 3-years maturity (including 3-years)	8%
Other Turkish Lira liabilities longer than 3-year maturity	5%
Special fund pools	Ratios for corresponding maturities above

The reserve requirements also apply to gold deposit accounts. Furthermore, pursuant to recent amendments to the communiqué regarding reserve requirements numbered 2005/1 issued by the Central Bank (the "*Communiqué Regarding Reserve Requirements*"), banks are permitted to maintain: (a) up to 60% (at least half of which must be in US Dollars) of the Turkish Lira reserve requirements in US Dollars and/or Euro (first 40% at 1.4 times, second 5% at 1.8 times, third 5% at 2.1 times, fourth 5% at 2.3 times and fifth 5% at 2.4 times the reserve requirement) as of November 23, 2012 and up to 30% of the Turkish lira reserve requirements in standard gold (first 20% at 1.4 times, second 5% at 1.9 times and third 5% at 2.4 times the reserve requirement), as of January 26, 2013, and (b) up to the total amount of the foreign currency reserve requirements applicable to precious metal deposit accounts in standard gold. In addition, pursuant to an amendment to the Communiqué Regarding Reserve Requirements that entered into force on September 28, 2012, banks are required to maintain their required reserves against their US Dollar-denominated liabilities in US Dollars only.

Furthermore, pursuant to an amendment to the Communiqué Regarding Reserve Requirements entered into force on December 31, 2012, 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 are as follows:

(a) for the last quarter of 2013 and the first, second and third quarters of 2014: 2 additional points if its leverage ratio is below 3%, 1.5 additional points if its leverage ratio is between 3% (inclusive) and 3.25% and 1 additional point if its leverage ratio is between 3.25% (inclusive) and 3.5%,

(b) for the last quarter of 2014 and the first, second and third quarters of 2015: 2 additional points if its leverage ratio is below 3%, 1.5 additional points if its leverage ratio is between 3% (inclusive) and 3.5% and 1 additional point if its leverage ratio is between 3.5% (inclusive) and 4%, and

(c) beginning from the last quarter of 2015 (inclusive): 2 additional points if its leverage ratio is below 3%, 1.5 additional points if its leverage ratio is between 3% (inclusive) and 4% and 1 additional point if its leverage ratio is between 4% (inclusive) and 5%.

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

The regulations state that the liquidity adequacy ratio of a bank is the ratio of liquid reserves to liabilities of the bank. A bank must maintain a weekly arithmetic average of 100% liquidity adequacy before the first maturity period (0-7 days before the maturity date of liabilities on a weekly average as defined by the regulation) and second maturity period (0-31 days before the maturity date of liabilities on a monthly average) for its aggregate liabilities and 80% liquidity adequacy for its foreign currency liabilities.

The regulations further state that until December 31, 2013, foreign exchange-indexed assets and liabilities shall, for the purposes of calculations of foreign currency liquidity ratios, be deemed to be foreign currency assets and liabilities; *however*, such foreign exchange-indexed assets and liabilities shall continue to be deemed TL currency for the calculation of total liquidity adequacy ratios.

Foreign Exchange Requirements

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 of the BRSA related to the authorization and activities of independent firms to perform auditing of banks. Independent auditors are held liable for damages and losses to relevant parties referred to under the same legislation. Professional liability insurance is required for: (a) independent auditors and (b) evaluators, rating agencies and certain other support services (if requested by the service-acquiring bank or required by the BRSA). Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with certain consolidation principles established by the BRSA. The year-end consolidated financial statements are required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms.

The reports prepared by independent audit firms are also filed with the CMB if the bank's shares are quoted on the ISE. The CMB has the right to inspect the accounts and transaction records of any publicly traded company. In addition, quarterly reports that are subject to limited review must also be filed with the CMB.

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, foreign exchange transactions and tax liabilities. Additionally, such audits seek to ensure compliance with applicable laws and the constitutional documents of the bank. The results of such audits are reported to the Ministry of Finance, which has broad remedial powers. 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 authorized 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, 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 consultation with the Treasury, the BRSA and the Central Bank.

(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*

If the assets of the SDIF do not meet the demands on it and the resources of the SDIF are insufficient, then banks may be required 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.

(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 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 Act, 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.

Since July 5, 2004, up to TL 50,000 of the amounts of a depositor's deposit accounts have benefited from the SDIF insurance guarantee. Such amount was increased to TL 100,000 as of February 13, 2013.

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 such as to make it unable to conduct its business in a secure manner,

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

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

- the by-laws and internal regulations 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 conduct such systems or any factor impedes the supervision of such systems, or

- imprudent acts of such bank's managers materially increase or weaken the bank's financial structure,

then the BRSA may require such bank:

- to increase its equity capital,

- not to distribute dividends for a 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 its new investments,

- to limit its salary or other payments,

- to cease its long-term investments,

- to comply with the relevant banking legislation,

- to cease its risky transactions,

- to take all actions to decrease any foreign exchange and interest rate risks, 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 its having taken such actions or its financial structure has become so weak that it could not be strengthened, then the BRSA may require such bank:

- to increase its liquidity and/or capital adequacy,

- to dispose of its fixed assets and long-term assets,

- to decrease its operational costs,

- to postpone its payments, excluding the regular payments to be made to its members,
- not to make available any cash or non-cash loans to certain third persons or legal entities,
- to convene an extraordinary general assembly in order to change the board members or assign new member(s) to the board of directors, in the event any board member is responsible for the failure to apply the aforementioned actions,
- to implement short-, medium- or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the bank, 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 or are not sufficient to cause such bank to continue its business in a secure manner, then the BRSA may require such bank to:

- limit or cease its business for a temporary period,
- apply various restrictions, including restrictions with respect to resource collection and utilization,
- remove from office (in whole or in part) its board members, general manager and deputy general managers and department and branch managers,
- make available long-term loans that will 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,
- cover its losses with its equity capital, 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 or the financial structure of such bank has become so weak that it could not be strengthened even if the actions were taken, (c) the continuation of the activities of such bank would jeopardize the rights of the depositors and the participation fund owners and the security and stability of the financial system, (d) such bank cannot cover its liabilities as they become due, (e) the total amount of the liabilities of such bank exceeds the total amount of its assets or (f) the controlling shareholders of such bank are found to have made use of that bank's resources for their own interests, directly or indirectly or fraudulently, in a manner that jeopardized 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 privileges of shareholders (excluding dividends) of such bank to the SDIF.

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. In practice, the SDIF may designate another bank that is under its control. The SDIF is required to institute bankruptcy proceedings in the name of depositors against a bank whose 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 Industry and Commerce, as well as the Corporate Governance Communiqué, when preparing their annual reports.

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 authorized 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. In addition, foreign banks must have the members of the board of managers of their Turkish branches sign the annual reports.

Independent auditors must approve all annual reports that banks present to their general assemblies.

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

Further, banks are required to submit and publish activity reports that comply with the BRSA's established guidelines, the Corporate Governance Communiqué and the above mentioned Regulation issued by the Ministry of Industry and Commerce. 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.

The Regulation on the Preparation and Publication of Annual Reports, published in the Official Gazette No. 26333 on November 1, 2006, regulates the procedures and principles regarding the annual reports of banks to be published at the end of each fiscal year. According to the regulation, a bank's financial performance and the risks that it faces need to be assessed in the annual report. 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. Each bank must submit a copy of its annual report to the BRSA by the end of April and keep a copy of it in its headquarters and each branch and publish it on its website by the end of May.

Financial Services Fee

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

Corporate Governance Principles

On December 30, 2011, the Corporate Governance Communiqué was published by the CMB and entered into force, providing certain compulsory and non-mandatory principles applicable to all companies incorporated in Turkey and listed on the ISE, including the Bank. Although the Corporate Governance Communiqué is, as of the date of this Offering Circular, in force for all listed companies, the regulation provides a one-year exception for banks and so its provisions have become applicable to the Bank starting from December 30, 2012. The CMB further amended the Corporate Governance Communiqué on February 22, 2013 (published in the Official Gazette dated February 22, 2013 No 28567) providing for specific exemptions and/or rules applicable to banks that are traded on the ISE. The Corporate Governance Communiqué replaced the main corporate governance requirements that the Bank complied with prior to December 30, 2012, although there are certain other additional miscellaneous corporate governance requirements under other Turkish law and regulations which it will remain subject to (*i.e.*, those that apply to non-listed companies and banks). The CMB has granted a grace period for the publicly traded banks to comply with the Corporate Governance Communiqué by no later than June 2013.

The Bank is currently working toward taking the remaining necessary steps, including appointing the remaining necessary independent director, at its ordinary general assembly scheduled to take place in April 2013. As of the date of this Offering Circular, the Bank does not comply with all of the mandatory principles under the Corporate Governance Communiqué; *however*, the Bank, in line with the grace period granted by the CMB, intends to comply with the mandatory principles under the Corporate Governance Communiqué when they become applicable to the Bank. Where the Bank does not comply with any of the non-mandatory principles applicable to it under the Corporate Governance Communiqué, it will explain any such non-compliance in its annual Corporate Governance Principles Compliance Report, which is published as part of the Bank’s annual report.

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 CMB has classified 23 companies for 2012 as “Tier 1” companies, which have maximum exposure to the mandatory principles set out in the Corporate Governance Communiqué. Some of these mandatory principles are not applicable to “Tier 2” and “Tier 3” companies. The Bank is classified as a “Tier 1” company.

The mandatory principles under the Corporate Governance Communiqué include: (a) the composition of the board of directors, (b) appointment of independent board members, (c) board committees, (d) specific corporate approval requirements for related party transactions, transactions that may result in a conflict of interest and certain other transactions deemed material by the Corporate Governance Communiqué and (e) information rights in connection with general assembly meetings.

Listed companies are required to have independent board members, which should constitute one third of the board of directors and should not be fewer than two; *however*, as per the amendment to the Corporate Governance Communiqué dated February 22, 2013, this number is applied as a total of three independent members for banks that are traded on the ISE (with the audit committee members of banks to qualify as independent members of the board of directors). The Corporate Governance Communiqué further initiated a pre-assessment system to determine the “independency” of individuals nominated as independent board members in “Tier 1” companies (for banks, to the extent such independent board members are not members of that bank's audit committee). Those nominated for such positions must be evaluated by the “Corporate Governance Committee” or the “Nomination Committee,” if any, of the board of directors for fulfilling the applicable criteria stated in the Corporate Governance Communiqué. The board of directors is required to prepare a list of nominees based upon this evaluation for final review by the CMB, which is authorized to issue a “negative view” on any nominee and prevent their appointment as independent members of the board of directors. The Corporate Governance Communiqué also requires listed companies to establish certain other board committees.

In addition to the mandatory principles regarding the composition of the board and the independent board members, the Corporate Governance Communiqué introduced specific corporate approval requirements for all related party transactions, transactions concerning the establishment of security, pledge and mortgage for third parties and transactions which are deemed “material.” “Material transactions” are described as the lease, transfer or establishment of rights *in rem* over the total or a substantial part of the listed company’s assets, acquire or lease of a material asset, establishing privileges or changes in the scope of current privileges and delisting of the company. All those types of transactions shall be approved by the majority of the independent board members. If not, then they shall be brought to the general assembly meeting where related parties to those transactions are not allowed to vote. Meeting quorum shall not be sought for these resolutions and the resolution quorum is two thirds majority of the attendees who may vote; *however*, in the event of attendance of shareholders representing not less than one-half of the voting rights, a simple majority of the attendees would be sufficient (unless a larger majority is required pursuant to such company's articles of association).

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

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 fulfill 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.

The Capital Markets Law

The recently enacted new Capital Market Law contains important amendments to the prior capital market rules relating to the: (a) issue of new shares below their nominal value, (b) corporate governance principles, (c) public disclosure rules, (d) listing requirements, (e) profit distribution, (f) exit rights and squeeze outs, (g) reporting requirements, (h) regulatory sanctions and administrative fines, (i) collective investment schemes and (j) certain capital market instruments (including derivatives) and capital market activities in line with the legislation standards of the European Union. Although the new law introduced major changes to the regulatory regime, the interpretation of these new rules and requirements will become more clear upon the enactment of the new secondary legislation. The new law requires the CMB to replace all existing secondary legislation by December 30, 2013 and, until then, the provisions of the existing secondary legislation that do not contradict with the new Capital Markets Law will continue to apply.

Additionally, with the recent enactment of the new Capital Markets Law, a new stock exchange named Borsa Istanbul was established to replace the ISE and the Gold Exchange. Borsa Istanbul will become operative when its articles of association (to be prepared by the CMB) are approved by the authorized ministry and registered with the trade registry. These procedures will have to be completed by June 30, 2013, though the ministry may extend this period up to three months. Once it becomes operational, it will assume the assets and liabilities of the ISE and the Gold Exchange (which will both cease to exist) and Borsa Istanbul will function as a stock exchange and gold exchange in Turkey.

Basel II

The BRSA has published regulations regarding the implementation of Basel II in Turkey. These regulations took full effect during the second half of 2012. These regulations were implemented on a bank-only basis starting from July 1, 2011, and on a consolidated basis starting from January 1, 2012. As of March 31, 2012, Turkish banks were required to report their risk-weighted assets calculated under the standard approach of Basel II as contained in the "Turkish National Discretions." This reporting period was a "parallel run", since banks continued to report their risk-weighted assets under both Basel I and Basel II requirements until June 30, 2012. Since June 30, 2012, only Basel II standard approach requirements are permitted in the credit risk report for minimum capital calculations.

Basel III

The Basel Committee has recently adopted further revisions to Basel II (*i.e.*, Basel III), but there is no certainty as to whether these most recent Basel III revisions will be implemented by the BRSA in Turkey and, if so, when and in what form. Although an official timetable for the adoption of Basel III in Turkey has not been announced by the BRSA, the regulations are expected to be implemented between 2013 and 2019 in accordance with the transition period provided for by the Basel Committee. Recently, a draft regulation amending the Regulation on Equity of Banks as well as a draft regulation amending the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks were made available by the BRSA.

The draft regulation amending the Regulation on the Equity of Banks, as published on the official website of the BRSA on February 1, 2013, introduces the following changes: (a) introducing core capital as a component of equity, (b) determining which additional Tier I capital items are included as Tier I capital along with core capital, (c) determining detailed correction principles concerning items included within the own funds accounts, (d) changing the principles by which minority rights and shares owned by third persons are considered within the consolidated open funds account and (e) ensuring that the borrowing instruments included in additional Tier I capital and supplementary capital are removed from the records should a bank's capital adequacy ratio decrease below a determined threshold, with the aim of recovering losses or making them convertible to equity. In light of the foregoing changes, the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks required amendment and the draft regulation amending the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks proposes to: (i) introduce 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 and (ii) place certain factors currently deducted from equity to risk weight in determining capital adequacy.

In addition to these implementations, a draft Regulation on the Capital Maintenance and Cyclical Capital Buffer which regulates the procedures and principles regarding the calculation of additional core capital amount has been prepared and delivered to the banks for their review. The BRSA has requested comments on the draft regulation by March 2013, following which, there will be further discussions regarding the proposed implementations on the draft regulation and the nature of the changes. The BRSA's draft regulations are expected to be implemented within 2013.

CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes (the "Conditions") which (except for the paragraphs in italics) will be endorsed on the definitive Certificates issued in respect of the Notes:

The TL 750,000,000 7.375% Notes due 2018 (the "*Notes*", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 15 and forming a single series with the Notes) of Türkiye Garanti Bankası A.Ş. (the "*Issuer*") are issued subject to and with the benefit of a Fiscal Agency Agreement dated 7 March 2013 (such agreement as amended and/or supplemented and/or restated from time to time, the "*Agency Agreement*") made among the Issuer, Citibank N.A., London Branch as fiscal agent and principal paying agent (the "*Fiscal Agent*") and the other initial paying agents named in the Agency Agreement (together with the Fiscal Agent, the "*Paying Agents*"), Citibank Global Markets Deutschland, as registrar (the "*Registrar*"), and the other agents named in it (together with the Fiscal Agent, the Registrar and the other Paying Agents, the "*Agents*"). The holders of the Notes are entitled to the benefit of a Deed of Covenant (the "*Deed of Covenant*") dated 7 March 2013 and made by the Issuer. The original of the Deed of Covenant is held by the Fiscal Agent on behalf of the Noteholders at its specified office.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the Noteholders at the specified office of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. References in these Conditions to any Agent shall include any successor appointed under the Agency Agreement.

Investors in the Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are issued in registered form in amounts of TL 300,000 and in integral multiples of TL 1,000 thereafter (referred to as the "*principal amount*" of a Note and each an "*Authorized Denomination*"). A note certificate (each a "*Certificate*") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar. The Notes are issued pursuant to the Turkish Commercial Code (Law No. 6102), the Capital Markets Law (Law No. 6362) of Turkey and the related legislation of the Turkish Capital Markets Board (in Turkish: *Sermaye Piyasası Kurulu*) (the "*CMB*").

1.2 Title

Title to the Notes passes only by registration in the register of Noteholders. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "*Noteholder*" and (in relation to a Note) "*holder*" means the person in whose name a Note is registered in the register of Noteholders.

For a description of the procedures for transferring title to book-entry interests in the Notes, see "Book-Entry Clearance Systems."

2. TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES

2.1 Transfers

A Note may be transferred in an Authorised Denomination only by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the other Agents.

For a description of certain restrictions on transfers of interests in the Notes, see "Transfer Restrictions."

2.2 Delivery of new Certificates

Each new Certificate to be issued upon a transfer of the Notes will, within five business days of receipt by the Registrar or the relevant other Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition 2, "*business day*" shall mean a day on which banks are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described in "The Global Certificates – Registration of Title," owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement and compliance with the legends placed on the Notes as described in "Transfer Restrictions."

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant other Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the register of Noteholders or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer or any Agent but upon payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Note.

2.5 Regulations

All transfers of Notes and entries on the register of Noteholders will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

3. STATUS

The Notes are senior, direct, unconditional and (subject to the provisions of Condition 4 (*Negative Pledge*)) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

4. NEGATIVE PLEDGE

4.1 Negative Pledge

So long as any Note remains outstanding, the Issuer will not create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a "*Security Interest*") upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness (as defined below), unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

(a) all amounts payable by it under the Notes are secured by the Security Interest equally and rateably with the Relevant Indebtedness;

(b) such Security Interest is terminated; or

(c) such other Security Interest is provided as is approved by an Extraordinary Resolution (which is defined in the Agency Agreement as a resolution duly passed by not less than three-fourths of the votes cast) of the Noteholders.

Nothing in this Condition 4.1 shall prevent the Issuer from creating or permitting to subsist any Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to (i) a bond, note or similar instrument whereby the payment obligations are secured by a segregated pool of assets (whether held by the Issuer or any third party guarantor) (any such instrument, a "*Covered Bond*"), or (ii) any securitisation of receivables or other payment rights, asset-backed financing or similar financing structure (created in accordance with normal market practice) and whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest are to be discharged principally from such assets or revenues (or in the case of Direct Recourse Securities, by direct unsecured recourse to the Issuer); *provided* that the aggregate then-existing balance sheet value of assets or revenues subject to any Security Interest created in respect of: (A) Covered Bonds that are Relevant Indebtedness and (B) any other secured Relevant Indebtedness (other than Direct Recourse Securities) of the Issuer, when added to the nominal amount of any outstanding Direct Recourse Securities that are Relevant Indebtedness, does not, at any time, exceed 15% of the consolidated total assets of the Issuer (as shown in the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS).

4.2 Interpretation

For the purposes of these Conditions:

"*Direct Recourse Securities*" means securities (other than Covered Bonds) issued in connection with any securitisation of receivables or other payment rights, asset-backed financing or similar financing structure (created in accordance with normal market practice) and whereby all payment obligations secured by a Security Interest or having the benefit of a Security Interest are to be discharged principally from such assets or revenues, or by direct unsecured recourse to the Issuer;

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

"*Relevant Indebtedness*" means: (a) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other organised securities market and having a maturity in excess of 365 days or any loan disbursed to the Issuer as a borrower under a loan participation note or similar transaction and (b) any guarantee or indemnity of any such indebtedness.

5. COVENANTS

5.1 Maintenance of Authorisations

So long as any of the Notes remains outstanding, the Issuer shall take all necessary action to maintain, obtain and promptly renew, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, permissions, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Republic of Turkey (including, without limitation, with the CMB and the Banking Regulation and Supervision Agency (in Turkish: *Bankacılık Düzenleme ve Denetleme Kurumu*) (the "*BRSA*")) for (a) the execution, delivery or performance of the Agency Agreement, the Deed of Covenant and the Notes or for the validity or enforceability thereof, or (b) the conduct by it of the Permitted Business, save for any consents, permissions, licences, approvals, authorisations, registrations, recordings and filings (collectively, "*Permissions*") which are immaterial in the conduct by the Issuer of the Permitted Business. For the avoidance of doubt, any Permissions relating to the Issuer's ability or capacity to undertake its banking or financial advisory functions shall not be deemed to be immaterial in the conduct by the Issuer of its Permitted Business.

5.2 Transactions with Affiliates

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

5.3 Financial Reporting

So long as any of the Notes remains outstanding, the Issuer shall deliver to the Fiscal Agent:

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

(b) not later than 120 days after the end of the first six months of each financial year of the Issuer, English language copies of its unaudited consolidated financial statements for such six month period, prepared in accordance with IFRS consistently applied, together with the financial statements for the corresponding period of the previous financial year.

5.4 Interpretation

For the purposes of these Conditions:

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

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

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

"*Subsidiary*" means, in relation to the Issuer, any company: (a) in which the Issuer holds a majority of the voting rights, (b) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (c) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer.

6. INTEREST

6.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 7 March 2013 (the "*Issue Date*") at the rate of 7.375 per cent. *per annum*, payable semi-annually in arrear on each of 7 March and 7 September (each an "*Interest Payment Date*") in each year. The first payment (representing a full six months' of interest) shall be made on 7 September 2013.

6.2 Interest Accrual

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

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

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent or the Registrar, as the case may be, and notice to that effect has been given to the applicable Noteholder in accordance with Condition 13 (*Notices*).

6.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full six months, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

7. PAYMENTS AND CURRENCY EXCHANGE

7.1 Payments in respect of Notes

Subject as provided in Condition 7.2, payment of principal and interest on a Note will be made by transfer to the registered account of the relevant Noteholder or by Turkish Lira cheque drawn on a bank that processes payments in Turkish Lira mailed to the registered address of such Noteholder if it does not have a registered account. Notwithstanding anything else herein to the contrary, payments of interest due otherwise than on an Interest Payment Date and payments of principal will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the register of Noteholders at the close of business on the date (the "*record date*") being the 15th day before the due date for the payment of interest, and if such 15th day is not a Business Day (as defined below), the Business Day immediately prior.

For the purposes of this Condition 7.1 (*Payments in respect of Notes*), a Noteholder's registered account means the Turkish Lira account maintained by or on behalf of it with a bank that processes payments in Turkish Lira, details of which appear on the register of Noteholders at the close of business: (a) in the case of a payment of interest due otherwise than on an Interest Payment Date and payments of principal, on the second Business Day before the due date for payment, and (b) in the case of a payment of interest due on an Interest Payment Date, on the relevant record date, and a Noteholder's registered address means its address appearing on the register of Noteholders at that time.

7.2 US Dollar Exchange and Payments

(a) A Noteholder as of the applicable record date (as defined in Condition 7.1) may, not more than 15 and not less than five Business Days before the due date for the next payment of interest and/or principal on a Note (such period, the "*USD Election Period*"), give an irrevocable election to the Registrar to receive such payment in US Dollars instead of Turkish Lira (each a "*USD Payment Election*"). The Registrar shall notify the Fiscal Agent on the Business Day following each USD Election Period of the USD Payment Elections made by the Noteholders during such USD Election Period and upon its receipt of such notification the Fiscal Agent shall provide for the Turkish Lira payment made by the Issuer in respect of the Notes the subject of such USD Payment Elections to be converted into US Dollars and paid to the holders of such Notes on the Relevant Payment Date (as defined below) in accordance with the provisions of this Condition 7.2 (*US Dollar Exchange and Payments*) and Clauses 8 and 9 of the Agency Agreement.

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

(b) Upon receipt of notice from the Registrar pursuant to paragraph (a) above, the Fiscal Agent shall, in accordance with the provisions of the Agency Agreement, purchase US Dollars with the aggregate Turkish Lira amount received in respect of the payments to be made by the Issuer on the Notes the subject of the relevant USD Payment Elections (the "*Lira Amount*") for settlement on the date on which such payments are to be made in accordance with these Conditions (the "*Relevant Payment Date*") at a purchase price calculated on the basis of its own internal foreign exchange conversion procedures for settlement on the Relevant Payment Date, which conversion shall be conducted in a commercially reasonable manner and on a similar basis to that which the Fiscal Agent would use to effect such conversion for its customers (the "*Applicable Exchange Rate*"). In no event shall the Fiscal Agent be liable to any Person for the conversion rate so used.

The Issuer's obligation to make payments on the Notes is limited to the specified Turkish Lira amount of such payments and, in the event that it fails to make any payment on the Notes in full on its due date, its obligation shall remain the payment of the relevant outstanding Turkish Lira amount and it shall have no obligation to pay any greater or other amount as a result of any change in the Applicable Exchange Rate between the due date and the date on which such payment is made in full.

(c) On each Relevant Payment Date, the Fiscal Agent shall give notice to the Noteholders in accordance with Condition 13 (*Notices to the Noteholders*) of: (i) the total amount of US Dollars purchased with the relevant Lira Amount, (ii) the Applicable Exchange Rate at which such US Dollars were purchased by the Fiscal Agent and (iii) the total amount of any fees and commissions deducted from (or reducing) such US Dollar amount.

Under the terms of the Agency Agreement, the Fiscal Agent will need to have received cleared funds from the Issuer on the Relevant Payment Date by no later than 10:00 a.m. (London time) in the case of a payment of interest becoming due or by 11:00 a.m. (London time) in the case of a payment of principal becoming due in order to make any payments to Noteholders on such Relevant Payment Date, including any such payments in US Dollars. If the Fiscal Agent receives cleared funds from the Issuer after such time, then the Fiscal Agent will use reasonable efforts to pay the funds (including any so converted US Dollar amounts) as soon as reasonably practicable thereafter.

(d) If, for illegality or any other reason, it is not possible for the Fiscal Agent to purchase US Dollars with the Lira Amount, then the Fiscal Agent shall promptly notify the Noteholders of such event in accordance with Condition 13 (*Notices to the Noteholders*) and all payments on the Notes on the Relevant Payment Date will be made in Turkish Lira in accordance with Condition 7.1 above.

(e) To give a USD Payment Election, a Noteholder must deliver at the specified office of any Agent, on any Business Day falling within the USD Election Period, a duly signed and completed USD Payment Election in the form (for the time being current) obtainable from any specified office of any Agent and in which the holder must specify a USD bank account to which payment is to be made under this Condition 7.2 accompanied by the Certificate for such Notes or evidence satisfactory to the Agent concerned that the Certificate for such Notes will, following the delivery of the USD Payment Election, be held to the Agent's order or under its control until the applicable US Dollar payment is made.

Notwithstanding any other provision in these Conditions to the contrary: (i) all costs of the purchase of US Dollars with the Lira Amount shall be borne *pro rata* by the relevant Noteholders relative to the Notes of such Noteholders the subject of USD Payment Elections, which *pro rata* amount will be deducted from the US Dollar payment made to such Noteholders, (ii) none of the Issuer, any Agent or any other Person shall have any obligation whatsoever to pay any related foreign exchange rate spreads, commissions or expenses or to indemnify any Noteholder against any difference between the US Dollar amount received by such Noteholder and the portion of the Lira Amount that would have been payable to the Noteholder if it had not made the relevant USD Payment Election and (iii) the Issuer shall not have any liability or other obligation to any Noteholder with respect to the conversion into US Dollars of any amount paid by it to the Fiscal Agent in Turkish Lira or the payment of any US Dollar amount to the applicable Noteholders.

7.3 Payments subject to Applicable Laws

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

7.4 Payment on Business Days

Where payment is to be made: (a) by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day) will be initiated, and (b) by cheque, the cheque will be mailed on the Business Day preceding the due date for payment; *provided* that, with respect to both sub-paragraphs (a) and (b), in the case of a payment of principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

A Noteholder will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In these Conditions, "*Business Day*" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign currencies) in New York City, London and Istanbul and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

7.5 Partial Payments

If the amount of principal or interest which is due on the Notes is not paid in full, then the Registrar will annotate the register of Noteholders with a record of the amount of principal or interest in fact paid.

7.6 Agents

The names of the initial Agents and their initial specified offices are set out immediately following these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents *provided* that:

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

(b) so long as the Notes are listed on the Irish Stock Exchange, there will at all times be an Agent (which may be the Fiscal Agent) having a specified office in such place as may be required by the rules and regulations of the Irish Stock Exchange or any other relevant authority;

(c) the Issuer undertakes that it will ensure that it maintains a Paying Agent that is not located in a Member State of the European Union that will oblige that Paying Agent to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;

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

(e) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes to the specified office of an Agent will be given to the Noteholders promptly by the Issuer in accordance with Condition 13 (*Notices*).

8. REDEMPTION AND PURCHASE

8.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 7 March 2018.

8.2 Redemption for Taxation Reasons

If:

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9 (*Taxation*)), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 28 February 2013, on the next Interest Payment Date, the Issuer would be required to:

   (i) pay additional amounts as provided or referred to in Condition 9 (*Taxation*); and

   (ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction, at a rate in excess of the prevailing applicable rates on 28 February 2013; and

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

then the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Notes at any time at their principal amount together with interest accrued to but excluding the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent: (i) a certificate signed by two Directors of the Issuer stating that the requirement referred to in sub-clause (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

8.3 Purchases

The Issuer or any of its Subsidiaries may at any time purchase Notes in any manner and at any price. Such Notes may be held, resold or, at the option of the Issuer or any such Subsidiary (as the case may be) for those Notes held by it, surrendered to any Paying Agent or the Registrar for cancellation.

8.4 Cancellations

All Notes that are redeemed by or on behalf of the Issuer will forthwith be cancelled and, accordingly, may not be held, re-issued or resold.

8.5 Notices Final

Upon the expiry of any notice as is referred to in Condition 8.2 (*Redemption for Taxation Reasons*) above, the Issuer shall be bound to redeem the Notes in accordance with the terms of such Condition.

9. TAXATION

9.1 Payment without Withholding

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

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

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

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

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

(e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Business Day (as defined in Condition 7 (*Payments and Currency Exchange*)).

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

9.2 Interpretation

In these Conditions:

(a) "*Relevant Date*" means, with respect to any payment, the date on which such payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 13 (*Notices*); and

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

9.3 Additional Amounts

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

10. PRESCRIPTION

Claims in respect of principal and interest will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date, as defined in Condition 9 (*Taxation*).

11. EVENTS OF DEFAULT

11.1 Events of Default

The holder of any Note may give notice to the Issuer that such Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment, if any of the following events (each, an "*Event of Default*") shall have occurred and be continuing:

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

(b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 14 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or

(c) if (i) any Indebtedness for Borrowed Money (as defined below) of the Issuer or any of its Material Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer or any of its Material Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment, subject to any applicable grace period; (iii) any security given by the Issuer or any of its Material Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by the Issuer or any of its Material Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person, subject to any applicable grace period; *provided* that the aggregate principal amount of such: (A) Indebtedness for Borrowed Money of the Issuer or such Material Subsidiary in the case of sub-clauses (i), (ii) and/or (iii) above, and/or (B) Indebtedness for Borrowed Money in relation to which such guarantee and/or indemnity of the Issuer or such Material Subsidiary has been given in the case of sub-clause (iv) above, exceeds US$50,000,000 (or its equivalent in other currencies); or

(d) if:

(i) any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer or any of its Material Subsidiaries; or

(ii) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of Noteholders, or the Issuer or any of its Material Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found by a competent authority to be (or becomes) bankrupt or insolvent; or

(iii) the Issuer or any of its Material Subsidiaries commences negotiations with one or more of its creditors with a view to the general readjustment or rescheduling of all or a substantial part of its indebtedness; or

(iv) the Issuer or any of its Material Subsidiaries: (A) takes any corporate action or other steps are taken or legal proceedings are started: (x) for its winding-up, dissolution, administration, bankruptcy or re-organisation (other than for the purposes of and followed by a reconstruction while solvent upon terms previously approved by an Extraordinary Resolution of Noteholders) or (y) for the appointment of a liquidator, receiver, administrator, administrative receiver, trustee or similar officer of it or any substantial part or all of its revenues and assets or (B) shall or propose to make a general assignment for the benefit of its creditors or shall enter into any composition with its creditors;

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

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

11.2 Interpretation

For the purposes of this Condition 11 (*Events of Default*):

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

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

(b) any borrowed money; or

(c) any liability under or in respect of any acceptance or acceptance credit.

"*Material Subsidiary*" means at any time a Subsidiary of the Issuer:

(a) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer relate, are equal to) not less than 15 per cent. of the consolidated total assets of the Issuer, all as calculated respectively by reference to the then latest audited IFRS financial statements (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer; *provided* that, in the case of a Subsidiary of the

Issuer acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer relate, the reference to the then latest audited consolidated IFRS financial statements of the Issuer for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer;

(b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer that immediately prior to such transfer is a Material Subsidiary, *provided* that the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary and the transferee Subsidiary shall immediately become a Material Subsidiary pursuant to this sub-clause (b) but shall cease to be a Material Subsidiary on the date of publication of the Issuer's next consolidated audited IFRS financial statements unless it would then be a Material Subsidiary under sub-clause (a) above; or

(c) to which is transferred an undertaking or assets that, taken together with the undertaking or assets of the transferee Subsidiary, represent (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer relate, are equal to) not less than 15 per cent. of the consolidated total assets of the Issuer taken as a whole (calculated as set out in sub-clause (a) above), *provided* that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless immediately following such transfer, its assets represent (or, in the case aforesaid, are equal to) not less than 15 per cent. of the consolidated total assets of the Issuer (all as calculated as set out in sub-clause (a) above), and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this sub-clause (c) on the date of the publication of the Issuer's next audited IFRS consolidated financial statements, save that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of sub-clause (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

A report by the auditors of the Issuer that in their opinion a Subsidiary is or is not or was or was not at any particular time a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

12. REPLACEMENT OF CERTIFICATES

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

13. NOTICES TO THE NOTEHOLDERS

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the register of Noteholders maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

14. MEETINGS OF NOTEHOLDERS AND MODIFICATION

14.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification of certain of these Conditions the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

14.2 Modification

The Fiscal Agent and the Issuer may agree in writing, without the consent of the Noteholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement either (a) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (b) in any other manner which is not materially prejudicial to the interests of the Noteholders. Any such modification shall be binding on the Noteholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13 (*Notices*).

15. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes; *provided* that such further notes will be fungible for US federal income tax purposes (*i.e*., their issuance is a "qualified reopening" under U.S. Treasury Regulation § 1.1275-2(k)).

16. GOVERNING LAW AND SUBMISSION TO JURISDICTION

16.1 Governing Law

The Agency Agreement, the Deed of Covenant and the Notes are, and any non-contractual obligations arising therefrom will be, governed by and construed in accordance with English law.

16.2 Jurisdiction of courts of England

The Issuer has irrevocably agreed for the benefit of the Noteholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes (and any non-contractual obligations arising out of or in connection with the Notes) and accordingly has submitted to the exclusive jurisdiction of the courts of England. The Issuer has waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.

The Noteholders may take any suit, action or proceeding arising out of or in connection with the Notes (together referred to as "*Proceedings*") against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions to the extent allowed by law.

16.3 Consent to Enforcement

The Issuer agrees, without prejudice to the enforcement of a judgment obtained in the courts of England according to the provisions of Article 54 of the International Private and Procedural Law of Turkey (Law No. 5718), that in the event that any action is brought in relation to the Issuer in a court in Turkey in connection with the Notes, any judgment obtained in the courts of England in connection with such action shall constitute conclusive evidence of the existence and amount of the claim against the Issuer, pursuant to the provisions of the first paragraph of

Article 193 of the Civil Procedure Code of Turkey (Law No. 6100) and Article 59 of the International Private and Procedural Law of Turkey (Law No. 5718).

16.4 Appointment of Process Agent

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

16.5 Other Documents

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the courts of England and appointed an agent in England for service of process, in terms substantially similar to those set out above.

17. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, the Agency Agreement or the Deed of Covenant, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

THE GLOBAL CERTIFICATES

The Global Certificates will contain the following provisions that apply to the Notes in respect of which they are issued while they are represented by those Global Certificates, some of which modify the effect of the Conditions of such Notes. Terms defined in the Conditions of the Notes have the same meaning in paragraphs 1 to 6 below.

1. ACCOUNTHOLDERS

For so long as any of the Notes are represented by a Global Certificate, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an "*Accountholder*") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "Noteholders" and references to "holding of Notes" or purchase or other acquisition of Notes and to "holder of Notes" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer, solely in the nominee for the relevant clearing system (the "*Relevant Nominee*") in accordance with and subject to the terms of the relevant Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

2. CANCELLATION

Cancellation of any Note following its redemption or purchase by the Issuer or any of its Subsidiaries will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders and by the annotation of the appropriate schedule to the relevant Global Certificate.

3. PAYMENTS AND US DOLLAR CURRENCY ELECTION

Payments of principal in respect of Notes represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the holder of the relevant Global Certificate for such purpose.

Distributions of amounts with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to Euroclear or Clearstream, Luxembourg, which in turn are expected to distribute such amounts to their participants in accordance with the relevant system's rules and procedures. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Certificate by or on behalf of the Fiscal Agent and shall be *prima facie* evidence that payment has been made.

Payments of principal and interest in respect of the Global Certificates will be made, or procured to be made, by or on behalf of the Issuer for settlement on the relevant payment date in accordance with Clauses 8 and 9 of the Agency Agreement: (a) in US Dollars, to the extent the Fiscal Agent receives notification via the Registrar through the notification and other procedures of Euroclear or Clearstream, Luxembourg from or on behalf of an accountholder in Euroclear or Clearstream, Luxembourg of its irrevocable election to receive payment in US Dollars as provided in Condition 7.2 (and in place of the relevant procedures described in Condition 7.2(e)), by the relevant Paying Agent paying the relevant amounts to the Relevant Nominee with instructions that it credit such accountholder's registered US Dollar account at Euroclear or Clearstream, Luxembourg with such accountholder's *pro rata* portion of the US Dollars purchased by the Fiscal Agent with its share of the Lira Amount pursuant to the Agency Agreement, and (b) otherwise in Turkish Lira by the relevant Paying Agent paying the relevant amounts to the Relevant Nominee for it to credit to the remaining accountholders' Turkish Lira accounts at Euroclear and/or Clearstream, Luxembourg.

4. NOTICES

So long as the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by Condition 13. Any such notice shall be deemed to have been given to the Noteholders on the day after the day on which such notice is delivered to such clearing system.

While any of the Notes held by a Noteholder are represented by a Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through the applicable clearing system's operational procedures and otherwise in such manner as the Fiscal Agent and the applicable clearing system may approve for this purpose.

5. REGISTRATION OF TITLE

Registration of title to Notes in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies the Issuer that it is unwilling or unable to continue as a clearing system in connection with a Global Certificate, and in each case a successor clearing system is not appointed by the Issuer within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances title to a Note may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Conditions, except that Certificates in respect of Notes so transferred may not be available until 21 days after the request for transfer is duly made.

The Registrar will not register title to the Notes in a name other than that of the Relevant Nominee for a period of 15 calendar days preceding the due date for any payment of principal or interest in respect of the Notes.

If only one of the Global Certificates (the "*Exchanged Global Certificate*") becomes exchangeable for Certificates in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding Certificates issued in exchange for beneficial interests in the Exchanged Global Certificate and, on the other hand, persons wishing to purchase beneficial interests in the other Global Certificate.

6. TRANSFERS

Transfers of book-entry interests in the Notes will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective accountholders in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants, as more fully described under "Book-Entry Clearance Systems."

7. EXCHANGE FOR CERTIFICATES

Interests in a Global Certificate will be exchangeable (free of charge), in whole but not in part, for Certificates only upon the occurrence of an Exchange Event. For these purposes, Exchange Event means that: (a) an Event of Default has occurred and is continuing, (b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (c) the Issuer has or will become obliged to pay additional amounts that it would not be obliged to pay were the Notes represented by such Global Certificate in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Global Certificate) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of each of Clearstream, Luxembourg and Euroclear currently in effect. The information in this section concerning Clearstream, Luxembourg and Euroclear has been obtained from sources that the Bank believes to be reliable, but neither the Bank nor any Initial Purchaser takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of Clearstream, Luxembourg or Euroclear are advised to confirm the continued applicability of the rules, regulations and procedures of such facilities.

None of the Bank nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of Clearstream, Luxembourg or Euroclear or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-Entry Systems

Clearstream, Luxembourg

Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depository. Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of a number of currencies, including Turkish Lira and United States Dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in several countries through established depository and custodial relationships.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the *Commission de Surveillance du Secteur Financier* and the *Banque Centrale du Luxembourg*, which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg's customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream, Luxembourg and Euroclear.

The ability of an owner of a beneficial interest in a Note held by Clearstream, Luxembourg to pledge such interest to persons or entities that do not participate in the Clearstream, Luxembourg system, or otherwise take action in respect of such interest, may be limited by the lack of a definitive note for such interest because Clearstream, Luxembourg can act only on behalf of Clearstream, Luxembourg's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Notes to such persons may be limited. In addition, beneficial owners of the Notes through the Clearstream, Luxembourg system will receive distributions of principal, interest, additional amounts (if any) and any other payments on the Notes only through Clearstream, Luxembourg accountholders.

Distributions with respect to interests in the Notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream, Luxembourg accountholders in accordance with its rules and procedures, to the extent received by Clearstream, Luxembourg.

Euroclear

Euroclear holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between its accountholders. Euroclear provides various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear also deals with domestic securities markets in several countries through established depository and custodial relationships. Euroclear customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear is available to other institutions that clear through or maintain a custodial relationship with accountholders in Euroclear.

The ability of an owner of a beneficial interest in a Note held by Euroclear to pledge such interest to persons or entities that do not participate in the Euroclear system, or otherwise take action in respect of such interest, may be limited by the lack of a definitive note for such interest because Euroclear can act only on behalf of Euroclear's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Notes to such persons may be limited. In addition, beneficial owners of the Notes through the Euroclear system will receive distributions of principal, interest, additional amounts (if any) and any other payments on the Notes only through Euroclear accountholders.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to cash accounts of Euroclear accountholders in accordance with its rules and procedures, to the extent received by Euroclear.

Book-Entry Ownership of and Payments in Respect of Notes Represented by the Global Certificates

The Bank has applied to each of Euroclear and Clearstream, Luxembourg to have Notes represented by the Global Certificates accepted in its book-entry settlement system. Upon the issue of any such Global Certificate, Euroclear and/or Clearstream, Luxembourg, as applicable, will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Global Certificate to the accounts of persons who have accounts with Euroclear and/or Clearstream, Luxembourg, as applicable. Such accounts initially will be designated by or on behalf of the relevant Initial Purchaser. Ownership of beneficial interests in a Global Certificate will be limited to direct or indirect participants of Euroclear and/or Clearstream, Luxembourg, as applicable. Ownership of beneficial interests in a Global Certificate will be shown on, and the transfer of such ownership will be effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg or its nominee (with respect to the interests of direct Euroclear and/or Clearstream, Luxembourg accountholders) and the records of direct Euroclear and/or Clearstream, Luxembourg accountholders (with respect to interests of indirect Euroclear and/or Clearstream, Luxembourg accountholders).

Payments in Turkish Lira of principal and interest in respect of a Global Certificate will be made to Clearstream, Luxembourg, Euroclear or their respective nominee, as the case may be, as the registered holder of such Note. The Bank expects Clearstream, Luxembourg and Euroclear to credit accounts of their respective accountholders on the applicable payment date. The Bank also expects that payments by direct Clearstream, Luxembourg or Euroclear accountholders to indirect participants in such clearing systems will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers of such clearing system, and will be the responsibility of such accountholder and not the responsibility of such clearing system, the Paying Agent, the Registrar or the Bank. Payments of principal and interest on the Notes to Clearstream, Luxembourg and Euroclear (or their respective nominee) are the responsibility of the Bank. Transfers of any interests in Notes represented by a Global Certificate within Clearstream, Luxembourg or Euroclear, as applicable, will be effected in accordance with applicable law and in accordance with the relevant clearing system's rules and procedures. Because each of Clearstream, Luxembourg and Euroclear can only act on behalf of accountholders in its system who in turn act on behalf of indirect participants, the ability of a person having an interest in Notes represented by a Global Certificate to pledge such interest to persons or entities that do not participate in such clearing system or to otherwise take action in respect of such interest may be limited. The ability of any holder of an interest in Notes represented by a Global Certificate to resell, pledge or otherwise transfer such interest may be impaired if the proposed transferee of such interest is not eligible to hold such interest through a direct or indirect participant in the applicable clearing system. On or after the Issue Date, transfers of Notes will generally have a settlement date three Business Days after the trade date (T+3).

Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in global certificates among accountholders of Clearstream, Luxembourg or Euroclear; *however*, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bank, the Agents nor any Initial Purchaser will be responsible for any performance by Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

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

References to "*resident*" herein refer to tax residents of Turkey and references to "non-resident" herein refer to persons who are not tax residents of Turkey.

Certain US Federal Income Tax Consequences

<u>Notice pursuant to IRS Circular 230</u>: The discussion of US tax matters set forth in this Offering Circular was written in connection with the promotion or marketing of this Offering and was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding tax-related penalties under US federal, state or local tax law. Each taxpayer should seek advice based upon its particular circumstances from an independent tax adviser.

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

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

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

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

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

Payments of Interest

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

Stated interest paid in Turkish Lira will be included in a US Holder's gross income in an amount equal to the US Dollar value of the Turkish Lira, including the amount of any withholding tax, regardless of whether such Turkish Lira are converted into US Dollars. Generally, a US Holder that uses the cash method of tax accounting will determine such US Dollar value using the spot rate of exchange on the date of receipt. A cash method US Holder generally will not realize foreign currency gain or loss on the receipt of the interest payment but may have foreign currency gain or loss attributable to the actual disposition of the Turkish Lira received. Generally, a US Holder that uses the accrual method of tax accounting will determine the US Dollar value of accrued interest income using the average rate of exchange for the accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within each taxable year). Alternatively, an accrual basis US Holder may make an election (which must be applied consistently to all debt instruments from year-to-year and cannot be changed without the consent of the IRS) to translate accrued interest income at the spot rate of exchange on the last day of the accrual period (or the last day of the portion of the accrual period within each taxable year in the case of a partial accrual period). A US Holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date payment is received differs from the rate used in translating the accrual of that interest. The amount of foreign currency gain or loss to be recognized by such US Holder will be an amount equal to the difference between the US dollar value of the Turkish Lira interest payment (determined on the basis of the spot rate on the date the interest income that has accrued during the accrual period (as determined above) regardless of whether the payment is in fact converted to US Dollars. This foreign currency gain or loss will be ordinary income or loss and generally will not be treated as an adjustment to interest income or expense, and generally will be US source provided that the residence of the US Holder is considered to be the United States for purposes of the rules governing foreign currency gain or loss.

Original Issue Discount

General. The following is a summary of the principal US federal income tax consequences of the ownership of Notes issued with OID. A Note will be treated as issued with OID (a "*Discount Note*") if the excess of the Note's "stated redemption price at maturity" over its issue price is at least a *de minimis* amount (0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date). Generally, the "issue price" of a Note is the first price at which a substantial amount of such Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. The "stated redemption price at maturity" of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest." A "qualified stated interest" payment is generally any one of a series of stated interest payments on a security that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate, applied to the outstanding principal amount of such security. If a Note has *de minimis* OID, a US Holder must include the *de minimis* amount in income as stated principal payments are made on the Note, unless the holder makes the election described below under "-Election to Treat All Interest as Original Issue Discount." A US Holder can determine the includible amount with respect to each such payment by multiplying the total amount of the Note's *de minimis* OID by a fraction equal to the amount of the principal payment made divided by the stated principal amount of the Note.

US Holders of Discount Notes must generally include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and will generally have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a US Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the US Holder holds the Discount Note ("*accrued OID*"). The daily portion is determined by allocating to each day in any accrual period a *pro rata* portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the US Holder and may vary in length over the term of the Discount Note as long as: (a) no accrual period is longer than one year and (b) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of: (i) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (ii) the sum of the payments of qualified stated interest on the Discount Note allocable to the accrual period. The "*adjusted issue price*" of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by: (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Election to Treat All Interest as Original Issue Discount. A US Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under "-Original Issue Discount-General" with certain modifications. For purposes of this election, interest includes stated interest, OID, and *de minimis* OID. If a US Holder makes this election for the Note, then, when the constant-yield method is applied, the issue price of the Note will equal its cost, the issue date of the Note will be the date of acquisition, and no payments on the Note will be treated as payments of qualified stated interest. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS.

Sale, Exchange and Redemption of Notes

Upon the sale, exchange, redemption, retirement at maturity or other taxable disposition of a Note, a US Holder generally will recognize taxable gain or loss equal to the difference between the amount realized (*i.e.*, the amount of cash and the fair market value of any property received on the disposition (except to the extent the cash or property received is attributable to accrued and unpaid stated interest not previously included in income, which is treated like a payment of interest)) and the US Holder's tax basis in the Note. A US Holder's tax basis in a Note generally will equal the amount paid for the Note, increased by the amount of any OID included in the US Holder's income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID included in the US Holder's income with respect to the Note. If a US Holder purchases a Note with Turkish Lira, then the US Dollar cost of such investment generally will be the US Dollar value of the purchase price on the date of purchase calculated at the spot rate of exchange on that date. The amount realized upon the disposition of a Note generally will be the US Dollar value of the amount received on the date of the disposition calculated at the spot rate of exchange on that date; *however*, if the Note is traded on an established securities market, a cash basis US Holder (and, if it so elects, an accrual basis US Holder) should determine the US Dollar value of the cost of or amount received on the Note, as applicable, by translating the amount paid or received at the spot rate of exchange on the settlement date of the purchase or disposition, as applicable. The election available to accrual basis US Holders in respect of the purchase and disposition of Notes traded on an established securities market must be applied consistently to all debt instruments from year-to-year and cannot be changed without the consent of the IRS. Subject to the foreign currency rules discussed below, any gain or loss recognized by a US Holder on the sale, exchange or other disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the US Holder for more than one year. Gain or loss realized by a US Holder on the sale or retirement of a Note generally will be US source. The deductibility of capital losses is subject to significant limitations. US Holders should consult their own advisers about the availability of US foreign tax credits or deductions with respect to any Turkish taxes imposed upon a disposition of Notes.

Gain or loss recognized by a US Holder on the sale, exchange, retirement or other disposition of a Note will generally be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in foreign currency exchange rates during the period in which the US Holder held such Note. Such foreign currency gain or loss will equal the difference between: (a) the US Dollar value of the US Holder's Turkish Lira purchase price for the Note calculated at the spot rate of exchange on the date of the sale, exchange, retirement or other disposition and (b) the US Dollar value of the US

Holder's Turkish Lira purchase price for the Note calculated at the spot rate of exchange on the date of purchase of the Note. If the Note is traded on an established securities market, with respect to a cash basis US Holder (and, if it so elects, an accrual basis US Holder), such foreign currency gain or loss will equal the difference between: (i) the US Dollar value of the US Holder's Turkish Lira purchase price for the Note calculated at the spot rate of exchange on the settlement date of the disposition and (ii) the US Dollar value of the US Holder's Turkish Lira purchase price for the Note calculated at the spot rate of exchange on the settlement date of the purchase of the Note. The realization of any foreign currency gain or loss, including foreign currency gain or loss with respect to amounts attributable to accrued and unpaid stated interest, will be limited to the amount of overall gain or loss realized on the disposition of the Notes.

Exchange of Amounts in Other than US Dollars

If a US Holder of a Note receives Turkish Lira as interest on a Note or on the sale, exchange, retirement or other disposition of a Note, then such US Holder's tax basis in the Turkish Lira will equal its US Dollar value when the interest is received or at the time of the sale, exchange, retirement or other disposition. If a US Holder of a Note purchased such Note with previously owned non-US currency, then gain or loss will be recognized in an amount equal to the difference, if any, between the US Holder's tax basis in such currency and the spot rate on the date of purchase. Any such gain or loss generally will be treated as ordinary income or loss and will be treated as from sources within the United States provided that the residence of the US Holder is considered to be the United States for purposes of the rule governing foreign currency transactions.

Information Reporting and Backup Withholding

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

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

Reportable Transaction Reporting

Under certain US Treasury regulations, US Holders that participate in "reportable transactions" (as defined in the regulations) must attach to their US federal income tax returns a disclosure statement on IRS Form 8886. Under the relevant rules, a US Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations. US Holders should consult their own tax advisers as to the possible obligation to file IRS Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including (without limitation) any non-US currency received as interest or as proceeds from the sale, exchange, retirement or other disposition of the Notes.

Recently Enacted Legislation

Recently enacted legislation requires certain US Holders who are individuals, estates or non-exempt trusts to pay up to an additional 3.8% tax on, among other things, interest on and capital gains from the sale, retirement or other taxable disposition of Notes. US Holders should consult their tax advisers regarding the effect, if any, of this new legislation on their investment in the Notes.

The Foreign Account Tax Compliance Act ("*FATCA*") generally imposes a withholding tax of 30% on certain payments to and from certain non-U.S. financial institutions (including entities such as the Bank).

Among other requirements, a "foreign financial institution" as defined under the Code (an "*FFI*"), such as the Bank, that opts in to comply with FATCA will be required to enter into an agreement with the IRS (an "*FFI Agreement*"). Such an agreement will require the provision of certain information regarding the FFI's "U.S. account holders" (which could include holders of the Notes) to the IRS. The Bank may opt into the FATCA information reporting regime, and it may be required to collect information regarding the identities of its noteholders and deliver such information to the IRS.

In such case, holders of the Notes may be required to provide the Bank with certain information, including, but not limited to: (a) information for the Bank to determine whether the beneficial owner of a note is a United States person as defined in Section 7701(a)(30) of the Code or a United States owned foreign entity as described in Section 1471(d)(i) of the Code and any additional information that the Bank or its agent requests in connection with FATCA and (b)(i) if the beneficial owner of a Note is a United States person, such United States person's name, address and U.S. taxpayer identification number, or (ii) if the beneficial owner of the note is a United States owned foreign entity, the name, address and taxpayer identification number of each of its substantial United States owners as defined in Section 1473(2) of the Code and any other information requested by the Bank or its agent upon request and (c) updated information promptly upon learning that any such information previously provided is obsolete or incorrect.

The Bank may be required to withhold up to 30% of amounts payable under the Notes to holders of the Notes that do not provide the Bank with information required to comply with FATCA or to FFIs that either do not enter into an FFI Agreement with the IRS under FATCA ("*Nonparticipating FFIs*") or are not otherwise exempt from or in deemed compliance with FATCA, if such amounts constitute foreign passthru payments ("*Foreign Passthru Payments*") under FATCA. Such withholding is required only if the Notes are significantly modified after the date (the "*Grandfathering Date*") that is six months after the date of filing of final regulations defining Foreign Passthru Payments. Further, such withholding is generally not required on payments made before the later of January 1, 2017 or the date of publication of final regulations defining Foreign Passthru Payments.

If FATCA were to require that an amount in respect of U.S. withholding tax were to be deducted or withheld from any payment on or with respect to the Notes, then neither the Bank nor any paying agent or other person would, pursuant to the conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding of such tax. Holders of the Notes should consult their tax advisers regarding the effect, if any, of FATCA on their investment in the Notes.

Certain Turkish Tax Considerations

The following discussion is a summary of certain Turkish tax considerations relating to an investment by a person who is a non-resident of Turkey in Notes of a Turkish company issued abroad. The discussion is based upon current law and is for general information only. The discussion below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership or disposition of the Notes that may be relevant to a decision to make an investment in the Notes. Furthermore, the discussion only relates to the investment by a person where the Notes will not be held in connection with the conduct of a trade or business through a permanent establishment in Turkey. Each investor should consult its own tax advisers concerning the tax considerations applicable to its particular situation. This discussion is based upon laws and relevant interpretations thereof in effect as of the date of this Offering Circular, all of which are subject to change, possibly with a retroactive effect. In addition, it does not describe any tax consequences: (a) arising under the laws of any taxing jurisdiction other than Turkey or (b) applicable to a resident of Turkey or a permanent establishment in Turkey that is constituted either by the existence of a fixed place of business or appointment of a permanent representative.

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile is in Turkey or its effective place of management is in Turkey. A resident legal entity is subject to Turkish taxes on its worldwide income, whereas a non-resident legal entity is only liable to the Turkish taxes for the trading income made through a permanent establishment or for the income sourced in Turkey otherwise.

A natural person or individual is a resident of Turkey if such person has established domicile in Turkey or stays in Turkey more than six months in a calendar year. On the other hand, foreigners who stay in Turkey for six months or more for a specific job or business or particular purposes that are specified in the Income Tax Law may not be treated as a resident of Turkey depending upon the characteristics of the stay. A resident individual is liable for Turkish taxes on his worldwide income, whereas a non-resident individual is liable for Turkish tax for the income sourced in Turkey.

Income from capital investment is sourced in Turkey when the principal is invested in Turkey. Capital gain derived from trading income is considered sourced in Turkey when the activity or transaction generating such income is performed or accounted for in Turkey. The term "accounted for" means that a payment is made in Turkey, or if the payment is made abroad, it is recorded in the books or apportioned from the profits of the payer or the person on whose behalf the payment is made in Turkey.

Any withholding tax levied on income derived by a non-resident person is the final tax for the non-resident person and no further declaration is needed. Any other income of a non-resident person sourced in Turkey that has not been subject to withholding tax will be subject to taxation through declaration where exemptions are reserved.

Interest paid on notes (such as the Notes) issued abroad by Turkish corporations is subject to withholding tax. Through the Tax Decrees, the withholding tax rates are set according to the maturity of notes issued abroad as follows:

- 10% withholding tax for notes with a maturity of less than one year,
- 7% withholding tax for notes with a maturity of at least one year and less than three years,
- 3% withholding tax for notes with a maturity of at least three years and less than five years, and
- 0% withholding tax for notes with a maturity of five years and more.

Such withholding tax is the final tax for a non-resident person and no further declaration is required.

Interest income derived by a resident corporation or individual is subject to further declaration and the withholding tax paid can be offset from the tax calculated on the return. For resident individuals, the entire gain is required to be declared if the interest income derived exceeds TL 26,000 for 2013 together with the gains from other marketable securities and real income from immovable property that were subjected to withholding. For resident corporations, the total interest income is subject to declaration.

In general, capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the Notes may be subject to declaration; *however*, pursuant to Temporary Article 67 of the Turkish Income Tax Law, as amended by law number 6111, special or separate tax returns will not be submitted for capital gains from the notes of a Turkish corporate issued abroad when the income is derived by a non-resident. Therefore, no tax is levied on the non-resident persons on capital gains from such Notes and no declaration is required.

A non-resident holder will not be liable for Turkish estate, inheritance or similar tax with respect to its investment in the Notes, nor will it be liable for any Turkish stamp issue, registration or similar tax or duty relating thereto.

Capital gains realized by a resident corporation or individual on the sale or redemption of the Notes (or beneficial interests therein) are subject to income tax or corporate tax declaration. The current rate for corporate tax is 20% and the current rate for individuals ranges from 15% to 35% depending upon the level of such individual's income. For resident individuals, the acquisition cost can be increased at the Producer Price Index' rate of increase for each month except for the month of discharge, so long as such index increased by at least 10%.

Reduced Withholding Tax Rates

Under current Turkish laws and regulations, interest payments on notes by an issuer to a non-resident holder will be subject to a withholding tax at a rate between 10% and 0% (inclusive) in Turkey, as detailed above.

If a double taxation treaty is in effect between Turkey and the country of which the holder of the notes is an income tax resident (in some cases, for example, pursuant to the treaties with the United Kingdom and the United States, the term "beneficial owner" is used) that provides for the application of a lower withholding tax rate than the local rate to be applied by the corporation, then the lower rate may be applicable. For the application of withholding at a reduced rate that benefits from the provisions of a double tax treaty concluded between Turkey and the relevant jurisdiction where the investor is a resident, an original copy of the certificate of residence signed by the competent authority referred to in Article 3 of the Treaty is required, together with a translated copy translated by a translation office, to verify that the investor is subject to taxation over its worldwide gains in the relevant jurisdiction on the basis of resident taxpayer status, as a resident of the relevant jurisdiction to the related tax office directly or through the banks and intermediary institutions prior to the application of withholding. In the event the certificate of residence is not delivered prior to the application of withholding tax, then upon the subsequent delivery of the certificate of residence, refunding of the excess tax shall be granted pursuant to the provisions of the relevant double taxation treaty and the Turkish tax legislation.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, member states are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state or to certain limited types of entities established in that other member state; *however*, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described herein.

CERTAIN CONSIDERATIONS FOR ERISA AND OTHER US EMPLOYEE BENEFIT PLANS

Subject to the following discussion, the Notes may be acquired with assets of pension, profit-sharing or other employee benefit plans, as well as individual retirement accounts, Keogh plans and other plans and retirement arrangements, and any entity deemed to hold "plan assets" of the foregoing (each, a "Plan"). Section 406 of the US Employee Retirement Income Security Act of 1974, as amended ("*ERISA*") and Section 4975 of the Code prohibit a Plan subject to those provisions (each, a "*Benefit Plan Investor*") from engaging in certain transactions with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to such Benefit Plan Investor. A violation of these "prohibited transaction" rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons or the fiduciaries of such Benefit Plan Investor. In addition, Title I of ERISA requires fiduciaries of a Benefit Plan Investor subject to ERISA to make investments that are prudent, diversified and in accordance with the governing plan documents. Employee benefit plans that are US governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA) are not subject to the fiduciary and prohibited transaction provisions of ERISA or Section 4975 of the Code; *however*, such plans may be subject to similar restrictions under applicable state, local or other law ("*Similar Law*").

An investment in the Notes by or on behalf of a Benefit Plan Investor could give rise to a prohibited transaction if the Bank is a party in interest or a disqualified person with respect to such Benefit Plan Investor. Certain exemptions from the prohibited transaction rules could be applicable to an investment in the Notes by a Benefit Plan Investor depending upon the type and circumstances of the plan fiduciary making the decision to acquire such investment and the relationship of the party in interest to the Benefit Plan Investor. Included among these exemptions are: Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for certain transactions between a Benefit Plan Investor and non-fiduciary service providers to the Benefit Plan Investor; Prohibited Transaction Class Exemption ("PTCE") 96-23, regarding transactions effected by "in-house asset managers;" PTCE 95-60, regarding investments by insurance company general accounts; PTCE 91-38, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14, regarding transactions effected by "qualified professional asset managers." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts that might be construed as prohibited transactions. There can be no assurance that any of these, or any other exemption, will be available with respect to any particular transaction involving the Notes, and prospective investors that are Benefit Plan Investors and other Plans should consult with their legal advisors regarding the applicability of any such exemption and other applicable legal requirements.

By acquiring a Note (or a beneficial interest therein), each purchaser (and if the purchaser is a Plan, its fiduciary) is deemed to represent and warrant that either: (a) it is not acquiring the Note (or a beneficial interest therein) with the assets of a Benefit Plan Investor, a US governmental plan or other employee benefit plan that is subject to Similar Law, or (b) the acquisition of the Note (or a beneficial interest therein) will not give rise to a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of Similar Law.

Prospective investors are advised to consult their advisers with respect to the consequences under ERISA and similar laws of the purchase, ownership or disposition of the Notes (or a beneficial interests therein).

PLAN OF DISTRIBUTION

The Bank intends to offer the Notes through the Initial Purchasers and their broker-dealer affiliates, as applicable, named below. Subject to the terms and conditions stated in a subscription agreement in respect of the Notes entered into on February 28, 2013 among the Initial Purchasers and the Bank (the "*Subscription Agreement*"), each of the Initial Purchasers has severally agreed to purchase, and the Bank has agreed to sell to each of the Initial Purchasers, the principal amount of the Notes set forth opposite each Initial Purchaser's name below.

Joint Lead Managers	**Principal Amount of the Notes**
BNP Paribas	TL 150,000,000
Deutsche Bank AG, London Branch	TL 150,000,000
Goldman Sachs International	TL 150,000,000
Mitsubishi UFJ Securities International plc	TL 150,000,000
Standard Chartered Bank	TL 150,000,000
TOTAL	TL 750,000,000

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

The Bank has been informed that the Initial Purchasers propose to resell beneficial interests in the Notes at the offering price set forth on the cover page of this Offering Circular within the United States to persons reasonably believed to be QIBs in reliance upon Rule 144A, and to non-US persons outside the United States in reliance upon Regulation S. See "Transfer Restrictions." The prices at which beneficial interests in the Notes are offered may be changed at any time without notice.

Offers and sales of the Notes in the United States will be made by those Initial Purchasers or their affiliates that are registered broker-dealers under the Exchange Act, or in accordance with Rule 15a-6 thereunder.

The Notes have not been registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S under the Securities Act) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions." Accordingly, until 40 days after the closing date of this Offering (the "*Distribution Compliance Period*"), an offer or sale of Notes (or beneficial interests therein) within the United States by a dealer that is not participating in this Offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Each Initial Purchaser has agreed that it will send to each dealer to which it sells Notes (or beneficial interests therein) (other than a sale pursuant to Rule 144A) during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes (or beneficial interests therein) within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

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

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

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

The Bank expects that delivery of interests in the Notes will be made against payment therefor on the Issue Date specified on the cover page of this Offering Circular, which will be the fifth Business Day following the date of this Offering Circular (this settlement cycle being referred to as "T+5"). Under Rule 15c6-l of the Exchange Act, trades in the secondary market generally are required to settle in three New York business days, unless the parties to any such trade expressly agree otherwise. Accordingly, investors who wish to trade interests in the Notes on the date of this Offering Circular or the next New York business days will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Investors in the Notes who wish to trade interests in the Notes on the date of this Offering Circular or the next New York business days should consult their own adviser.

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Initial Purchasers or their respective affiliates may have performed investment banking and advisory services for the Bank and its affiliates from time to time for which they may have received fees, expenses, reimbursements and/or other compensation. The Initial Purchasers or their respective affiliates may, from time to time, engage in transactions with and perform advisory and other services for the Bank and its affiliates in the ordinary course of their business. Certain of the Initial Purchasers and/or their respective affiliates have acted and expect in the future to act as a lender to the Bank and/or other members of the Group and/or otherwise participate in transactions with the Group.

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

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

The Bank has agreed to indemnify each Initial Purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of those liabilities.

SELLING RESTRICTIONS

NOTICE TO RESIDENTS OF TURKEY

THE INTERNATIONAL OFFERING OF THE NOTES HAS BEEN AUTHORIZED BY, AND WILL BE APPROVED BY, THE CMB UNDER THE PROVISIONS OF DECREE 32, THE BANKING REGULATIONS AND THE TURKISH CAPITAL MARKETS REGULATIONS FOR THE PURPOSE OF THE SALE OF THE NOTES OUTSIDE TURKEY. THE CMB HAS AUTHORIZED THE SALE AND OFFERING OF THE NOTES, WHETHER IN THE PRIMARY OR SECONDARY MARKETS, ON THE CONDITION THAT NO TRANSACTION THAT QUALIFIES AS A SALE OR OFFERING OF THE NOTES (OR BENEFICIAL INTERESTS THEREIN) BY WAY OF PUBLIC OFFERING OR PRIVATE PLACEMENT IN TURKEY MAY BE ENGAGED IN. NOTWITHSTANDING THE FOREGOING, RESIDENTS OF TURKEY MAY PURCHASE THE NOTES (OR BENEFICIAL INTEREST THEREIN) OFFSHORE ON AN UNSOLICITED BASIS IN ACCORDANCE WITH ARTICLE 15(D)(II) OF DECREE 32.

FURTHER, AS ALSO STATED IN THE RESOLUTION OF THE BRSA DATED SEPTEMBER 30, 2010 NO. 3875 AND ARTICLE 4 OF REGULATION ON DEPOSITS AND PARTICIPATION FUNDS THAT ARE SUBJECT TO INSURANCE AND PREMIUMS COLLECTED BY THE SAVINGS DEPOSIT INSURANCE FUND DATED NOVEMBER 7, 2006, MONIES PAID TO PURCHASERS OF TURKISH LIRA-DENOMINATED BONDS (SUCH AS THE NOTES) ARE NOT PROTECTED BY THE INSURANCE COVERAGE OF THE SDIF.

THE ISSUANCE CERTIFICATE RELATING TO THE NOTES IS EXPECTED TO BE OBTAINED FROM THE CMB ON OR BEFORE THE ISSUE DATE.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

In the United Kingdom, this Offering Circular is being distributed only to and is directed only at: (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "*Order*"), (b) high net worth bodies corporate falling within Article 49(2) of the Order and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "*relevant persons*"). Each Initial Purchaser has represented and agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "*FSMA*")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Bank, and (ii) it has complied and will comply with all applicable provisions of the FSMA in respect of anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

NOTICE TO RESIDENTS OF SWITZERLAND

In Switzerland, this Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations nor a simplified prospectus as such term is understood pursuant to article 5 of the Swiss Collective Investment Scheme Act, and neither this Offering Circular nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the offering of the Notes has been or will be filed with or approved by any Swiss regulatory authority. The Notes do not constitute a participation in a collective investment scheme in the meaning of the Swiss Collective Investment Schemes Act and are not subject to the approval of, or supervision by, any Swiss regulatory authority, such as the Swiss Financial Markets Supervisory Authority ("*FINMA*"), and investors in the Notes will not benefit from protection or supervision by any Swiss regulatory authority.

GENERAL

No action has been taken by the Issuer or any of the Initial Purchasers that would, or is intended to, permit a public offer of the Notes (or beneficial interests therein), or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Notes, in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Initial Purchaser has undertaken that it will not, directly or indirectly, offer or sell any Notes (or beneficial interests therein) or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes (or beneficial interests therein) by it will be made on the same terms.

TRANSFER RESTRICTIONS

Because the following restrictions will apply with respect to the Notes, investors in the Notes are advised to consult legal counsel prior to making an offer, resale, pledge or transfer of any of the Notes. References to Notes in this section should, as appropriate, be deemed to refer to the Notes themselves and/or beneficial interests therein.

According to Article 15d(ii) of Decree 32 regarding the Protection of the Value of the Turkish Currency, residents in Turkey will be free to purchase and sell securities and other capital market instruments traded on financial markets abroad, and to transfer their purchasing proceeds abroad through banks and the intermediary institutions authorized in accordance with capital market legislation.

The Bank has not registered the Notes under the Securities Act or the laws of any state securities commission and, therefore, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only: (a) to persons reasonably believed to be QIBs in compliance with Rule 144A under the Securities Act and (b) to non-US persons outside the United States in compliance with Regulation S under the Securities Act.

If an investor invests in the Notes, then such investor will be deemed to have acknowledged, represented and agreed with the Initial Purchasers and the Bank as follows:

(a) Such investor understands and acknowledges that the Notes have not been registered under the Securities Act or any other applicable securities law and that the Notes are being offered for resale in transactions not requiring registration under the Securities Act or any other securities law, including sales pursuant to Rule 144A under the Securities Act, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, or pursuant to an exemption therefrom or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraph (e) below.

(b) Such investor is not an "affiliate" (as defined in Rule 144 under the Securities Act) of the Bank and is not acting on the Bank's behalf and such investor is either: (i) a QIB and is aware that any sale of Notes to it will be made in reliance upon Rule 144A and such acquisition will be for its own account or for the account of another QIB or (ii) not a "US person" (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a US person (other than a distributor) and is purchasing Notes in an offshore transaction in accordance with Regulation S under the Securities Act.

(c) Such investor acknowledges that none of the Bank or the Initial Purchasers, or any person representing the Bank or the Initial Purchasers, has made any representation to it with respect to the Bank or the offer or sale of any of the Notes, other than the information contained in this Offering Circular, which has been delivered to the investor and upon which such investor is relying in making its investment decision with respect to the Notes. Such investor acknowledges that the Initial Purchasers make no representation or warranty as to the accuracy or completeness of this Offering Circular. Such investor has had access to such financial and other information concerning the Bank and the Notes as it has deemed necessary in connection with its decision to purchase the Notes, including an opportunity to ask questions of and request information from the Bank and the Initial Purchasers.

(d) Such investor is investing in the Notes for its own account, or for one or more investor accounts for which such investor is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or any other law.

With respect to the Rule 144A Notes, each investor therein agrees (or will be deemed to agree) on its own behalf and on behalf of any investor account for which it is purchasing a Rule 144A Note, and each subsequent investor in a Rule 144A Note by its acceptance thereof (or of a beneficial interest therein) will agree (or will be deemed to agree), to offer, sell or otherwise transfer such Notes prior to: (i) the date that is one year (or such shorter period of time as permitted by Rule 144 under the Securities Act or any successor provision thereunder) after the later of the Issue Date and the last date on which the Bank or any affiliate of the Bank was the owner of such Rule 144A Note (or any predecessor thereto), or (ii) such later date, if any, as may be required by applicable law (the "*Resale Restriction Termination Date*"), only: (A) to the Bank, (B) pursuant to a registration statement that has been declared effective under the Securities Act, (C) for so long as the Notes are eligible for resale pursuant to Rule 144A, to a person reasonably believed to be a QIB that purchases for its own account or for the account of another QIB to whom such investor gives notice that the transfer is being made in reliance upon Rule 144A, (D) in an offshore transaction complying with Rule 903 or 904 of Regulation S under the Securities Act or (E) pursuant to any other available exemption from the registration requirements of the Securities Act, and, in each case, in compliance with the relevant securities laws of any applicable jurisdiction. The foregoing restrictions on resale will not apply after the Resale Restriction Termination Date; *however*, any resale of the Notes thereafter will continue to need to comply with all applicable laws. Such investor acknowledges that the Bank reserves the right prior to any offer, sale or other transfer of a Rule 144A Note pursuant to clause (D) or (E) above to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Bank.

With respect to the Regulation S Notes, each investor therein agrees (or will be deemed to agree) on its own behalf and on behalf of any investor account for which it is purchasing a Regulation S Note, that no offer, sale, pledge or other transfer made during the Distribution Compliance Period (*i.e.*, prior to the date 40 days after the closing date of this Offering) shall be made to a US person or for the account or benefit of a US person (other than a distributor).

(e) Each Rule 144A Note will contain a legend substantially in the following form:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "*SECURITIES ACT*"), OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. NEITHER THIS NOTE NOR ANY INTEREST HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE HOLDER OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN) BY ITS ACCEPTANCE HEREOF (OR OF A BENEFICIAL INTEREST HEREIN): (a) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (b) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) THAT IT WILL NOT PRIOR TO: (i) THE DATE THAT IS ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ISSUE DATE OR THE LAST DAY ON WHICH THE ISSUER OR ANY AFFILIATE (AS DEFINED IN RULE 144) OF THE ISSUER WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF THIS NOTE), OR (ii) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE "RESALE RESTRICTION TERMINATION DATE"), OFFER, SELL OR OTHERWISE TRANSFER THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) EXCEPT: (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE UPON RULE 144A UNDER THE SECURITIES ACT, (D) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND, IN EACH CASE, IN COMPLIANCE WITH THE RELEVANT SECURITIES LAWS OF ANY APPLICABLE JURISDICTION; *PROVIDED* THAT THE ISSUER SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) OR (E) ABOVE TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER, AND (c) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER HEREOF AFTER THE RESALE

RESTRICTION TERMINATION DATE. AS USED HEREIN, THE TERM "OFFSHORE TRANSACTION" HAS THE MEANING GIVEN TO IT BY REGULATION S UNDER THE SECURITIES ACT.

EACH PURCHASER AND TRANSFEREE OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT ACQUIRING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WITH THE ASSETS OF AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE US EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, ANY "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE US INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "*CODE*"), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" OF ANY OF THE FOREGOING OR A US GOVERNMENTAL PLAN OR OTHER EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL NOT GIVE RISE TO A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

Each Regulation S Note will contain a legend substantially in the following form:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "*SECURITIES ACT*"), OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE HOLDER OF THIS NOTE (OR OF A BENEFICIAL INTEREST HEREIN) BY ITS ACCEPTANCE HEREOF (OR OF A BENEFICIAL INTEREST HEREIN) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT IS PURCHASING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) THAT NO OFFER, SALE, PLEDGE OR OTHER TRANSFER MADE PRIOR TO THE DATE 40 DAYS AFTER THE ISSUE DATE SHALL BE MADE TO A US PERSON OR FOR THE ACCOUNT OR BENEFIT OF A US PERSON (OTHER THAN A DISTRIBUTOR).

EACH PURCHASER AND TRANSFEREE OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL BE DEEMED TO REPRESENT AND WARRANT THAT EITHER: (a) IT IS NOT ACQUIRING THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WITH THE ASSETS OF AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE US EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("*ERISA*"), THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, ANY "PLAN" AS DEFINED IN AND SUBJECT TO AND SECTION 4975 OF THE US INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "*CODE*"), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" OF ANY OF THE FOREGOING OR A US GOVERNMENTAL PLAN OR OTHER EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO ANY LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("*SIMILAR LAW*"), OR (b) THE ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE (OR A BENEFICIAL INTEREST HEREIN) WILL NOT GIVE RISE TO A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

(f) If such investor purchases the Notes (or any beneficial interest therein), then it will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in the Notes as well as to holders of the Notes.

(g) Such investor acknowledges that the Registrar will not be required to accept for registration of transfer any Notes acquired by it except upon presentation of evidence satisfactory to the Bank and the Registrar that the restrictions set forth herein have been complied with.

(h) Such investor acknowledges that:

(i) the Bank, the Initial Purchasers and others will rely upon the truth and accuracy of such investor's acknowledgements, representations and agreements set forth herein and such investor agrees (or will be deemed to agree) that if any of its acknowledgements, representations or agreements herein cease to be accurate and complete, such investor will notify the Bank and the Initial Purchasers promptly in writing, and

(ii) if such investor is acquiring any Notes as fiduciary or agent for one or more investor accounts, such investor represents with respect to each such account that:

(A) such investor has sole investment discretion, and

(B) such investor has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account and that each such investment account is eligible to purchase the Notes.

(i) Such investor agrees that it will give to each person to whom it transfers a Note notice of any restrictions on the transfer of such Note.

(j) Such investor understands that no action has been taken in any jurisdiction (including the United States) by the Bank or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this Offering Circular or any other material relating to the Bank or the Notes in any jurisdiction where action for that purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth under this "Transfer Restrictions" section and "Selling Restrictions."

(k) Each purchaser and transferee of a Note (or a beneficial interest therein) will be deemed to represent and warrant that either: (i) it is not acquiring the Note (or a beneficial interest therein) with the assets of an "employee benefit plan" as defined in Section 3(3) of ERISA, that is subject to the provisions of Title I of ERISA any "plan" as defined in and subject to Section 4975 of the Code, any entity whose underlying assets include "plan assets" of any of the foregoing or a US governmental plan or other employee benefit plan that is subject to any Similar Law, or (ii) the acquisition, holding and disposition of such Note (or a beneficial interest therein) will not give rise to a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a violation of Similar Law.

LEGAL MATTERS

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

OTHER GENERAL INFORMATION

Authorization

The issuance and sale of the Notes by the Bank and the execution and delivery by the Bank of the transaction documents have been authorized pursuant to the authority of the officers of the Bank under a resolution of its Board of Directors dated January 10, 2013.

Listing

An application has been made to the Irish Stock Exchange to admit the Notes to listing on the Official List and to have the Notes admitted to trading on the Main Securities Market; *however*, no assurance can be given that such application will be accepted. It is expected that admission of the Notes to the Official List and to trading on the Main Securities Market will be granted on or before the Issue Date, subject only to the issue of the Notes. The expenses in connection with the admission of the Notes to the Official List and to trading on the Main Securities Market are expected to amount to approximately €4,940.

Listing Agent

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

Clearing Systems

The Global Certificates have been accepted into the applicable systems used by Euroclear and Clearstream, Luxembourg (ISIN code XS0898746614 and Common Code number 089874661 with respect to the Rule 144A Notes and ISIN code XS0898745210 and Common Code number 089874521 with respect to the Regulation S Notes).

Significant or Material Change

There has been no significant change in the financial or trading position of either the Group or the Bank, and no material adverse change in the financial position or prospects of either the Group or the Bank, since December 31, 2012.

Interests of Natural and Legal Persons Involved in the Issue

Except as noted in the first three paragraphs of "Plan of Distribution," no natural or legal person involved in the issue of the Notes has an interest, including a conflicting interest, that is material to the issue of the Notes.

Independent Auditors

The IFRS Financial Statements prepared as of and for the years ended December 31, 2011 and 2012 have been audited in accordance with International Standards on Auditing by Deloitte located at Sun Plaza, Maslak Mah. Bilim Sk. No: 5, Şişli, Istanbul 34398. Deloitte, independent auditors in Turkey, is an audit firm authorized by the BRSA to conduct independent audits of banks in Turkey. See "Risk Factors – Risks Relating to the Group and its Business – Audit Qualification."

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Bank is aware) that may have, or have had, during the 12 months prior to the date of this Offering Circular, a significant effect on the Group's financial position or profitability.

Documents

The Bank produces audited consolidated annual and unaudited consolidated and unconsolidated quarterly and semi-annual interim financial statements. Copies of the latest audited annual and unaudited semi-annual interim reports of the Bank (in English) delivered by the Bank pursuant to Condition 5 may be obtained, and copies (with certified English translations where the documents at issue are not in English) of the Bank's articles of association and of its audited financial statements as of and for the years ended December 31, 2011 and 2012, and copies of the transaction documents referred to herein (including the forms of the Notes) will be available for inspection, at the offices of the Bank and the Fiscal Agent.

Copies of this Offering Circular, the constitutional documents of the Bank, the Group's financial statements for the latest two years and (after the Issue Date) the Deed of Covenant and the Agency Agreement will be available in physical form for inspection at the Bank's headquarters at Levent Nispetiye Mahallesi, Aytar Caddesi No: 2, Beşiktaş 34340, Istanbul, with such financial statements also being available on the Bank's website at www.garanti.com.tr/en/our_company/investor_relations/financials_and_presentations/annual_and_interim_reports.page (such website is not, and should not be deemed to, constitute a part of, or be incorporated into, this Offering Circular). Such documents will be so available through the final redemption of the Notes. The telephone number for the Bank's headquarters is +90 212 318 17 11.

Material Contracts

Except as disclosed in this Offering Circular under "The Group and its Business," the Bank has not entered into any material contract outside the ordinary course of its business that could result in the Bank being under an obligation or entitlement that is material to its ability to meet its obligations in respect of the Notes.

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IFRS FINANCIAL STATEMENTS

The IFRS Financial Statements for the years ended December 31, 2011 and 2012 (including 2010 numbers), together with the independent audit reports thereon, are set out below.

The independent auditors' reports for each of the IFRS Financial Statements are qualified due to the general provision amounting to TL 450,000 thousand (TL 360,000 thousand as of December 31, 2010) that is not permitted under IFRS (see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Significant Factors Affecting the Group's Financial Condition and Results of Operations - Allowance for Loan Losses").

AUDITED CONSOLIDATED IFRS FINANCIAL STATEMENTS OF THE GROUP FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012 (INCLUDING COMPARATIVE 2011)

Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

Consolidated Financial Statements
As at and for the year ended
31 December 2012
With Independent Auditor's Report Thereon

31 January 2013

This report contains the "Independent Auditor's Report" comprising 2 pages and; the "Consolidated Financial Statements and Their Explanatory Notes" comprising 81 pages.

Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

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Deloitte

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To the Board of Directors of
Türkiye Garanti Bankası A.Ş.
İstanbul

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Türkiye Garanti Bankası A.Ş. (the "Bank") and its consolidated affiliates (together the "Group"), which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Deloitte.

Basis for Qualified Opinion

As of the balance sheet date, the accompanying consolidated financial statements include a general provision amounting to TL 450,000 thousands in total, all provided by the Bank management in prior periods in line with conservatism principle considering the circumstances which may arise from any changes in the economy or market conditions.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

DRT Bağımsız Denetim ve SMMM A.Ş.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

İstanbul, January 31, 2013

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Financial Position
At 31 December 2012

(Currency: Thousands of Turkish Lira (TL))

	Notes	31 December 2012	31 December 2011
Assets			
Cash and balances with central banks	*4*	4,519,405	3,429,820
Financial assets at fair value through profit or loss	*5*	550,926	419,271
Loans and advances to banks	*6*	9,409,593	15,232,714
Loans and advances to customers	*7.23*	102,260,080	92,653,780
Other assets	*9*	18,728,613	11,721,985
Investment securities	*10.22.23*	39,861,281	35,941,390
Investments in equity participations	*11*	25,340	24,593
Tangible assets, net	*12*	1,643,451	1,710,768
Goodwill, net	*13*	32,948	32,948
Deferred tax asset	*20*	467,898	233,752
Total Assets		177,499,535	161,401,021
Liabilities			
Deposits from banks	*14*	5,583,786	3,096,810
Deposits from customers	*15*	92,191,501	90,138,994
Obligations under repurchase agreements and money market fundings	*16*	14,106,944	11,738,157
Loans and advances from banks and other institutions	*17*	25,879,355	24,325,549
Bonds payable	*18*	6,125,986	3,742,056
Subordinated liabilities	*19*	148,680	1,122,090
Current tax liability	*20*	344,820	80,437
Deferred tax liability	*20*	28,774	6,987
Other liabilities, accrued expenses and provisions	*21*	11,151,973	9,000,062
Total Liabilities		**155,561,819**	**143,251,142**
Equity attributable to owners of the bank			
Share capital	*22*	5,143,305	5,145,012
Share premium	*22*	11,880	11,880
Unrealised gains on available-for-sale assets	*10.22*	1,093,683	92,778
Hedging reserve	*22*	-	(389)
Translation reserve	*22*	(20,765)	(16,382)
Legal reserves	*22*	956,192	757,480
Retained earnings	*22*	14,612,897	12,046,917
		21,797,192	**18,037,296**
Non-controlling interests	*22*	**140,524**	**112,583**
Total Equity		**21,937,716**	**18,149,879**
Total Liabilities and Equity		177,499,535	161,401,021
Commitments and Contingencies	*24*		

The notes on pages 5 to 81 are an integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Comprehensive Income
For The Year Ended 31 December 2012

(Currency: Thousands of Turkish Lira (TL))

	Notes	2012	2011
Statement of Income:			
Interest income:-			
Interest on loans		9,164,868	7,165,025
Interest on securities		4,005,815	3,677,404
Interest on deposits at banks		352,702	309,804
Interest on lease business		239,758	172,135
Others		62,991	68,738
		13,826,134	11,393,106
Interest expense:-			
Interest on saving, commercial and public deposits		(5,036,622)	(4,047,763)
Interest on borrowings, obligations under repurchase agreements and money market fundings		(1,872,825)	(1,743,956)
Interest on bonds payable		(321,472)	(177,431)
Interest on bank deposits		(164,573)	(107,148)
Interest on subordinated liabilities		(11,696)	(69,623)
Others		(11,584)	(11,292)
		(7,418,772)	(6,157,213)
Net interest income before provisions for loans and other credit risks		6,407,362	5,235,893
Provisions for loans and other credit risks, net	*5,6,7,8,10, 21*	(1,202,379)	(220,070)
Net interest income after provisions for loans and other credit risks		5,204,983	5,015,823
Fee and commission income		2,580,467	2,534,166
Fee and commission expense		(507,718)	(403,563)
Net fee and commission income	*28*	2,072,749	2,130,603
Foreign exchange gains, net		435,055	-
Premium income from insurance business		299,617	228,713
Trading gains, net	*29*	170,409	677,193
Gain on sale of assets		58,334	259,011
Other operating income		191,365	201,419
Other operating income		1,154,780	1,366,337
Total operating Income		8,432,512	8,512,763
Salaries and wages		(1,441,706)	(1,321,469)
Credit card rewards and promotion expenses		(427,893)	(438,765)
Employee benefits	*21*	(405,304)	(330,928)
Depreciation and amortization	*9, 12*	(258,233)	(233,751)
Rent expenses		(215,817)	(193,994)
Communication expenses		(171,892)	(150,159)
Taxes and duties other than on income		(145,607)	(128,589)
Impairment losses, net	*9,11,12,13,21*	(41,294)	(133,646)
Foreign exchange losses, net		-	(340,950)
Other operating expenses	*30*	(1,043,961)	(968,422)
Total operating expenses		(4,151,707)	(4,240,673)
Income before tax		4,280,805	4,272,090
Taxation charge	*20*	(888,081)	(874,164)
Net income for the period		3,392,724	3,397,926
Other Comprehensive Income:			
Foreign currency translation differences for foreign operations	*22*	1,318	(16,019)
Cash flow hedges:			
Effective portion of changes in fair value	*22*	-	1,093
Net amount transferred to income	*22*	389	-
Fair value reserves (available-for-sale financial assets):			
Net change in fair values	*22*	986,360	(1,248,515)
Net amount transferred to income	*22*	8,753	(286,075)
Other comprehensive income for the period, net of tax		996,820	(1,549,516)
Total Comprehensive Income for the Period		4,389,544	1,848,410
Net income attributable to:			
Equity holders of the Bank		3,364,809	3,378,496
Non-controlling interests		27,915	19,430
		3,392,724	3,397,926
Total comprehensive income attributable to:			
Equity holders of the Bank		4,361,603	1,833,288
Non-controlling interests		27,941	15,122
		4,389,544	1,848,410
Weighted average number of shares with a face value of Kr 1 each	*22*	420 billions	420 billions
Basic and diluted earnings per share (full TL amount per TL 1 face value each)		0,801	0,804

The notes on pages 5 to 81 are integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Changes in Equity
For The Year Ended 31 December 2012

(Currency: Thousands of Turkish Lira (TL))

	Notes	Share Capital	Share Premium	Unrealised Gains/(Losses) on Available-for-Sale Assets	Hedging Reserve	Translation Reserve	Legal Reserves	Retained Earnings	Non-Controlling Interests	Total Equity
Balances at 31 December 2010		5,146,371	11,880	1,627,351	(1,482)	1,222	553,459	9,436,566	97,461	16,872,828
Acquisition of treasury shares	22	(1,359)	-	-	-	-	-	-	-	(1,359)
Foreign exehange difference on foreign curreney legal reserves		-	-	-	-	-	1,585	-	-	1,585
Transfer to legal reserves		-	-	-	-	-	202,419	(202,419)	-	-
Dividends paid		-	-	-	-	-	-	(570,000)	-	(570,000)
Net unrealised market value losses from available-for-sale portfolio	22	-	-	(1,248,498)	-	-	-	-	(17)	(1,248,515)
Net gains on available-for-sale assets transferred to income statement on disposal	22	-	-	(286,075)	-	-	-	-	-	(286,075)
Foreign currency translation differences for foreign operations		-	-	-	-	(17,604)	-	-	-	(17,604)
Net fair valne gains from cash flow hedges	22	-	-	-	1,093	-	-	-	-	1,093
Adjustments to equity for share trausfer of a consolidated affiliate		-	-	-	-	-	17	4,274	(4,291)	-
Net income for the year		-	-	-	-	-	-	3,378,496	19,430	3,397,926
Balances at 31 December 2011		5,145,012	11,880	92,778	(389)	(16,382)	757,480	12,046,917	112,583	18,149,879
Acquisition of treasury shares	22	(1,707)	-	-	-	-	-	-	-	(1,707)
Foreign exchange difference on foreign curreney legal reserves	22	-	-	-	-	-	(117)	-	-	(117)
Transfer to legal reserves	22	-	-	-	-	-	198,829	(198,829)	-	-
Dividends paid	22	-	-	-	-	-	-	(600,000)	-	(600,000)
Net unrealised market value gains from available-for-sale portfolio	22	-	-	986,334	-	-	-	-	26	986,360
Net losses on available-for-sale assets transferred to ineome statement on disposal	22	-	-	8,753	-	-	-	-	-	8,753
Foreign currency translation differences for foreign operations		-	-	5,818	-	(4,383)	-	-	-	1,435
Net fair value gains from cash flow hedges	22	-	-	-	389	-	-	-	-	389
Net ineome for the year		-	-	-	-	-	-	3,364,809	27,915	3,392,724
Balances at 31 December 2012		5,143,305	11,880	1,093,683	-	(20,765)	956,192	14,612,897	140,524	21,937,716

The notes on pages 5 to 81 are an integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Cash Flows
For The Year Ended 31 December 2012

(Currency: Thousands of Turkish Lira (TL))

	Notes	2012	2011
Cash flows from operating activities:-			
Interests and commissions received		12,440,007	9,804,414
Interests and commissions paid		(7,985,474)	(6,256,190)
Other operating activities, net		1,521,184	(671,221)
Cash payments to employees and suppliers		(3,363,161)	(3,339,217)
		2,612,556	(462,214)
(Increase)/decrease in operating assets:-			
Loans and advances to banks		1,641,673	(1,592,000)
Balances with eentral banks		(6,352,361)	(3,459,739)
Finaneial assets at fair value through profit or loss		(122,266)	375,609
Loans and advances to eustomers		(5,759,965)	(14,887,723)
Consumer loans		(5,264,871)	(6,477,728)
Other assets		(866,573)	(973,475)
Increase/(decrease) in operating liabilities:-			
Deposits from banks		2,489,132	283,850
Deposits from customers		2,136,680	13,729,712
Obligations under repurchase agreements and money market fundings		2,378,164	3,329
Other liabilities		1,925,476	1,426,544
Net cash flows from operating activities before taxes and duties paid		**(5,182,355)**	**(12,033,835)**
Income taxes and other duties paid		**(1,236,951)**	**(855,251)**
Net cash flows from operating activities		**(6,419,306)**	**(12,889,086)**
Cash flows from investing activities:-			
Net (inerease)/decrease in investment securities		(1,855,124)	3,244,428
Interest received for investment securities		3,479,146	2,925,063
Proceeds from sale of investments in equity participations, net		20	171,003
Dividends reeeived		2,865	6,564
Proeeeds from sale of tangible assets		143,813	196,191
Purehase of tangible assets		(344,438)	(530,618)
Net cash flows from investing activities		**1,426,282**	**6,012,631**
Cash flows from financing activities:-			
Increase in loans and advances from banks and other institutions, net		1,533,211	4,317,666
Increase in bonds payable, net		2,340,771	3,603,984
(Decrease)/increase in subordinated liabilities, net		(946,376)	139,190
Dividends paid		(600,000)	(570,000)
Net cash flows from financing activities		**2,327,606**	**7,490,840**
Effect of exchange rate changes		**(433,746)**	**1,565,188**
Net (decrease)/increase in cash and cash equivalents		**(3,099,164)**	**2,179,573**
Cash and cash equivalents at the beginning of the period		9,075,471	6,895,898
Cash and cash equivalents at the end of the period	*2*	5,976,307	9,075,471

The notes on pages 5 to 81 are an integral part of these consolidated financial statements.

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank as of and for the year ended 31 December 2012 comprise the Bank, its affiliates (the Affiliates) and their interest in associates.

(a) Brief History

The foundation of the Bank was approved by the decree of the Council of Ministers numbered 3/4010 dated 11 April 1946 and its "Articles of Association" was published in the official gazette dated 25 April 1946. The Bank provides retail, commercial, corporate and small and medium size enterprises (SME) banking, leasing, insurance, asset management and factoring services through a network of 822 domestic branches, seven foreign branches, three representative offices abroad and 104 offices. In addition to its branches, the Bank has 100% ownership in three banks each of which is located in Amsterdam, Bucharest and Moscow. The Bank and its affiliates in total have 20,287 employees. The Bank's head office is located at Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 Istanbul, Turkey.

(b) Ownership

On 22 March 2011, Banco Bilbao Vizcaya Argentaria SA ("BBVA") acquired 78.120.000.000 shares of the Bank owned by GE Capital Corporation a total nominal value of TL 781,200 thousands representing 18.60% ownership and 26.418.840.000 shares of the Bank owned by Doğuş Holding AŞ at a total nominal value of TL 264,188 thousands representing 6.29% ownership. Subsequently, on 7 April 2011, BBVA acquired further 503.160.000 shares at a nominal value of TL 5,032 thousands and increased its ownership in the Bank's share capital to 25.01%. As per the agreement between Doğuş Holding AŞ and BBVA, if any of the parties acquires additional shares during the next five years, it is required to offer half of the acquired shares to the other party, in case that the other party does not accept to purchase the offered shares, usufruct rights shall be established on the voting rights of such sbares in favour of the other party. Accordingly, although BBVA has acquired additional shares in April, this does not affect their joint control on the Bank's management.

As of 31 December 2012, the companies owned by Doğuş Holding AŞ ("Doğuş Group") and by BBVA held 24.23% and 25.01% of the issued capital, respectively.

Significant accounting policies

(a) Statement of compliance

The Bank and its Turkish affiliates maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulation and Supervision Agency (BRSA); the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank's foreign affiliates maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS"). The accompanying consolidated financial statements are authorized for issue by the directors on 31 January 2013.

Significant accounting policies (continued)

(b) ***Basis of preparation***

The accompanying consolidated financial statements are presented in thousands of TL, which is the Bank's functional currency.

The financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair value if reliable measures are available: derivative financial instruments, instruments at fair value through profit or loss, available-for-sale financial assets and tangible assets held for sale.

The accounting policies set out below have been applied consistently by the Bank and its affiliates to all periods presented in these consolidated financial statements.

(c) ***Use of estimates and judgements***

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are in Notes 7, 9, 10, 12, 13, 17, 18, 20, 21, 23, 24, 25 and 31.

(d) ***Basis of consolidation***

The accompanying consolidated financial statements include the accounts of the parent company, the Bank, its affiliates and associates on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as of the date of the consolidated financial statements.

Affiliates

Affiliates are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of affiliates are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Bank and its affiliates have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its affiliates' share of the total recognized gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its affiliates share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its affiliates has incurred obligations in respect of the associate.

Significant accounting policies (continued)

Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. Special purpose entities are consolidated when the substance of the relationship between the Bank and the special purpose entity indicates that the special purpose entity is controlled by the Bank.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized gains and losses arising from intercompany transactions, are eliminated in the accompanying consolidated financial statements.

Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Bank and its affiliates' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(e) ***Foreign currency***

Foreign currency transactions

Transactions in the financial statements of the Bank are recorded in TL, which is the Bank's functional currency and the presentation currency for the accompanying consolidated financial statements. Transactions in foreign currencies are translated into the functional currency of the Bank at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into TL at the exchange rates ruling at date of the statement of financial position with the resulting exchange differences recognized in income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the statement of income as realized during the period.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to TL at foreign exchange rates ruling at the date of the statement of financial position. The revenues and expenses of foreign operations are translated to TL using average exchange rates. Foreign exchange differences arising on translation are recognized directly in a separate component of equity. When a foreign operation is disposed of in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the statement of income.

(f) ***Tangible assets and related depreciation***

Owned assets

The costs of the tangible assets purchased before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29. The tangible assets purchased after this date are recorded at their historical costs. Accordingly, tangible assets are carried at costs, less accumulated depreciation and impairment losses (refer to accounting policy *(s)*).

Leased assets

Leases in terms of which the Bank and its affiliates assume substantially all the risks and rewards of ownership are classified as financial leases. Tangible assets acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated

(Currency: Thousands of Turkish Lira (TL))

Significant accounting policies (continued)

depreciation (see below) and impairment losses (refer to accounting policy *(s)*). Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to the statement of income.

Subsequent expenditure

Expenditures incurred to replace a component of a tangible asset that is accounted for separately, and major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are reflected as expense in the statement of income as incurred.

Depreciation

Tangible assets purchased before 2005 are depreciated over their estimated useful lives on a straight-line basis from the date of their acquisition. Assets acquired after this date are depreciated based on the declining balance method. For the assets acquired after 1 January 2009, the straight-line depreciation method is in use.

The estimated useful lives and depreciation rates are as follows:

Tangible assets	*Estimated useful lives (years)*	*Depreciation Rates (%) from 1 January 2009*	*Depreciation Rates (%) from 1 January 2005*	*Depreciation Rates (%) before 1 January 2005*
Buildings	50	2	4	2
Vaults	20-50	2-20	4-40	2-20
Motor vehicles	5-7	15-20	30-40	15-20
Other tangible assets	4-20	5-25	10-50	5-25

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Expenditures for major renewals and improvement of tangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

Investment property

Land and buildings that are held to earn rentals or for capital appreciation or both rather than for use in production, supply of goods or services, administrative purposes or sale in the ordinary course of business are classified as investment property and carried at cost less accumulated depreciation under the cost method. Depreciation is provided on investment property (except land) on a straight-line basis.

Investment properties are reviewed for possible impairment losses. Where the carrying value of an investment property is greater than the estimated recoverable value, it is written down to its recoverable value. The recoverable value of an investment property is higher of discounted net future cash flows from the use of the related investment property or net sale price.

(g) Goodwill

Goodwill arose from business combinations and represents the excess of the total acquisition costs over the share of the Bank and its affiliates in the fair value of the net assets of the acquired companies at the dates of acquisitions. When the excess is negative, it is recognized immediately in the statement of income. Goodwill is assessed for indication of impairment at least annually using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of

Significant accounting policies (continued)

return on investments and carrying value of net assets. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than the carrying amount, the carrying amount is reduced to its recoverable amount, and impairment loss is recognized as an expense in the statement of income. The losses arising from the impairment of goodwill are not reversed in a subsequent period.

(h) Financial instruments

Classification

Financial instruments at fair value through profit or loss are those instruments that are principally held for the purpose of short-term profit taking. These include investments, certain loans and derivative contracts that are not designated as effective hedging instruments, and liabilities from short-term sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

The Bank classifies certain loans at their origination dates, as financial assets at fair value through profit or loss in compliance with IAS 39. Financial assets at fair value through profit or loss are initially recorded at cost and measured at fair value in subsequent periods.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank and its affiliates provide money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

Available-for-sale assets are financial assets that are not held for trading purposes, provided by the Bank and its affiliates, or held to maturity. Available-for-sale instruments include certain debt and equity investments.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank and its affiliates have the positive intent and ability to hold to maturity. These include certain loans and advances to banks and customers and certain debt investments.

Recognition

Financial assets at fair value through profit or loss and available-for-sale assets are initially recognized on the settlement date at which the Bank and its affiliates become a party to the contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets are recognized in the statement of income for the financial assets at fair value through profit or loss and in the other comprehensive income for available for-sale assets.

Held-to-maturity instruments, loans and receivables, deposits and subordinated liabilities are recognized in the statement of financial position on the date they are originated.

Measurement

Financial instruments are initially measured at fair value, including transaction costs.

Subsequent to initial recognition all trading instruments and available-for-sale assets are measured at fair value.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Significant accounting policies (continued)

Fair value measurement principles

The fair values of financial instruments are based on their quoted market prices at the date of the statement of financial position without any deduction for transaction costs. If a quoted market price is not available, fair value of an instrument is estimated using the available market information and the appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realized in the current market.

The fair values of derivatives that are not exchange-traded are estimated at the amounts that the Bank and its affiliates would receive or pay to terminate the contracts at the date of the statement of financial position taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair values of trading financial instruments are recognized in the statement of income. Whereas, gains and losses arising from changes in the fair value of cash flow hedges and available-for-sale assets are deferred as a separate component of equity until the hedged transaction impacts earnings or the available-for-sale assets are sold or impaired.

Specific instruments

Cash and balances with central banks: Cash and balances with central banks comprise cash balances on hand, cash deposited with the central banks and other cash items. Money market placements are classified in loans and advances to banks.

Investments: Investments held for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank and its affiliates have the intent and ability to hold to maturity are classified as held-to-maturity assets.

Loans and advances to banks and customers: Loans and advances provided by the Bank and its affiliates are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Financial lease receivables: Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as financial leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest rate method. Financial lease receivables are included in loans and advances to customers.

Factoring receivables: Factoring receivables are stated at fair value at initial recognition. Subsequent to the initial recognition, factoring transactions are accounted for at amortized costs. The management believes that the carrying amounts of factoring receivables approximate to their fair values since amortization is taken into account at initial recognition.

Significant accounting policies (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired; the Bank (and/or its affiliates) retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or the Bank (and/or its affiliates) has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, bnt has transferred control of the asset. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Bank and its affiliates commit to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognized on the dates they are transferred by the Bank and its affiliates.

(i) Derivatives held for risk management purposes

Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment for the changes in their fair value depends on their classification into the following categories:

Cash flow hedge

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the statement of income result, the effective portion of changes in the fair value of the derivative are recognised directly in the other comprehensive income and presented in the hedging reserve in equity. The amount recognised in the statement of comprehensive income is removed and included in the statement of income in the same period as the hedged cash flows affect the statement of income under the same line item as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the statement of income.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognized in the other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the statement of income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in the other comprehensive income is recognized immediately in the statement of income.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in income relating to the hedged item.

Significant accounting policies (continued)

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to income from that date.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank and its affiliates account for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivatives are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with the host contract.

(j) Securities borrowing and lending business

Investments lent under securities lending arrangements continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognized in the statement of financial position as the related risks and rewards of such securities are not retained. Borrowed securities are recorded under commitments and contingencies. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers depending on the type of counterparty.

(k) Repurchase and resale agreements over investments

The Bank and its affiliates enter into purchases of investments under agreements to resell (reverse repo) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) are recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. The proceeds from the sale of the investments are reported as "obligations under repurchase agreements and money market fundings", a liability account.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

(l) Items held in trust

Assets, other than cash deposits, held by the Bank and its affiliates in fiduciary or agency capacities for its customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not under the ownership of the Bank.

(m) Financial guarantees

Financial guarantees are contracts that require the Bank and its affiliates to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount or the present value of any expected payment (when a payment under the guarantee has become probable).

(Currency: Thousands of Turkish Lira (TL))

Significant accounting policies (continued)

(n) Employee benefits

(i) Defined benefit plan

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Bank has a defined benefit plan ("the Plan") for its employees namely Türkiye Garanti Bankası Anonim Şirketi Emekli ve Yardım Sandığı Vakfı ("the Fund"). The Fund is a separate legal entity and a foundation recognized by an official decree, providing pension and post-retirement medical benefits to all Bank employees entitled to receive such benefits. This benefit plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	31 December 2012	
	Employer	*Employee*
	%	%
Pension contributions	15.5	10.0
Medical benefit contributions	6.0	5.0

This benefit plan is composed of a) the contractual benefits of the employees, which are subject to transfer to Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") (see Note 21) and b) other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation ("excess benefits").

a) Pension and medical benefits transferable to SSF

As discussed in Note 21, the Bank expects to transfer a portion of the obligation of the Fund to SSF. This transfer will be a settlement of that portion of the Fund's obligation. Final legislation establishing the terms for this transfer was enacted on 8 May 2008. Although the settlement will not be recognized until the transfer is made, the Bank believes that it is more appropriate to measure the obligation as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the Temporary Article 20 of the Law No.5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law"). The pension disclosures set out in Note 21, therefore reflect the actuarial assumptions and mortality tables specified in the New Law, including a discount rate of 9.80%.

The pension benefits transferable to SSF are calculated annually by an independent actuary, who is registered with the Undersecretariat of the Treasury.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are directly charged to the statement of income.

b) Excess benefits not transferable to SSF

The excess benefits, which are not subject to the transfer, are accounted for in accordance with IAS 19, "*Employee Benefits*". The obligation in respect of the retained portion of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognized past service costs and the fair value of any plan assets are deducted.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are directly charged to the statement of income.

Significant accounting policies (continued)

(ii) Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its affiliates calculated in accordance with the Turkish Labor Law. In accordance with Turkish Labor Law, the Bank and its affiliates are required to make lump-sum payments to each employee whose employment is terminated due to retirement or before the retirement date for reasons other than resignation or misconduct and has completed at least one year of service.

Provision is made for the present value of the liability calculated using the projected unit credit method and all actuarial gains and losses are recognized immediately in the statement of income.

(iii) Short-term employee benefits

The Bank provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19.

(o) Operating leases

Leases other than finance leases are classified as operating leases.

As lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

As lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(p) Taxes on income

Taxes on income for the period comprise current taxes and deferred taxes. Current taxes on income comprises tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the statement of financial position method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax liabilities and assets are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank and its affiliates. Deferred tax asset is recognized to the extent that it is

Significant accounting policies (continued)

probable that future taxable profit will be available against which the deferred tax asset can be utilized. Currently, enacted tax rates are used to determine deferred taxes on income.

An individual consolidated affiliate offsets deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority or where the legal right of offset exists.

Deferred taxes related to fair value remeasurement of available-for-sale assets and cash flow hedges, are charged or credited directly to equity and subsequently recognized in the statement of income together with the deferred gains or losses that are realized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

(q) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses from a group of similar transactions.

(r) Earnings per share

Earnings per share disclosed in the accompanying consolidated statement of comprehensive income are determined by dividing net income by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings.

Additionally, considering the fact that the increase in the number of shares issued by way of bonus shares in fact does not require any cash injection by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

(s) Impairment

Financial and non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

Loans and receivables and held-to-maturity instruments

The recoverable amounts of loans and receivables and held-to-maturity instruments, are calculated as the present values of the expected future cash flows discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are

Significant accounting policies (continued)

discounted to their present value using the loans' original effective interest rates. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the date of financial position. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the statement of income. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the statement of income.

Financial assets remeasured to fair value

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value is impaired, the write-down is recognized in the statement of income.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of income.

(t) Income and expense recognition

Interest income and expense

Interest income and expense is recognized on an accrual basis by taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fee and commission

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commissions, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, available-for-sale, and from trading derivatives.

Dividend income

Dividend income is recognized in the statement of income when the right to receive payment is established.

Significant accounting policies (continued)

Insurance business

Premium income: For short-term insurance contracts, premiums are recognized as income (earned premiums), net of premium ceded to reinsurer firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at date of the statement of financial position is recognized as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions and deferred acquisition cost, and are gross of any taxes and duties levied on premiums. For long-term insurance contracts, premiums are recognized as income when the premiums are due from the policyholders. Premiums received for long-term insurance contracts with discretionary participation feature ("DPF"), are recognized directly as liabilities.

Unearned premium reserve: Unearned premiums are those proportions of the premiums written in a period that relate to the period of risk subsequent to the date of the statement of financial position for all short-term insurance policies. In accordance with the incumbent legislation on the computation of insurance contract liabilities, unearned premium reserve set aside for unexpired risks as at the dates of the statements of financial position, has been computed on a daily pro-rata basis. The change in the provision for unearned premium is recognized in the statement of income in tbe order that income is recognized over the period of risk.

Claims and provision for "outstanding" claims: Claims are recognized in the period in which they occur, based on reported claims or on the basis of estimates when not reported. The claims provision is the total estimated ultimate cost of settling all claims arising from events, which have occurred up to the end of the accounting period. Full provision is accounted for outstanding claims, including claim settlements reported at the period-end. Incurred but not reported claims ("IBNR") are also provided for under the provision for outstanding claims.

Liability adequacy test: At each statement of financial position date, asset-liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs. In performing these tests, current best estimates of future cash flows are used. Any deficiency is immediately charged to the statement of income.

Income generated from pension business: Income arising from asset management and other related services offered by the insurance affiliate of the Bank is recognized in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the insurance company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

Mathematical provisions: Mathematical provisions are the provisions recorded against the liabilities of the insurance affiliate of the Bank to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions. Mathematical provisions consist of actuarial mathematical provisions for long term insurance contracts, saving portion of the saving life products classified as investment contracts and related profit sharing reserves.

Actuarial mathematical provisions are calculated as the difference between the net present values of premiums written in return of the risk covered by the insurance affiliate and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Undersecretariat of Treasury, which are applicable for Turkish insurance companies.

Significant accounting policies (continued)

Profit sharing reserves are the reserves provided against income obtained from asset backing saving life insurance contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the insurance affiliate from the eligible surplus available to date.

Mathematical provisions are presented under "other liabilities, accrued expenses and provisions" in the accompanying consolidated financial statements.

(u) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

(v) Segment reporting

An operating segment is a component of the Bank and its affiliates that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Bank's other components. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(y) Reclassifications of comparative amounts in prior period financial statements

The consolidated financial statements of the Bank are prepared comparative with the prior period to enable the determination of financial position and performance trends. In order to make comparative presentation of the current and prior periods' financial results, "payables to securities lending market" amounting to TL 737,814 thousands accounted for under "other liabilities, accrued expenses and provisions" as of 31 December 2011 were netted with "receivables from securities lending market" under "other assets".

(z) New standards and interpretations

New and revised IFRSs applied with no material effect on the consolidated financial statements

- Amendments to IFRS 7 Disclosures - Transfers of Financial Assets
- Amendments to IAS 12 Deferred Taxes - Recovery of Underlying Assets

New and revised IFRSs in issue but not yet effective

- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
- Amendments to IAS 1 Clarification of the Requirements for Comparative Information
- IFRS9 Financial Instruments
- IFRS10 Consolidated Financial Statements
- IFRS11 Joint Arrangements
- IFRS12 Disclosure of Interest in Other Entities
- IFRS13 Fair Value Measurements
- IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities
- IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures
- IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities - Transition Guide
- IAS19 Employee Benefits
- IAS27 Separate Financial Statements
- IAS28 Investments in Associates and Joint Ventures
- IAS32 Offsetting Financial Assets and Financial Liabilities
- May 2012 improvements (IAS12, IAS16 and IAS32)

Index for the notes to the consolidated financial statements:

Note description

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting

The Bank has seven reportable segments from banking and other financial institutions, as described in the business segments part 1.2 below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the senior management reviews internal reports regularly. The following summary describes the operations in each of the Bank's reportable segments:

1.1 Geographical segments

The Bank and its affiliates operate principally in Turkey, but also have operations in the Netherlands, Romania, Russia, Turkish Republic of Northern Cyprus, Malta, Luxembourg and Germany. Total geographic sector risk concentrations, both on and off balance sheet, are presented in the table below:

	2012				
	Loans and Advances to Customers	*Total Assets*	*Total Liabilities*	*Non-Cash Loans*	*Capital Expenditures*
Turkey	95,306,657	155,312,300	110,499,474	18,503,654	343,963
England	210,089	6,652,332	13,189,776	1,140,813	-
Romania	2,609,856	5,348,358	1,422,267	110,819	9,281
Netherlands	1,261,144	2,664,105	4,291,717	239,206	2,853
Russia	637,553	1,722,205	566,716	117,055	646
USA	357,165	1,585,082	6,784,752	580,010	-
Germany	85,427	1,096,373	6,244,488	225,119	239
Malta	674,294	764,571	362,245	3,520	59
Switzerland	460,231	496,359	4,199,438	728,468	-
France	15,983	278,008	961,637	160,917	-
Spain	12,646	277,217	288,369	327,742	-
Luxembourg	115,193	272,175	698,051	30,061	933
Belgium	55,960	120,495	223,270	256	-
United Arabian Emirates	64,874	67,120	500,193	280,472	-
Ireland	5,175	18,660	972,087	26	-
Italy	4,620	6,263	158,686	372,833	-
Canada	3,574	5,987	323,619	637	-
Austria	3,203	3,430	151,291	70,025	-
Japan	61	2,685	551,200	188,411	-
Others	376,375	805,810	3,172,543	701,262	-
	102,260,080	177,499,535	155,561,819	23,781,306	357,974

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

	2011				
	Loans and Advances to Customers	*Total Assets*	*Total Liabilities*	*Non-Cash Loans*	*Capital Expenditures*
Turkey	85,453,005	133,197,181	101,426,187	18,002,636	383,767
England	255,929	8,385,464	13,638,626	193,697	-
Romania	3,264,975	5,330,564	1,297,317	227,971	20,159
USA	274,432	2,707,038	7,519,108	686,101	-
France	7,847	2,459,937	966,899	154,200	-
Netherlands	954,879	2,394,750	3,764,460	321,182	2,276
Russia	465,970	1,889,815	477,728	98,277	683
Germany	31,702	1,497,472	5,258,306	113,327	51
Malta	627,917	941,195	428,960	145	-
Switzerland	492,488	503,427	2,677,761	832,981	-
Luxembourg	12,909	228,738	984,806	7,987	-
Spain	595	225,861	235,088	259,646	-
Austria	13	134,283	167,544	61,170	-
Ireland	8,559	83,077	67,472	81	-
Italy	1,454	43,909	150,954	364,243	-
United Arabian Emirates	91,307	39,008	360,116	82,998	-
Belgium	1,911	18,824	400,842	1,766	-
Japan	268	1,499	409,559	216,573	-
Canada	836	5,489	446,328	1,054	-
Others	706,784	1,313,490	2,573,081	611,374	-
	92,653,780	161,401,021	143,251,142	22,237,409	406,936

Total geographic sector risk concentrations of the net income are presented in the table below:

	2012	*2011*
Turkey	3,196,237	3,080,774
Netherlands	91,241	121,776
Malta	76,677	124,000
Luxembourg	26,844	10,412
Romania	(26,116)	20,374
Others	27,841	40,590
	3,392,724	3,397,926

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

1.2 *Business segments*

The main business segments are banking, leasing, insurance and factoring sectors. Banking segment information is detailed further to retail banking and commercial, corporate and SME banking as these are the major banking activities. Other operations heading under the banking segment include mainly treasury and investment banking activities as well as unallocated income and expense items. The analysis is as follows:

2012	Retail Banking	Commercial, Corporate & SME Banking	Other Operations	Total Banking	Leasing	Insurance	Factoring	Other Financial	Other Non-Financial	Combined	Eliminations	Total
Operating income	1,874,186	3,464,936	2,416,374	7,755,496	238,412	328,680	62,913	83,246	44,708	8,513,455	(80,943)	8,432,512
Operating expenses	(1,236,496)	(1,669,071)	(877,522)	(3,783,089)	(150,597)	(160,551)	(37,759)	(70,061)	(35,513)	(4,237,570)	85,863	(4,151,707)
Income from operations	**637,690**	**1,795,865**	**1,538,852**	**3,972,407**	**87,815**	**168,129**	**25,154**	**13,185**	**9,195**	**4,275,885**	**4,920**	**4,280,805**
Taxation charge	-	-	(821,643)	(821,643)	(22,182)	(34,152)	(5,158)	(2,985)	(1,961)	(888,081)	-	(888,081)
Net income for the period	**637,690**	**1,795,865**	**717,209**	**3,150,764**	**65,633**	**133,977**	**19,996**	**10,200**	**7,234**	**3,387,804**	**4,920**	**3,392,724**
Segment assets	34,253,386	66,640,318	66,373,266	167,266,970	3,055,073	4,208,120	1,943,729	539,771	35,865	177,049,528	(1,719,630)	175,329,898
Investments in equity participations	-	-	507,097	507,097	-	275	-	1,676	737	509,785	(484,445)	25,340
Unallocated assets	-	42,036	1,691,315	1,733,351	289,398	15,626	8,957	17,099	1,112	2,065,543	78,754	2,144,297
Total assets	**34,253,386**	**66,682,354**	**68,571,678**	**169,507,418**	**3,344,471**	**4,224,021**	**1,952,686**	**558,546**	**37,714**	**179,624,856**	**(2,125,321)**	**177,499,535**
Segment liabilities	62,139,441	33,701,467	52,692,855	148,533,763	2,756,130	3,647,765	1,847,691	427,892	6,693	157,219,934	(1,658,115)	155,561,819
Total equity	-	-	20,973,655	20,973,655	588,341	576,256	104,995	130,654	31,021	22,404,922	(467,206)	21,937,716
Total liabilities and equity	**62,139,441**	**33,701,467**	**73,666,510**	**169,507,418**	**3,344,471**	**4,224,021**	**1,952,686**	**558,546**	**37,714**	**179,624,856**	**(2,125,321)**	**177,499,535**

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

2011	*Retail Banking*	*Commercial Corporate & SME Banking*	*Other Operations*	*Total Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial*	*Other Non-Financial*	*Combined*	*Eliminations*	*Total*
Operating income	2,913,408	3,308,380	1,835,663	8,057,451	222,169	273,256	42,934	103,611	24,459	8,723,880	(211,117)	8,512,763
Operating expenses	(1,970,380)	(1,224,935)	(689,203)	(3,884,518)	(116,009)	(131,495)	(33,317)	(90,372)	(22,343)	(4,278,054)	37,381	(4,240,673)
Income from operations	**943,028**	**2,083,445**	1,146,460	4,172,933	**106,160**	**141,761**	**9,617**	**13,239**	**2,116**	**4,445,826**	**(173,736)**	**4,272,090**
Taxation charge	-	-	(816,180)	(816,180)	(22,600)	(28,765)	(4,916)	(132)	(1,571)	(874,164)	-	(874,164)
Net income for the period	**943,028**	**2,083,445**	**330,280**	**3,356,753**	**83,560**	**112,996**	**4,701**	**13,107**	**545**	**3,571,662**	**(173,736)**	**3,397,926**
Segment assets	28,915,024	62,377,918	62,071,284	153,364,226	2,885,206	3,007,532	1,268,168	532,595	35,069	161,092,796	(1,693,836)	159,398,960
Investments in equity participations	-	-	443,639	443,639	-	275	-	1,744	1,156	446,814	(422,221)	24,593
Unallocated assets	-	-	1,642,353	1,642,353	248,501	15,217	6,904	23,623	2,168	1,938,766	38,702	1,977,468
Total assets	**28,915,024**	**62,377,918**	**64,157,276**	**155,450,218**	**3,133,707**	**3,023,024**	**1,275,072**	**557,962**	**38,393**	**163,478,376**	**(2,077,355)**	**161,401,021**
Segment liabilities	56,647,209	35,510,636	45,915,883	138,073,728	2,608,244	2,580,883	1,190,101	438,717	14,606	144,906,279	(1,655,137)	143,251,142
Total equity	-	-	17,376,490	17,376,490	525,463	442,141	84,971	119,245	23,787	18,572,097	(422,218)	18,149,879
Total liabilities and equity	**56,647,209**	**35,510,636**	**63,292,373**	**155,450,218**	**3,133,707**	**3,023,024**	**1,275,072**	**557,962**	**38,393**	**163,478,376**	**(2,077,355)**	**161,401,021**

(Currency: Thousands of Turkish Lira (TL))

2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 31 December 2012 and 2011, included in the accompanying consolidated statements of cash flows are as follows:

	2012	2011
Cash at branches	1,260,740	1,043,588
Unrestricted balances with central banks	3,258,665	2,386,232
Placements at money markets	1,000	6,800
Loans and advances to banks with original maturity periods of less than three months	1,455,902	5,638,851
	5,976,307	9,075,471

3 Related party disclosures

For the purpose of this report, the shareholders jointly controlling the Bank namely Doğuş Holding AŞ and BBVA (before 22 March 2011; GE Group) and all their subsidiaries, and their ultimate owners, directors and executive officers and the Bank's unconsolidated affiliates are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank had the following balances outstanding from and transactions with related parties:

3.1 Outstanding balances

	2012	2011
Statement of financial position		
Loans and advances to banks	262,263	188,252
Loans granted in foreign currencies:	*US$ 136,025,028*	*US$ 100,148,526*
	EUR 9,848,815	*EUR 609,068*
Loans and advances to customers	442,320	357,262
Loans granted in TL	*182,298*	*150,378*
Loans granted in foreign currencies:	*US$ 140,164,772*	*US$ 95,837,534*
	EUR 1,709,715	*EUR 11,623,143*
	CHF 4,019,854	-
	GBP 571,827	-
Miscellaneous receivables	4,148	3,707
Deposits received	313,384	1,457,036
Loans and advances from banks and other institutions	37,136	48,432
Commitments and contingencies		
Non-cash loans	616,442	586,465
Derivatives	3,267,559	1,095,491

3.2 Transactions

	2012	2011
Interest, fee and commission income	41,025	33,163
Interest, fee and commission expense	29,715	78,363
Other operating income	11,726	15,573
Other operating expenses	104,587	53,037

3 Related party disclosures (continued)

In 2012, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 1%-14.1% and 0.1%-11% (2011: 1.0%-8.0% and 0.5%-11.0%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of 1.1%-33.2% and 6%-11.5%, respectively (2011: 0.9%-15.0% and 7.5%-12.3%). Various commission rates are applied to transactions involving guarantees and commitments. The pricing in transactions with the related parties is set on an arms-length basis.

No impairment losses or specific allowances have been recorded against balances outstanding during the period with related parties as of 31 December 2012 (2011: nil).

The Bank purchased 5.86% of Garanti Finansal Kiralama AŞ' shares at a total face value of TL 4,278 thousands from Garanti Faktoring Hizmetleri AŞ at a price of TL 34,574 thousands on 5 December 2011.

As per the shareholders' agreement dated 21 June 2007 between the Bank and Eureko BV, the Bank and its affiliates sold their 20% shares of Eureko Sigorta AŞ with a nominal value of TL 12,000 thousands to Eureko BV for EUR 70 millions in 2011.

On 27 May 2010, the Bank purchased the shares of D Netherlands Holding BV, established in the Netherlands, presenting 100% ownership at a price of EUR 53.5 millions from Doğuş Holding AŞ, and subsequent to this share purchase, the paid-in capital of D Netherlands Holding BV was increased by EUR 118.4 millions. D Netherlands Holding BV is the shareholder of Doğuş GE BV directly, and GE Garanti Bank SA, Motoractive IFN SA, Ralfi IFN SA and Domenia Credit IFN SA, all resident in Romania, indirectly through Doğuş GE BV. The paid-in capital of D Netherlands Holding BV was increased to EUR 247,088,600 from EUR 217,088,600 on 27 August 2010. The funding raised from this paid-in capital increase was used to increase the paid-in capitals of the financial subsidiaries under D Netherlands Holding BV and accordingly, the participation ratio of the Bank in these financial institutions increased from 70.00% to 73.27%. Subsequently, as per the decision made at the board of directors' meeting of the Bank held on 8 December 2010, the existing capital of D Netherlands Holding BV, established in the Netherlands and a fully owned subsidiary of the Bank, was increased by EUR 82,000,000. Following this capital increase, as per the decisions made at the board of directors' meeting of D Netherlands Holding BV held on 16 December 2010; Leasemart Holding BV, the Netherlands-based company, was acquired by D Netherlands Holding BV from GE Capital Corporation for a consideration of EUR 46.4 millions. Following this share purchase transaction, the percentage of shares owned indirectly by the Bank increased from 73.27% to 100% in the Romania-based subsidiaries which are Garanti Bank SA (formerly GE Garanti Bank SA), Motoractive IFN SA, Domenia Credit IFN SA and Ralfi IFN SA. The remaining amount of the increased share capital of D Netherlands Holding BV was utilized to increase the share capital of Garanti Bank SA by EUR 35 millions through Doğuş GE BV. As of 27 January 2011, D Netherlands Holding BV's name changed to Garanti Holding BV, and Doğuş GE BV's name changed to G Netherlands BV.

Key management personnel compensation for the year ended 31 December 2012 amounted TL 136,955 thousands (2011: TL 136,808 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted TL 82,512 thousands (2011: TL 86,277 thousands) and of its affiliates amounted TL 54,443 thousands (2011: TL 50,531 thousands).

(Currency: Thousands of Turkish Lira (TL))

4 Cash and balances with central banks

	2012	*2011*
Cash at branches	1,260,740	1,043,588
Balances with central banks excluding reserve deposits	3,258,665	2,386,232
	4,519,405	3,429,820

5 Financial assets at fair value through profit or loss

	2012				*2011*
	Face value	***Carrying value***	***Interest rate range %***	***Latest maturity***	***Carrying value***
Debt and other instruments held at fair value:					
Discounted government bonds in TL	88,570	85,879	5-11	2013	52,995
Government bonds in TL	67,888	71,830	6-16	2022	69,354
Gold	-	42,364	-	-	80,389
Bonds issued by financial institutions	32,027	32,590	5-10	2022	-
Investment fund	-	32,031	-	-	30,544
Bonds issued by corporations	16,796	17,084	2-13	2018	49,111
Eurobonds	12,410	14,891	5-12	2041	41,362
Government bonds-floating *(a)*	8,754	8,973	6-11	2018	10,985
Government bonds indexed to CPI	4,239	5,685	2-12	2022	76,832
Others		-			203
		311,327			411,775
Loans held at fair value		222,181			-
Equity and other non-fixed income instruments:					
Listed shares		17,418			7,496
Total financial assets at fair value through profit or loss		550,926			419,271

(a) The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.

Income from debt and other instruments held at fair value is reflected in the consolidated income statement as interest on securities. Gains and losses arising from trading of financial assets at fair value through profit or loss are recorded in net trading gains/(losses).

The impairment losses for the financial assets at fair value through profit or loss as of 31 December 2012 amount to TL 7 thousands (2011: TL 2,453 thousands).

As of 31 December 2012, financial assets at fair value through profit or loss amounting to TL 223,894 thousands are blocked against asset management operation and securitizations (2011: TL 3,681 thousands) (refer to Note 10).

As of 31 December 2012, government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 19,816 thousands (2011: TL 2,036 thousands).

(Currency: Thousands of Turkish Lira (TL))

6 Loans and advances to banks

	2012			2011		
	TL	Foreign Currency	Total	TL	Foreign Currency	Total
Loans and advances-demand						
Domestic banks	553	1,125	1,678	694	3,288	3,982
Foreign banks	146,350	1,511,329	1,657,679	136,375	2,486,877	2,623,252
	146,903	1,512,454	1,659,357	137,069	2,490,165	2,627,234
Loans and advances-time						
Domestic banks	537,551	1,342,755	1,880,306	461,519	1,248,282	1,709,801
Foreign banks	1,887,348	3,927,876	5,815,224	1,914,629	8,927,842	10,842,471
	2,424,899	5,270,631	7,695,530	2,376,148	10,176,124	12,552,272
Placements at money markets	1,000	-	1,000	6,800	-	6,800
Income accrual on loans and advances to banks	20,912	32,794	53,706	20,302	26,106	46,408
Total loans and advances to banks	2,593,714	6,815,879	9,409,593	2,540,319	12,692,395	15,232,714
Less: allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	2,593,714	6,815,879	9,409,593	2,540,319	12,692,395	15,232,714

As of 31 December 2012, majority of loans and advances-time are short-term with interest rates ranging between 1%-6% per annum for foreign currency time placements and 5%-13% per annum for TL time placements (2011: 1%-15% and 5%-13%, respectively).

As of 31 December 2012, loans and advances at domestic and foreign banks include blocked accounts of TL 5,756,057 thousands (2011: TL 7,982,224 thousands) held against securitizations, fundings and insurance business.

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers

Outstanding loans and advances to customers are divided between economic sectors and loan types as follows:

	2012	2011
Consumer loans	34,069,621	28,804,750
Credit card receivables	*11,222,929*	*9,455,308*
Mortgage loans	*10,874,185*	*9,426,631*
Auto loans	*1,289,677*	*1,100,089*
General purpose and other consumer loans	*10,682,830*	*8,822,722*
Service sector	8,914,845	8,840,305
Energy	7,794,220	6,686,124
Construction	6,460,719	5,712,675
Transportation and logistics	4,773,793	4,294,677
Food	4,044,540	4,634,551
Textile	3,704,404	3,480,649
Metal and metal products	3,471,713	3,911,535
Tourism	3,287,980	2,466,146
Transportation vehicles and sub-industry	2,726,962	2,917,806
Financial institutions	2,243,896	2,150,904
Agriculture and stockbreeding	2,069,407	1,829,093
Data processing	1,921,479	2,260,765
Chemistry and chemical products	1,631,415	1,373,571
Electronic, optical and medical equipment	1,229,589	757,366
Stone, rock and related products	1,092,384	1,106,460
Mining	1,035,816	1,195,394
Machinery and equipment	994,576	856,329
Durable consumption	591,183	1,159,667
Plastic products	565,871	509,628
Paper and paper products	356,272	413,251
Others	3,936,486	2,568,649
Total performing loans	96,917,171	87,930,295
Financial lease receivables, net of unearned income (Note 8)	2,677,055	2,478,834
Factoring receivables	1,813,595	1,232,659
Income accrual on loans, factoring and lease receivables	1,254,005	1,290,551
Non-performing loans, factoring and lease receivables	3,011,273	2,209,227
Allowance for probable losses from loans, factoring and lease receivables	(3,413,019)	(2,487,786)
Loans and advances to customers	102,260,080	92,653,780

As of 31 December 2012, interest rates on loans granted to customers range between 1%-53% (2011: 1%-53%) per annum for the foreign currency loans and 2%-23% (2011: 1%-26%) per annum for the TL loans.

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

The provision for probable losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers. The amount of the portfolio basis allowance is TL 591,698 thousands (2011: TL 395,561 thousands). Movements in the allowance for probable losses on loans, factoring and lease receivables including the portfolio basis allowances, are as follows:

	2012	*2011*
Balance at the beginning of the period	2,487,786	2,457,953
Write-offs	(208,557)	(230,780)
Recoveries and reversals	(222,912)	(502,734)
Provision for the period	1,356,702	763,347
Balance at the end of the period	3,413,019	2,487,786

A part of non-performing receivables of the Bank's consolidated affiliates amounting to TL 28,952 thousands (2011: TL 20,584 thousands) was sold for a consideration of TL 1,343 thousands (2011: TL 1,124 thousands). A loss from this sale amounting to TL 1,128 thousands was recognized under "gain on sale of assets" in the accompanying income statement as of 31 December 2012 (2011: an income of TL 282 thousands)

A part of the non-performing loan portfolio of the Bank amounting to TL 200,564 thousands (2011: TL 483,876 thousands) was sold to a local asset management company for a consideration of TL 32,600 thousands (2011: TL 53,925 thousands). The sale price was fully recognized as income under "gain on sale of assets" in the accompanying income statement as of 31 December 2012 (2011: an income of TL 53,925 thousands).

8 Financial lease receivables

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease. The receivables are secured by way of the underlying assets. Loans and advances to customers include the following financial lease receivables:

	2012	*2011*
Financial lease receivables, net of unearned income (Note 7)	2,677,055	2,478,834
Add: non-performing lease receivables	279,100	260,248
Less: allowance for probable losses on lease receivable	(111,853)	(93,359)
	2,844,302	2,645,723
Income accrual on lease receivables	17,622	14,442
Analysis of net financial lease receivables		
Due within 1 year	1,157,270	1,028,492
Due between 1 and 5 years	2,022,333	1,804,549
Due after 5 years	108,236	219,384
Financial lease receivables, gross	3,287,839	3,052,425
Unearned income	(443,537)	(406,702)
Financial lease receivables, net	2,844,302	2,645,723
Analysis of net financial lease receivables		
Due within 1 year	1,045,627	879,993
Due between 1 and 5 years	1,710,720	1,575,718
Due after 5 years	87,955	190,012
Financial lease receivables, net	2,844,302	2,645,723

(Currency: Thousands of Turkish Lira (TL))

9 Other assets

	2012	*2011*
Reserve deposits at central banks	13,491,777	7,139,416
Insurance premium receivables	3,410,797	2,413,890
Derivative financial assets	710,767	1,055,322
Miscellaneous receivables	332,145	324,284
Prepaid expenses, insurance claims and similar items	305,460	283,380
Tangible assets held for sale	132,437	127,656
Investment property (*)	127,682	-
Prepaid taxes and taxes and funds to be refunded	86,358	115,635
Balances with clearing house	11,957	159,160
Others	119,233	103,242
	18,728,613	11,721,985

(*) Depreciation expense for investment property amounts to TL 4,068 thousands as of 31 December 2012.

Reserve deposits at central banks

Reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its affiliates. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of liabilities in TL, foreign currencies and gold taken at the rates determined by the Central Bank of Turkey. The reserve deposits do not earn interest.

The reserve deposits at the Central Bank of the Netherlands, as required by the Dutch Banking Law, are calculated as 1% on all customer deposits with an original maturity less than 2 years and 1% on bank deposits of non-EU banks with an original maturity less than 2 years. The reserve deposits are not required to be kept under blocked accounts in the Netherlands, therefore, such balances are classified under "cash and balances with central banks" in Note 4.

The banks operating in Romania are obliged to keep minimum reserve requirements in accounts held with Romanian Central Bank (NBR). The reserve requirements are to be held in RON for RON liabilities and in Euro or US$ for foreign currency liabilities. Currently, in line with stipulations of related legislation in force, the rates for reserve requirements are 15% for RON denominated liabilities with a remaining maturity less than 2 years and 20% for foreign currency denominated liabilities with a remaining maturity less than 2 years excluding Romanian banks' fundings. The interest rates paid by the NBR to banks for reserve requirements are subject of permanent update, currently the rates are 1.30% for RON reserves, 0.56% for Euro reserves and 0.50% for US$ reserves.

The reserve deposits at the Central Bank of Russia are not available for the daily business, as required by the Russian Banking Law, these reserve deposits are calculated on the basis of RUB and foreign currency liabilities taken at the rates determined by the Central Bank of Russia. In accordance with the current legislation, the reserve deposit rates for RUB and foreign currency liabilities legal entities-nonresidents, including banks-nonresident (RUB and foreign currency liabilities) are 5.5%, individuals (RUB and foreign currency liabilities) and other liabilities are 4.0%.

Tangible assets held for sale

The tangible assets held for sale are comprised of foreclosed real estates acquired by the Bank against its impaired receivables and are intended to be sold shortly. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from the regulators. In case of real estates held for sale, this requirement is valid only if the legal limit on the size of the real estate portfolio that a bank can maintain is exceeded. Currently, as the Bank is within this legal limit, it is not subject to the above requirement.

(Currency: Thousands of Turkish Lira (TL))

9 Other assets (continued)

Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms. As of 31 December 2012, real estates held for sale have been impaired by TL 14,715 thousands (2011: TL 11,982 thousands).

As of 31 December 2012, the rights of repurchase on various tangible assets held for sale amounted to TL 5,313 thousands (2011: TL 6,273 thousands).

10 Investment securities

	2012				*2011*
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments available-for-sale:					
Government bonds indexed to CPI	9,000,607	13,018,710	2-12	2022	11,128,147
Government bonds in TL	7,620,472	8,118,758	8-16	2022	4,726,353
Government bonds at floating rates *(a)*	7,895,317	8,111,245	8-10	2018	6,678,750
Discounted government bonds in TL	4,365,150	4,270,780	6-11	2013	3,704,782
Bonds issued by financial institutions	3,164,129	3,286,844	1-14	2022	1,019,593
Bonds issued by foreign governments	957,111	1,048,636	4-11	2019	886,002
Eurobonds	256,430	304,793	5-12	2041	338,562
Bonds issued by corporations *(b)*	291,709	304,790	4-11	2022	2,647,282
Others		29,771			25,389
Total securities available-for-sale		38,494,327			31,154,860
Debt and other instruments held-to-maturity:					
Government bonds at floating rates *(a)*	887,744	910,865	9	2014	916,647
Eurobonds *(c)*	436,850	441,641	7-8	2034	1,578,712
Bonds issued by financial institutions	7,065	7,065	5	2013	-
Bonds issued by corporations	2,700	2,390	12	2014	-
Government bonds in TL	100	102	8	2014	2,026,372
		1,362,063			4,521,731
Income accrual on held-to-maturity portfolio		4,891			264,799
Total securities held-to-maturity		1,366,954			4,786,530
Total investment securities		39,861,281			35,941,390

(a) *The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*

(b) *Bonds issued by corporations and financial institutions include credit linked notes with a total face value of US$ 426,111,240 (2011: US$ 428,333,333) and a total carrying value of TL 765,645 thousands (2011: TL 810,571 thousands).*

(c) *As per the legislation on capital adequacy (Basel II) effective from 1 July 2012, the risk weighting of securities in foreign currencies issued by the Turkish Treasury increased from 0% to 100%. Accordingly, in the current period, the Bank sold a part of its Eurobonds with a total face value of US$595,638,000 from its held-to-maturity portfolio as per the exception granted by IAS 39 for the sale of securities originally classified under the securities held-to-maturity in cases where the regulatory capital requirement increases.*

Interest income from debt and other fixed or floating instruments is reflected in interest on securities, whereas, gains and losses arising from changes in the fair values of available-for-sale assets are deferred as a separate component of equity.

There are no impairment losses on the investment securities as of 31 December 2012 (2011: TL 113 thousands).

The sale of shares in Visa and Mastercard resulted in an income of TL 79,595 thousands in the accompanying consolidated income statement as of 31 December 2011.

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 15,395,832 thousands (2011: TL 12,578,072 thousands).

(Currency: Thousands of Turkish Lira (TL))

10 Investment securities (continued)

The following table summarizes securities that were deposited as collateral with respect to various banking, insurance and asset management transactions:

	2012		*2011*	
	Face Value	*Carrying value (*)*	*Face Value*	*Carrying value (*)*
Collateralized to foreign banks	13,086,713	14,775,087	11,160,702	11,897,388
Deposited at Istanbul Stock Exchange	7,799,715	9,665,505	6,316,085	7,062,295
Deposited at central banks for repurchase transactions	1,637,828	1,908,053	2,899,219	3,377,536
Deposited at central banks for interbank transactions	1,237,438	1,321,927	1,763,273	1,929,076
Deposited at Clearing Bank (Takasbank)	180,967	220,588	158,241	195,744
Deposited at CBT for foreign currency money market transactions	100,000	101,032	100,000	100,994
Others		38,045		31,027
		28,030,237		24,594,060

(*) Securities deposited as collateral with respect to various transactions contains securities borrowed under security borrowing agreements amounting to TL 646,886 thousands as of 31 December 2011 (2012: nil).

11 Investments in equity participations

	2012		*2011*	
	Carrying Value	*Ownership %*	*Carrying Value*	*Ownership %*
IMKB Takasbank AŞ	11,962	5.83	11,962	5.83
Others	13,378		12,631	
	25,340		24,593	

The liquidations of Trifoi Investment SRL and Garanti Broker Asigurari BRL, and Gelişen Bilgi Teknolojileri AŞ and Garanti Teknolojinet İletişim Hizmetleri ve Tic. AŞ were completed in 2011 and 2012, respectively.

80% shares of a previously consolidated affiliate, Garanti Sigorta AŞ, owned by the Bank was sold to Eureko BV on 21 June 2007. After the sale, the remaining 20% was reclassified as investments in equity participations and accounted for under the equity method of accounting. On 1 October 2007, the legal name of the company changed as Eureko Sigorta AŞ. In the second quarter of 2011, as per the same shareholders' agreement dated 21 June 2007 between the Bank and Eureko BV, the Bank and its affiliates sold their remaining 20% shares of Eureko Sigorta AŞ with a nominal value of TL 12,000 thousands to Eureko BV for EUR 70 millions. A gain of TL 92,784 thousands is recognized under "gain on sale of assets" related to this sale in the accompanying consolidated income statement as of 31 December 2011.

At the Bank's board of directors meeting held on 3 June 2009, it was decided to participate in the capital increase of Kredi Garanti Fonu AŞ by TL 4,000 thousands and to subscribe for future capital increases up to TL 4,000 thousands in restructuring of the company to build a three-shareholders structure including the Turkish Union of Chambers and Commodity Exchanges (TOBB), the Small and Medium Size Enterprises Development Organization (KOSGEB) and the banks. As per this decision, the Bank has paid TL 2,000 thousands of its capital commitment of TL 4,000 thousands on 15 October 2009 for the capital increase of Kredi Garanti Fonu AŞ decided on 11 September 2009. The remaing balance was paid in two tranches in July 2011 and September 2012, by TL 1,000 thousands each.

(Currency: Thousands of Turkish Lira (TL))

11 Investments in equity participations (continued)

Others include "Garanti Konut Finansmanı Danışmanlık Hizmetleri AŞ" which was established as per the decision made during the board of directors meeting of the Bank on 15 September 2007 to provide consultancy and outsourcing services to banks, housing finance and mortgage finance companies. Its legal registration process was completed on 3 October 2007. The Bank owns 100% of the company shares. The share capital of the company amounting TL 750 is fully paid. This company is not consolidated in the accompanying consolidated financial statements as currently it does not have material operations compared to the consolidated performance of the Bank and its affiliates, instead it is recorded under investments in equity participations in "others" above and valued at cost.

IMKB Takasbank AŞ and other equity participations do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and impracticable, accordingly they are stated at cost, restated for the effects of inflation in TL units current at 31 December 2005.

Impairment losses charged to the statement of income for the investments in equity participations is TL 445 thousands as of 31 December 2012 (2011: nil). The cumulative provisions for such impairment losses amounted to TL 3,597 thousands as of 31 December 2012 (2011: TL 3,152 thousands).

12 Tangible assets

Movement in tangible assets from 1 January to 31 December 2012 is as follows:

	1 January	*Additions*	*Effects of Movement in Exchange Rates*	*Disposals and Transfers(*)*	*31 December*
Costs					
Land and buildings	1,239,482	15,758	(3,265)	(156,944)	1,095,031
Furniture, fixture, equipments and motor vehicles	1,544,538	250,009	(4,775)	(86,156)	1,703,616
Leasehold improvements	503,798	63,200	(4,319)	(9,288)	553,391
	3,287,818	328,967	(12,359)	(252,388)	3,352,038
Less: Accumulated depreciation					
Buildings	294,919	23,157	(622)	(26,544)	290,910
Furniture, fixture, equipments and motor vehicles	971,403	141,804	(1,943)	(41,485)	1,069,779
Leasehold improvements	295,707	89,204	(3,934)	(7,990)	372,987
	1,562,029	254,165	(6,499)	(76,019)	1,733,676
Construction in progress	52,938	29,007	(290)	(5,152)	76,503
	1,778,727				1,694,865
Impairment in value of tangible assets	(67,959)				(51,414)
	1,710,768				1,643,451

(*) Due to the reclassification of certain buildings from tangible assets to investment property in other assets, the related costs and accumulated depreciations amounting to TL 151,266 thousands and TL 25,555 thousands, respectively, are included in "disposals" column above as of 31 December 2012.

(Currency: Thousands of Turkish Lira (TL))

12 Tangible assets (continued)

Movement in tangible assets from 1 January to 31 December 2011 is as follows:

	1 January	*Additions*	*Effects of Movement in Exchange Rates*	*Disposals and Transfers*	*31 December*
Costs					
Land and buildings	1,213,337	36,382	10,936	(21,173)	1,239,482
Furniture, fixture, equipments and motor vehicles	1,425,817	251,811	17,612	(150,702)	1,544,538
Leasehold improvements	408,498	100,931	11,146	(16,777)	503,798
	3,047,652	389,124	39,694	(188,652)	3,287,818
Less: Accumulated depreciation					
Buildings	270,625	26,296	478	(2,480)	294,919
Furniture, fixture, equipments and motor vehicles	931,459	119,443	5,362	(84,861)	971,403
Leasehold improvements	211,670	88,180	3,565	(7,708)	295,707
	1,413,754	233,919	9,405	(95,049)	1,562,029
Construction in progress	39,395	17,812	2,334	(6,603)	52,938
	1,673,293				1,778,727
Impairment in value of tangible assets	(88,633)				(67,959)
	1,584,660				1,710,768

Depreciation expense for the year ended 31 December 2012 amounts to TL 254,165 thousands (2011: TL 233,751 thousands).

Assessments of the independent appraiser firms have been taken into consideration in the determination of the impairment losses provided for land and buildings. As of 31 December 2012, land and buildings at a total net book value before impairment of TL 396,884 thousands (2011: TL 422,815 thousands) have been impaired by TL 51,414 thousands (2011: TL 67,959 thousands).

13 Goodwill

As of 31 December 2012, goodwill arises from the direct acquisitions of Garanti Yatırım Menkul Kıymetler AŞ, Garanti Finansal Kiralama AŞ, Garanti Emeklilik ve Hayat AŞ and Garanti Faktoring Hizmetleri AŞ consisting of the excesses of the total acquisition costs over fair values of the net assets of these consolidated entities at the dates of their aequisition as follows:

	2012	*2011*
Garanti Yatırım Menkul Kıymetler AŞ	20,984	20,984
Garanti Faktoring Hizmetleri AŞ	6,697	6,697
Garanti Finansal Kiralama AŞ	5,233	5,233
Garanti Emeklilik ve Hayat AŞ	34	34
	32,948	32,948
Impairment of goodwill	-	-
	32,948	32,948

Impairment losses when necessary are provided for decrease in the net asset value of the consolidated entities by assessing their internal and external resources.

(Currency: Thousands of Turkish Lira (TL))

14 Deposits from banks

Deposits from banks comprise the following:

	2012	*2011*
Payable on demand	1,327,590	827,375
Term deposits	4,249,017	2,260,100
	5,576,607	3,087,475
Expense accrual on deposits from banks	7,179	9,335
	5,583,786	3,096,810

Deposits from banks include both TL accounts amounting to TL 1,035,164 thousands (2011: TL 673,380 thousands) and foreign currency accounts amounting to TL 4,541,443 thousands (2011: TL 2,414,095 thousands) in total. As of 31 December 2012, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 3%-10% and 1%-7% (2011: 6%-13% and 1%-8%), respectively.

15 Deposits from customers

Deposits from customers comprise the following:

	2012			*2011*
	Demand	***Time***	***Total***	***Total***
Foreign currency	10,042,051	30,750,133	40,792,184	40,418,155
Saving	3,550,602	29,748,738	33,299,340	30,269,601
Commercial	3,938,017	10,423,464	14,361,481	15,730,611
Gold and other precious metals	2,300,584	74,422	2,375,006	2,570,120
Public and other	743,060	272,467	1,015,527	718,371
	20,574,314	71,269,224	91,843,538	89,706,858
Expense accrual on deposits from customers	70	347,893	347,963	432,136
	20,574,384	71,617,117	92,191,501	90,138,994

As of 31 December 2012, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 4%-14% and 1%-11% (2011: 6%-13% and 1%-8%), respectively.

16 Obligations under repurchase agreements and money market fundings

The Bank and its affiliates raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

Obligations under repurchase agreements and money market fundings comprise the following:

	2012	*2011*
Obligations under repurchase agreements	14,106,944	11,738,157
Money market fundings	-	-
	14,106,944	11,738,157

(Curreney: Thousands of Turkish Lira (TL))

16 Obligations under repurchase agreements and money market fundings (continued)

Assets sold under repurchase agreements are further detailed as follows:

	Carrying value	*Fair value of underlying assets*	*Carrying amount of corresponding liabilities*	*Range of repurchase dates*	*Repurchase price*
2012					
Financial assets at fair value through profit or loss	19,816	19,816	19,257	Jan'13	19,257
Investment securities	15,395,832	15,395,832	14,087,687	Jan'13-Oct'13	14,132,054
	15,415,648	15,415,648	14,106,944		14,151,311
2011					
Financial assets at fair value through profit or loss	2,036	2,036	2,010	Jan'12	2,010
Investment securities	12,578,072	12,585,355	11,736,147	Jan'12-May'14	11,832,096
	12,580,108	12,587,391	11,738,157		11,834,106

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As of 31 December 2012, the maturities of the obligations varied from one day to 10 months and interest rates varied between 1%-7% (2011: 1%-13%). In general the carrying values of such assets are more than the corresponding liabilities due to the margins set between the parties, since such funding is raised against assets collateralized.

Expense accrual on obligations under repurchase agreements and money market fundings amounting to TL 15,532 thousands (2011: TL 24,909 thousands) is included in the carrying amount of corresponding liabilities.

17 Loans and advances from banks and other institutions

Loans and advances from banks and other institutions comprise the following:

	2012	*2011*
Short-term borrowings		
Domestic banks	1,682,956	1,443,306
Foreign banks	8,461,011	7,817,633
	10,143,967	9,260,939
Long-term debts		
Short-term portion	4,086,653	2,933,163
Medium and long-term portion	11,334,110	11,837,417
	15,420,763	14,770,580
Expense accrual on loans and advances from banks and other institutions	314,625	294,030
	25,879,355	24,325,549

As of 31 December 2012, loans and advances from banks and other institutions included various promissory notes amounting to TL 137,350 thousands in total with short-term maturities (2011: TL 441,188 thousands).

(Currency: Thousands of Turkish Lira (TL))

17 Loans and advances from banks and other institutions (continued)

As of 31 December 2012, short-term borrowings included two one-year-syndicated-loan facilities to be utilized for general trade finance purposes including export and import contracts in two tranches of (i) US$ 307,250,000 and EUR 768,113,250 with rates of Libor + 1.45% and Euribor + 1.45% per annum with the participation of 48 banks from 20 countries (equivalent of TL 2,319,750 thousands), (ii) US$ 308,500,000 and EUR 615,500,000 with rates of Libor + 1.25% and Euribor + 1.25% per annum with the participation of 37 banks from 18 countries (equivalent of TL 1,963,001 thousands).

Long-term debts comprise the following:

	2012					2011
	Interest rate%	*Latest maturity*	*Amount in original currency*	*Short term portion*	*Medium and long term portion*	*Medium and long term debts*
Deutsche Bank AG	11-13	2017	TL 701 millions	-	701,210	701,210
DPR Securitisation-XIV	3	2026	US$ 396 millions	-	697,103	-
DPR Securitisation-VIII	1	2017	US$ 266 millions	98,514	369,439	495,883
DPR Securitisation-XIII	2	2016	US$ 224 millions	32,644	362,098	419,349
DPR Securitisation-IX	1	2018	EUR 168 millions	9,284	380,644	406,829
EIB I	1-4	2022	US$ 204 millions	33,653	324,844	379,973
DPR Securitisation-XII	2	2016	EUR 99 millions	57,603	173,218	242,160
DPR Securitisation-VI(**)	1	2016	US$ 122 millions	61,256	153,167	227,421
OPIC	3	2019	US$ 100 millions	24,640	151,360	186,500
DPR Securitisation-XII	1	2022	EUR 75 millions	13,028	161,047	181,620
DPR Securitisation-XII	2	2022	EUR 75 millions	13,028	161,047	181,620
DPR Securitisation-VIII	1	2017	US$ 76 millions	28,147	105,554	141,681
DPR Securitisation-VIII	1	2017	US$ 76 millions	28,147	105,554	141,681
DPR Securitisation-XIII	2	2016	EUR 50 millions	9,509	105,969	121,080
EBRD-V	3	2017	US$ 60 millions	-	105,600	-
EBRD-IV	2	2017	EUR 40 millions	-	92,651	-
EBRD-II	1-2	2025	US$ 46 millions	23,940	56,539	85,982
EFSE	3	2017	EUR 25 millions	-	58,793	-
DPR Securitisation-VII	1	2014	US$ 33 millions	29,315	29,319	62,134
EBRD-III	2	2015	EUR 17 millions	13,159	26,343	41,513
DPR Securitisation-VIII	1	2015	US$ 21 millious	14,667	22,000	38,829
EBRD-I	4	2014	EUR 13 millions	15,260	15,297	32,354
DPR Securitisation-V(*)	1	2013	US$ 71 millions	124,420	-	131,982
DPR Securitisation-IV	1	2013	US$ 63 millions	110,880	-	117,358
DPR Securitisation-VI	1	2013	US$ 59 millions	103,022	-	111,864
DPR Securitisation-III	1	2013	US$ 27 millions	48,313	-	51,241
Others				3,194,224	6,975,314	7,337,153
				4,086,653	11,334,110	11,837,417

(*) On 9 May 2009, the Bank completed a securitization (the "DPR Securitisation-X") transaction by issuance of certificates; a tranche of US$ 225 millions with a maturity of four years to refinance the debt of US$ 250 millions obtained in November 2005, as explained in subsequent paragraphs below, on an unwrapped basis with no cash effect on the consolidated financial statements.

(**) On 8 September 2010, the Bank completed a securitization (the "DPR Securitisation-XI") transaction by issuance of certificates; a tranche of US$ 214.5 millions with a maturity of six years to refinance the debt of US$ 225 millions obtained in May 2006, as explained in subsequent paragraphs below, on an unwrapped basis with no cash effect on the consolidated financial statements.

17 Loans and advances from banks and other institutions (continued)

In December 2012, one of the Bank's consolidated affiliates signed a loan agreement with European Fund for Southeast Europe (EFSE) in the amount of EUR 25 millions with a maturity of five years for the financing of micro and small enterprises.

In November 2012, the Bank signed a loan agreement with European Bank for Reconstruction and Development (EBRD) (EBRD-V) in the amount of US$ 60 millions with a maturity of five years for the financing of the women entrepreneurs.

In August 2012, the Bank completed a securitization (the "DPR Securitization-XIV) transaction by issuance of certificates, a tranche of US$ 400 millions with 14 years maturity, granted directly by Overseas Private Investment Corporation (OPIC) to finance credit needs of SMEs across Turkey.

In December 2011, the Bank signed a credit agreement with European Bank for Reconstruction and Development (EBRD) (EBRD-IV) for a loan in the amount of EUR 40 millions with a maturity of five years for financing of small and medium size enterprises in agribusiness.

In June 2011, the Bank completed a securitization (the "DPR Securitization-XIII") transaction, arranged by SMBC Nikko Securities America Inc., WestLB AG and Wells Fargo Securities LLC in the amount of US$ 225 millions with a maturity of five years and by Standard Chartered Bank in the amount of EUR 50 millions with five years maturity.

In December 2010, the Bank completed a securitization (the "DPR Securitization-XII") transaction, with the involvement of European Investment Bank (EIB) in the amount of EUR 75 millions with 12 years maturity, by EBRD in the amount of EUR 75 millions with 12 years maturity, by West LB in the amount of EUR 100 millions with five years maturity.

In September 2010, the Bank signed a loan agreement with EBRD (EBRD-III) in the amount of EUR 50 millions which consists of 2 tranches for the financing of SMEs. The first tranche in the amount of EUR 20 millions with a maturity of five years has been financed by EBRD while the second tranche in the amount of EUR 30 millions with one year maturity by Standard Chartered Bank.

In June 2010, the Bank drew a second loan tranche worth of US$ 60,050,000 (equivalent of EUR 50 millions) with a maturity of 12 years, within the EUR 150,000,000 framework agreement signed with EIB (EIB I) on 25 November 2009. The fund will be used for the financing of the investment and working capital needs of SMEs located in Turkey. In December 2009, the Bank had been granted another funding by EIB again for the financing of SME loans in the amount of US$ 147,680,000 (equivalent of EUR 100 millions) with a maturity of 12 years.

In May 2010, the Bank signed a credit agreement with EBRD (EBRD-II) for a loan in the amount of US$ 60 millions which consists of two tranches. The loan, which is funded directly by EBRD with the 5-year tranche of US$ 48 millions and by the Clean Technology Fund which is established by the International Bank for Reconstruction and Development (the World Bank) in consultation with other international financial institutions, developed and developing countries and development partners, with the 15-year tranche of US$ 12 millions, will be utilized for the financing of the energy efficiency needs of the small sized enterprises.

In December 2009, the Bank signed a credit agreement with OPIC for a facility for the financing of SMEs in the amount of US$ 100 millions with a maturity of ten years.

In November 2009, the Bank signed a credit agreement with EBRD (EBRD-I) for a facility of EUR 50 millions. The facility, which is comprised of 3 tranches, will be on lent to small-sized enterprises. EUR 23.4 millions of the facility is funded from EBRD's own sources and has a

17 Loans and advances from banks and other institutions (continued)

maturity of five year while EUR 14.5 millions of the facility is funded by the Netherlands Development Finance Company (FMO) with a maturity of three years. EUR 12.1 millions of the facility is provided by a group of 6 banks from 4 countries with a maturity of one year.

In August 2008, the Bank completed a securitization (the "DPR Securitization-IX") transaction by issuance of certificates; a tranche of EUR 200 millions with ten years maturity from EIB.

In June 2007, the Bank completed a securitization (the "DPR Securitization-VIII") transaction by issuance of certificates; three tranches of US$ 550 millions with ten years maturity wrapped by Ambac Assurance Corp., Financial Guaranty Insurance Corp. and XL Capital Assurance and a tranche of US$ 50 millions with eight years maturity and no financial guarantee.

In January 2007, the Bank borrowed TL 435 millions from Deutsche Bank AG, London with a maturity of ten years at 12.93% annual fixed interest rate through a secured financing transaction. Accordingly, the Bank pledged US$ 300 millions of cash collateral to Deutsche Bank AG, London. Subsequently, the Bank has entered into two more secured financing transactions with the same counterparty under the same collateral conditions and borrowed in total TL 266 millions in two separate transactions on 28 June and 3 July 2007 with maturity of ten years for each and pledged US$ 100 millions of cash collateral for each. The funding costs are 11.30% and 11.35%, respectively. The cash collaterals earn annually US$ libor floating interest rate.

In December 2006, the Bank completed a securitization (the "DPR Securitization-VII") transaction by issuance of certificates: US$ 400 millions tranche with a maturity of ten years and US$ 100 millions tranche with a maturity of eight years. Both of the series were issued on an unwrapped basis.

In May 2006, the Bank completed a securitization (the "DPR Securitization-VI") transaction by issuance of certificates: Euro 300 millions with a guarantee issued by MBIA Insurance Corp. with maturity of five years, US$ 300 millions with no financial guarantee and a maturity of seven years and US$ 225 millions with a guarantee issued by Ambac Assurance Corp. with maturity of ten years.

In November 2005, the Bank completed a securitization (the "DPR Securitization-V") transaction by issuance of certificate: US$ 150 millions with a guarantee issued by CIFG Inc. with a maturity of seven years, US$ 250 millions with a guarantee issued by XL Capital Assurance with a maturity of eight years and US$ 125 millions with no financial guarantee and a maturity of eight years. The XL Capital Assurance wrapped tranche was refinanced by the issuance of unwrapped notes in April 2009, with the maturity profile of the new series being kept identical to the refinanced series.

In September 2005, the Bank completed a securitization (the "DPR Securitisation-IV") transaction by issuance of certificate: US$ 150 millions with a guarantee issued by Financial Guaranty Insurance Corp. with a final maturity of seven years, US$ 150 millions with a guarantee issued by Financial Security Assurance with a final maturity of eight years, US$ 165 millions with a financial guarantee issued by Assured Guaranty Corp. with a final maturity of eight years, US$ 110 millions with a financial guarantee issued by Radian Asset Assurance Inc. with a final maturity of seven years, US$ 25 millions with no financial guarantee and a final maturity of 7 years.

In May 2005, the Bank completed a securitization (the "DPR Securitisation-III") transaction by issuance of certificate: US$ 300 millions with a guarantee issued by MBIA Insurance Corp., a final maturity of eight years.

The DPR securitization is a way of securitizing the Bank's payment orders created via SWIFT MT 103 or similar payment orders in terms of US Dollar, Euro and GBP accepted as derived primarily from the Bank's trade finance and other corporate businesses and paid through foreign depository banks.

(Currency: Thousands of Turkish Lira (TL))

18 Bonds payable

Bonds payable comprise of the following:

	2012			*2011*
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Bonds payable of TL 2,093 millions	2013	6.3-8.7	1,905,440	2,044,236
Bonds payable of US$ 750 millions	2022	5.25	1,307,547	-
Bonds payable of US$ 600 millions	2017	4.00	1,048,136	-
Bonds payable of US$ 500 millions	2021	6.25	872,889	924,305
Bonds payable of US$ 300 millions	2016	3 month libor+2.5	505,336	541,800
Bonds payable of TL 125 millions	2013	9.06	116,729	-
Bonds payable of TL 77 millions	2014	8.46	72,201	-
Bonds payable of TL 76 millions	2013	6.71	68,267	-
Bonds payable of TL 50 millions	2013	7.57	48,210	-
Bonds payable of TL 100 millions			-	93,643
			5,944,755	3,603,984
Expense accrual on bonds payable			181,231	138,072
			6,125,986	3,742,056

The total face value of the bonds and bills issued by the Bank in domestic market reached to TL 2,093 millions as of 31 December 2012. The issuances are authorized by the Turkish Capital Markets Board.

In December 2012, one of the Bank's consolidated affiliates issued bills with a total face value of TL 77,501 thousands, interest rate of 6.71% and a maturity of 178 days.

In October 2012, one of the Bank's consolidated affiliates issued bills with a total face value of TL 50,000 thousands, interest rate of 7.57% and a maturity of 189 days.

In September 2012, the Bank issued US$ 750 million 10-year fixed-rate notes with a maturity date of 13 September 2022 and a coupon rate of 5.25% and US$ 600 million 5-year fixed-rate notes with a maturity date of 13 September 2017 and a coupon rate of 4.00% in the international markets.

In July 2012, one of the Bank's consolidated affiliates issued bills with a total face value of TL 125,000 thousands, interest rate of 9.06% and a maturity of 178 days.

In May 2012, one of the Bank's consolidated affiliates issued two-year-floating-rate notes with a total face value of TL 77,201 thousands, a maturity date of 8 May 2014 and a coupon rate of 11.30% in domestic market.

In August 2011, one of the Bank's consolidated affiliates issued bills with a total face value of TL 100,000 thousands, interest rate of 8.75% and a maturity 179 days. Such bills matured in January 2012.

In April 2011, the Bank issued US$ 500 million 10-year fixed-rate notes with a maturity date of 20 April 2021 and coupon rate of 6.25% and US$ 300 million 5-year floating-rate notes with a maturity date of 20 April 2016 and a coupon rate of 3-month libor + 2.50% in the international markets.

The Bank and/or its consolidated affiliates repurchased some of the Group's own Turkish Lira securities with a total face value of TL 177,169 thousands (2011: TL 410,950 thousands) and foreign currency securities with a total face value of TL 22,869 thousands (2011: TL 18,716 thousands), and netted off such securities in the accompanying consolidated financial statements as of 31 December 2012.

(Currency: Thousands of Turkish Lira (TL))

19 Subordinated liabilities

Subordinated liabilities comprise of the following:

	2012			2011
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Subordinated debt of EUR 50 millions	2021	euribor+3.5	116,050	121,080
Subordinated deposits	2021	4.42-7	30,840	39,734
Subordinated debt of US$ 500 millions			-	932,452
			146,890	1,093,266
Expense accrual on subordinated liabilities			1,790	28,824
			148,680	1,122,090

As of 31 December 2012, subordinated deposits obtained by one of the Bank's consolidated affiliates amounted approximately to EUR 13 millions (equivalent of TL 30,840 thousands) (2011: EUR 16 millions, equivalent of TL 39,734 thousands).

On 23 February 2009, the Bank had obtained a 12-year subordinated loan of EUR 50 millions due March 2021 from Proparco (Societe de Promotion et de Participation pour la Cooperation Economique SA) a company of the French Development Agency Group, with an interest of Euribor+3.5% and a repayment option for the Bank at the end of the seventh year.

On 5 February 2007, the Bank had obtained a 10-year subordinated fixed-rate notes of US$ 500 millions due in February 2017 with a repayment option for the Bank at the end of the fifth year. The Bank repaid this debt benefiting from its early repayment option on 6 February 2012 following the necessary permissions received from the BRSA.

20 Taxation

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no. 2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no. 27130 dated 3 February 2009, certain duty rates included in the articles no. 15 and 30 of the new Corporate Tax Law no. 5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the nonresident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, is 15%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from prior years. There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the end of the accounting year to which they relate. Tax returns and accounting records are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit the tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

20 Taxation (continued)

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, the taxation charge, as reflected in the accompanying consolidated financial statements, represents the total amount of the taxation charge of each affiliate.

Investment allowance

The Temporary Article 69 added to the Income Tax Law no.193 with the Law no.5479, which became effective starting from 1 January 2006, upon being promulgated in the Official Gazette no.26133 dated 8 April 2006, stating that taxpayers can deduct the amount of the investment allowance exemption which they are entitled to according to legislative provisions effective at 31 December 2005 (including rulings on the tax rate) only from the taxable income of 2006, 2007 and 2008. Accordingly, the investment incentive allowance practice was ended as of 1 January 2006. At this perspective, an investment allowance which cannot be deducted partially or fully in three years time was not allowed to be carried forward to the following years and became unavailable as of 31 December 2008. On the other side, the Article 19 of the Income Tax Law was annulled and the investment allowance practice was ended as of 1 January 2006 with effectiveness of the Article 2 and the Article 15 of the Law no.5479 and the investment allowance rights on the investment expenditures incurred during the period of 1 January 2006 and 8 April 2006 became unavailable.

However, on 15 October 2009, the Turkish Constitutional Court decided to cancel the clause no.2 of the Article 15 of the Law no.5479 and the expressions of “2006, 2007, 2008” in the Temporary Article 69 related to investment allowance mentioned above that enables effectiveness of the Law as of 1 January 2006 rather than 8 April 2006, since it is against the Constitution. Accordingly, the time limitations for the carried forward investment allowances that were entitled to in the previous period of mentioned date and the limitations related with the investments expenditures incurred between the issuance date of the Law promulgated and 1 January 2006 were eliminated. According to the decision of Turkish Constitutional Court, cancellation related with the investment allowance became effective with promulgation of the decision on the Official Gazette and the decision of the Turkish Constitutional Court was promulgated in the Official Gazette no.27456 dated 8 January 2010. The expression of "only for the years 2006, 2007 and 2008" in the temporary article no. 69 of the Income Tax Law no. 193 that was cancelled by the decision no.2009/144 of the Turkish Constitutional Court published in the Official Gazette dated 8 January 2010 is revised by the Article 5 of the Law no. 6009 effective with the promulgation on the Official Gazette no.27659 dated 1 August 2010. As per tbe new regulation, the investment allowances that cannot be benefited and transferred to future periods due to insufficient income level of the relevant year, can be used without any year limitation, however the investment allowance amount to be considered in the determination of taxable income, will not exceed 25% of the income of the relevant year. In addition to this, it is also agreed that the corporate tax rate for the companies to benefit from investment allowance will be the current applicable tax rate (20%) instead of 30%. However, the statement of “However the investment allowance amount to be considered in the determination of taxable income, will not exceed 25% of the relevant income” in the temporary article no.69 of the Law no.6009 has been cancelled by the decision of the Constitutional Court, as this statement is decided to be against the Constitution, dated 9 February 2012, E:2010/93, K:2012/9 (decision for abolishing) as announced in the Official Gazette no.28208, on 18 February 2012.

According to the decision mentioned above, the investment allowances carried forward to the year 2006 due to the lack of taxable income and the investment allowances earned through the investments started before 1 January 2006 and continued after that date constituting economic and technical integrity will be used not only in 2006, 2007 and 2008, but also in the following years. In addition, 40% of investment expenditures that are realized between 1 January 2006 and 8 April 2006, within the context of the Article 19 of the Income Tax Law will have the right for investment allowance exemption.

20 Taxation (continued)

Tax applications for foreign branches

NORTHERN CYPRUS

According to the Corporate Tax Law of the Turkish Republic of Northern Cyprus no.41/1976 as amended, the corporate earnings (including foreign corporations) are subject to a 10% corporate tax and 15% income tax. This tax is calculated based on the income that the taxpayers earn in an accounting period. Tax base is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The corporations cannot benefit from the rights of offsetting losses, investment incentives and amortisation unless they prepare and have certified their statements of financial position, statements of comprehensive income and accounting records used for tax calculations by an auditor authorized by the Ministry of Finance. In cases where it is revealed that the earnings of a corporation were not subject to taxation in prior years or the tax paid on such earnings are understated, additional taxes can be charged in the next 12 years following that the related taxation period. The corporate tax returns are filed in the tax administration office in April after following the end of the accounting year to which they relate. Tbe corporate taxes are paid in two equal installments in May and October.

MALTA

The corporate earnings are subjected to a 35% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The earnings of the foreign corporations' branches in Malta are also subject to the same tax rate that the resident corporations in Malta are subject to. The earnings of such branches that are transferred to their head offices are not subject to an additional tax. The prepaid taxes are paid in April, August and December in the related years. The prepayments can be deducted from the annual corporate tax calculated for the whole year earnings. The excess part of the corporate tax that is not covered by such prepayments is paid to the tax office in September.

LUXEMBOURG

The corporate earnings are subject to a 21% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. An additional 5% of the calculated corporate income tax is paid as a contribution to unemployment insurance fund. 3% of the taxable income is paid as municipality tax addition to corporate tax, the municipalities have the right to increase this rate up to 200-350%. The municipality commerce tax, which the Bank's Luxembourg branch subject to currently is applied as 9% of taxable income The tax returns do not include any tax amounts to be paid. The tax calculations are done by the tax office and the amounts to be paid are declared to corporates through official letters called Note. The amounts and the payment dates of prepaid taxes are determined and declared by the tax office at the beginning of the taxation period. The corporations whose head offices are outside Luxembourg, are allowed to transfer the rest of their net income after tax following the allocation of 5% of it for legal reserves, to their head offices.

Tax applications for foreign affiliates

THE NETHERLANDS

In the Netherlands, corporate income tax is levied at the rate of 20% for tax profits up to EUR 200,000 and 25% for the excess part over this amount on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. A unilateral decree for the avoidance of double

(Currency: Thousands of Turkish Lira (TL))

20 Taxation (continued)

taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. There is an additional dividend tax of 5% computed only on the amounts of dividend distribution at the time of such payments. Under the Dutch taxation system, tax losses can be carried forward for nine years to offset against future taxable income. Tax losses can be carried back to one prior year. Companies must file their tax returns within nine months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. The corporate income tax rate for the Germany branch is 30%.

RUSSIA

The applicable corporate tax rate in Russia is 20% (2% federal and 18% regional). The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for a longer period.

ROMANIA

The applicable corporate tax rate in Romania is 16%. The taxation system in Romania is continuously developing and is subject to varying interpretations and constant changes, which may become rarely retroactive. In Romania, tax periods remain open for tax audits for seven years. Tax losses can be carried forward to offset against future taxable income for seven years.

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	2012	*%*	*2011*	*%*
Taxes on income per statutory tax rate	856,161	20.00	854,418	20.00
Disallowable expenses	20,573	0.48	23,260	0.54
Income items exempt from tax or subject to different tax rates	2,693	0.06	(30,953)	(0.72)
Provision for general banking risks	-	-	18,000	0.42
Others	8,654	0.21	9,439	0.22
Taxation charge	888,081	20.75	874,164	20.46

(Currency: Thousands of Turkish Lira (TL))

20 Taxation (continued)

The taxation charge is comprised of the following:

	2012	*2011*
Current taxes	1,302,836	482,355
Deferred taxes	(414,755)	391,809
Taxation charge	888,081	874,164

The movement of current tax liability is as follows:

	2012	*2011*
Balance at the beginning of the period	80,437	298,222
Current period taxation charge	1,302,836	482,355
Current taxes recognised under equity	-	26,599
Less: Corporate taxes paid during the period	(1,038,453)	(726,739)
Current tax liability	344,820	80,437

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the period. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the statement of financial position.

Deferred tax assets and liabilities are as follows:

	2012	*2011*
Total deferred tax assets	587,088	364,189
Off-setted amount	(119,190)	(130,437)
Deferred tax assets per financial statements	467,898	233,752
Total deferred tax liabilities	147,964	137,424
Off-setted amount	(119,190)	(130,437)
Deferred tax liabilities per financial statements	28,774	6,987
Net deferred tax assets	439,124	226,765

Movements in deferred tax assets and liabilities are detailed in the table below:

2012	*Opening balance*	*Recognized in income statement*	*Effects of movement in exchange rates*	*Recognized in equity*	*Closing balance*
Impairment losses on loans	180,236	67,087	222	-	247,545
Discount on loans and advances to customers	38,623	39,024	-	-	77,647
Reserve for employee severance indemnity	26,253	11,886	-	-	38,139
Short-term employee benefits	30,851	3,108	(83)	-	33,876
Tax losses carried forward	24,245	5,479	(1,630)	-	28,094
Valuation difference on financial assets and liabilities	(58,146)	270,857	85	(200,864)	11,932
Impairment of equity participations and tangible assets	15,107	(3,798)	-	-	11,309
Accruals on credit card rewards	8,871	(1,319)	-	-	7,552
Tax exemption for leasing business	1,741	171	-	-	1,912
Pro-rata basis depreciation expenses	(12,581)	(8,773)	-	-	(21,354)
Prepaid expenses and promotions	(27,526)	13,898	-	-	(13,628)
Others, net	(909)	17,135	(126)	-	16,100
Net deferred tax assets	226,765	414,755	(1,532)	(200,864)	439,124

(Currency: Thousands of Turkish Lira (TL))

20 Taxation (continued)

2011	*Opening balance*	*Recognized in income statement*	*Recognized in equity*	*Closing balance*
Impairment losses on loans	121,301	58,935	-	180,236
Discount on loans and advances to customers	27,386	11,237	-	38,623
Short-term employee benefits	38,958	(8,107)	-	30,851
Reserve for employee severance indemnity	20,538	5,715	-	26,253
Tax losses carried forward	13,400	10,845	-	24,245
Impairment of equity participations and tangible assets	17,589	(2,482)	-	15,107
Accruals on credit card rewards	9,298	(427)	-	8,871
Tax exemption for leasing business	11,959	(10,218)	-	1,741
Pro-rata basis depreciation expenses	(13,847)	1,266	-	(12,581)
Prepaid expenses and promotions	(15,634)	(11,892)	-	(27,526)
Valuation difference on financial assets and liabilities	47,864	(446,399)	340,389	(58,146)
Others, net	(354)	(282)	(273)	(909)
Net deferred tax assets	278,458	(391,809)	340,116	226,765

Transfer pricing

The article no.13 of the Corporate Tax Law describes the issue of transfer pricing under the title of "Disguised Profit Distribution by Way of Transfer Pricing". "The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing" published at 18 November 2007, explains the application related issues on this topic.

According to this communiqué, if the taxpayers conduct transactions like purchase and sale of goods or services with the related parties where the prices are not determined according to the arm's length principle, then it will be concluded that there is a disguised profit distribution by way of transfer pricing. Such disguised profit distributions will not be deducted from the corporate tax base for tax purposes.

As stated in the "7.1 Annual Documentation" section of this communiqué, the taxpayers are required to fill out the "Transfer Pricing, Controlled Foreign Entities and Thin Capitalization" form for the purchase and sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices.

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions

The principal components of other liabilities, accrued expenses and provisions are as follows:

	2012	2011
Blocked accounts against expenditures of card holders	3,950,605	3,305,990
Payables to insurance and reinsurance companies relating to insurance business	3,382,905	2,372,713
Derivative financial liabilities	926,945	1,214,263
Provision for general banking risks	450,000	450,000
Cash guarantees obtained	289,670	5,491
Unearned income	279,851	88,176
Withholding taxes	243,820	211,849
Insurance business related provisions	221,009	159,487
Miscellaneous payables	209,485	146,633
Reserve for employee severance indemnity	190,469	130,313
Short-term employee benefits	175,613	158,203
Provision for non-cash loans	172,197	128,043
Expense accruals	143,071	71,807
Transfer orders	102,210	177,005
Payables to suppliers relating to financial lease activities	66,391	117,591
Cheques at clearing house	57,622	-
Advances received	43,934	9,898
Blocked accounts	38,722	68,858
Others	207,454	183,742
	11,151,973	9,000,062

As of 31 December 2012, the other liabilities, accrued expenses and provision include a general provision amounting to TL 450,000 thousands (2011: TL 450,000 thousands) provided by the Bank in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions under the name of provision for general banking risks.

Recognized liability for defined benefit obligations

(i) Defined benefit plan

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, was originally set to be within three years from the enactment of the New Law in May 2008, however, has been postponed for two years as per the decision of the Council of Ministers published on 9 April 2011 as further explained below. The actual date of the transfer has not been specified yet. However, in the financial statements for the year ended 31 December 2007, the Bank has modified the accounting required by IAS 19 *Employee Benefits* as the Bank believes that it is more appropriate to measure the obligation, in respect of the benefits that will be transferred to SSF, at the expected transfer amount prior to the date on which the transfer and settlement will occur. The expected transfer amount is calculated based on the methodology and actuarial assumptions (discount rate and mortality tables) prescribed in the New Law. As such, this calculation measures the liability to be transferred at the expected settlement amount i.e., the expected value of the payment to be made to SSF to assume that obligation.

21 Other liabilities, accrued expenses and provisions (continued)

The obligation with respect to excess benefits is accounted for as a defined benefit plan under IAS 19.

a) Pension and medical benefits transferable to SSF

As per the provisional Article no.23 of the Turkish Banking Law no.5411 as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability (if any) on the transfer should be performed regarding the methodology and parameters determined by the commission established by Ministry of Labor and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated 15 December 2006 ("Decree") for the purpose of determining the principles and procedures to be applied during the transfer of funds. However the said Article was vetoed by the President and at 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional article no.23.

The Bank obtained an actuarial report regarding its obligations at 31 December 2006. This report, which was dated 12 February 2007, is from an actuary, who is registered with the Undersecretariat of the Treasury regarding this Fund in accordance with the Decree. Based on this Decree, the actuarial statement of financial position of the Fund has been prepared using a discount rate of 10.24% and the CSO 1980 mortality table. Based on the actuarial report, the assets of the plan exceeded the amount that would be required to be paid to transfer the obligation at 31 December 2006. In accordance with the existing legislation at 31 December 2006, the pension and medical benefits within the social security limits were subject to transfer and the banks were not required to provide any excess social rights and payments.

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional article no.23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette numbered 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey ("Turkish Parliament") worked on the new legal arrangements by taking the cancellation reasoning into account. At 17 April 2008, the New Law has been accepted by the Turkish Parliament and the New Law has been enacted at 8 May 2008 following its publishment in the Official Gazette no 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The transfers are to take place within the three-year period starting from 1 January 2008. Subsequently, the transfer of the contributors and the persons receiving monthly or regular income and their right-holders from such funds established for employees of the banks, insurance and reinsurance companies, trade chambers, stock markets and unions that are part of these organizations subject to the provisional article 20 of the Social Security Law no.506 to the SSF, has been postponed for two years. The decision was made by the Council of Ministers on 14 March 2011 and published in the Official Gazette no. 27900 dated 9 April 2011 as per the decision of the Council of Ministers, numbered 2011/1559, and as per the letter no. 150 of the Ministry of Labor and Social Security dated 24 February 2011 and according to the provisional article 20 of the Social Security and Public Health Insurance Law no.5510.

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions (continued)

On 19 June 2008, the main opposition party Cumhuriyet Halk Partisi ("CHP") applied to the Constitutional Court for the cancellation of various articles of the Law including the first paragraph of the provisional Article 20. At the meeting of the Constitutional Court on 30 March 2011, it was decided that the article 73 and the first paragraph of the provisional Article 20 added to the law no. 5510 are not contradictory to the Constitutional Law, and accordingly the dismissal of the cancellation request was denied with the majority of votes.

The Bank obtained an actuarial report dated 27 December 2012 from an independent actuary reflecting the principles and procedures on determining the application of transfer transactions in accordance with the New Law. The actuarial statement of financial position of the Fund has been prepared using a discount rate of 9.80% and the CSO 1980 mortality table, and the assets of the plan exceed the amount that would be required to be paid to transfer the obligation at 31 December 2012.

The Bank's obligation in respect of the pension and medical benefits transferable to SSF has been determined as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the related article of the New Law.

The pension disclosures set out below therefore reflect the methodology and actuarial assumptions specified in the New Law. This calculation measures the benefit obligation at the expected transfer amount i.e., the estimated amount the Bank will pay to SSF to assume this portion of the obligation.

The pension benefits are calculated annually, as per the calculation as of 31 December 2012 the present value of funded obligations amounted to TL 111,230 thousands (2011: TL 90,768 thousands) and the fair value of the planned assets amounted to TL 1,479,105 thousands (2011: TL 1,233,840 thousands).

	2012	2011
Present value of funded obligations		
- Pension benefits transferable to SSF (obligation measured at the expected transfer amount)	(458,057)	(376,357)
- Medical benefits transferable to SSF (obligation measured at the expected transfer amount)	369,726	305,628
- General administrative expenses	(22,899)	(20,039)
	(111,230)	(90,768)
Fair value of plan assets	1,479,105	1,233,840
Asset surplus in the plan (*)	1,367,875	1,143,072

(*) *Asset surplus in this plan will be used as plan assets of the excess benefit plan.*

Plan assets consisted of the following:

	2012	2011
Cash and due from banks	475,500	34,964
Securities	905,686	1,091,882
Land and buildings	97,520	97,750
Other	399	9,244
	1,479,105	1,233,840

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions (continued)

b) Excess benefits not transferable to SSF

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF. Therefore these excess benefits are accounted for as an ongoing defined benefit plan.

Asset surplus/(shortage) on present value of defined benefit obligation is as follows:

	2012	***2011***
Present value of defined benefit obligations		
- Pension	(426,261)	(264,514)
- Health	(107,178)	(137,859)
Fair value of plan assets (*)	1,367,875	1,143,072
Asset surplus over present value of defined benefit obligation	834,436	740,699

(*) *Plan assets are composed of asset surplus in the plan explained in paragraph* a).

As per the actuarial calculation performed as of 31 December 2012 as detailed above, the asset surplus over the fair value of the plan assets to be used for the payment of the obligations also fully covered the benefits not transferable and still a surplus of TL 834,436 thousands (2011: TL 740,699 thousands) remains. However, the Bank's management, acting prudently, did not consider the health premium surplus amounting to TL 369,726 thousands (2011: TL 305,628 thousands) as stated above and resulted from the present value of medical benefits and health premiums transferable to SSF. However, despite this treatment there was no excess obligation that needed to be provided against as of 31 December 2012.

	2012	***2011***
Asset surplus over present value of defined benefit obligation	834,436	740,699
Net present value of medical benefits and health premiums transferable to SSF	(369,726)	(305,628)
Present value of asset surplus/(defined benefit obligation)	464,710	435,071

Expenses recognized regarding this benefit plan in the accompanying consolidated income statements for the years ended 31 December 2012 and 2011 are as follows:

	2012	***2011***
Total contribution payment	153,009	137,478
Provision for unfunded liability	-	-
	153,009	137,478

Principal actuarial assumptions used were as follows:

	2012	***2011***
	%	*%*
Discount rates (*)	6.97	9.52
Inflation rates (*)	4.67	5.06
Future real salary increase rates	1.5	1.5
Medical cost trend rates	40% above inflation	40% above inflation
Future pension increase rates (*)	4.67	5.06

(*) The above mentioned rates are effective rates, whereas the rates applied for the calculation differ according to the employees' years in service.

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions (continued)

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 60 is 17 for males, and at age 58 for females is 23.

The sensitivity analysis of defined benefit obligation of excess liabilities were as follows:

	2012 % change in defined benefit obligation		
	Pension Benefits	***Medical Benefits***	***Overall***
Assumption change	*%*	*%*	*%*
Discount rate +1%	(15.1)	(16.0)	(15.3)
Discount rate -1%	16.8	20.9	17.7
Medical inflation +10% of CPI		8.7	1.7
Medical inflation -10% of CPI		(8.0)	(1.6)

	2011 % change in defined benefit obligation		
	Pension Benefits	***Medical Benefits***	***Overall***
Assumption change	*%*	*%*	*%*
Discount rate +1%	(11.9)	(13.7)	(12.5)
Discount rate -1%	14.9	17.4	15.8
Medical inflation +10% of CPI		8.0	2.7
Medical inflation -10% of CPI		(7.3)	(2.5)

Short-term employee benefits

Movement in the provision for short-term employee benefits are as follows:

	2012	*2011*
Balance, beginning of the period	158,203	190,508
Payments	(262,435)	(314,949)
Provision for the period	279,845	282,644
Balance, end of the period	175,613	158,203

Insurance business related provisions

Insurance business related provisions are detailed in the table below:

	2012	*2011*
Reserve for unearned premiums, net	93,527	57,681
Gross	*113,368*	*106,071*
Reinsurers' share	*(19,841)*	*(48,390)*
Provision for claims, net	42,202	16,770
Gross	*55,368*	*25,179*
Reinsurers' share	*(13,166)*	*(8,409)*
Life mathematical reserves	85,280	85,036
	221,009	159,487

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions (continued)

Reserve for employee severance indemnity

Movement in the reserve for employee severance indemnity is as follows:

	2012	2011
Balance, beginning of the period	130,313	105,425
Reversals and payments	(16,901)	(14,583)
Provision for the period	77,057	39,471
Balance, end of the period	190,469	130,313

The computation of the liabilities is based upon the retirement pay ceiling announced by the government. The ceiling amounts applicable for each year of employment are full TL 3,125.01 and full TL 2,731.85 as of 31 December 2012 and 2011, respectively.

The principal actuarial assumptions are as follows:

	2012(*) %	2011(*) %
Discount rates	2.18	4.25
Interest rates	6.95	9.52
Expected rates of salary increases	6.17	6.56
Inflation rates	4.67	5.06

(*) The above mentioned rates are effective rates, whereas the rates applied for the calculation differ according to the employees' years in service.

Provision for non-cash loans

Movement in the provision for non-cash loans are as follows:

	2012	2011
Balance, beginning of the period	128,043	111,493
Provision for the period, net	44,154	16,550
Balance, end of the period	172,197	128,043

22 Equity

Share capital

The authorized nominal share capital of the Bank amounted to TL 4,200,000 thousands as of 31 December 2012. However, the shares acquired by one of the Bank's consolidated affiliates with a total nominal value of TL 3,066 thousands as of 31 December 2012, are deducted from the share capital in the accompanying consolidated statement of financial position for presentation purposes.

Unrealised gains from changes in fair value of available-for-sale assets are detailed as follows:

	2012	2011
Balance at the beginning of the period	92,778	1,627,351
Net unrealised (losses)/gains from changes in fair value	1,221,042	(1,535,178)
Related deferred and current income taxes	(234,708)	286,680
Net gains transferred to the statement of comprehensive income on disposal	9,263	(358,486)
Related deferred and current income taxes	(510)	72,411
Effect of movements in foreign exchange rates*	5,818	-
Balance at the end of the period	1,093,683	92,778

* foreign exchange rate effect is included in other movements in the prior period.

(Curreney: Thousands of Turkish Lira (TL))

22 Equity (continued)

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (see Note 26.4 for the details).

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the functional currency of the Bank which is TL.

Legal reserves

As per the decisions made at the annual general assemblies of the Bank and its affiliates, 5% of the prior year's net income is allocated to legal reserves. The reserves include legal reserves amounting to TL 956,192 thousands (2011: TL 757,480 thousands) in total.

For the Bank and its Turkish affiliates, the legal reserves are generated by annual appropriations amounting to 5% of the statutory income until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

The Bank's affiliate in Russia allocates legal reserves upto 15% of its authorized capital. To achieve required level, the affiliate annually allocates 5% of its statutory net income. The reserves of the Russian affiliate is intended to cover losses, repayment of bonds, repurchase of shares if no other asset is available, and cannot be used for any other purposes.

The Bank's affiliates in Romania also allocate legal reserves in accordance with the requirements of statutory laws and regulations applicable for each entity. According to the relevant legislation, legal reserves include annual allocations of 5% of the statutory income before tax. According to the relevant legislation, the legal reserve cannot exceed 20% of the share capital.

The Bank's affiliate in the Netherlands is not subject to any legal reserve requirements.

At the annual general assembly meeting of the Bank held on 12 April 2012, it was decided to distribute a dividend of TL 600,000 thousands to shareholders and to allocate TL 153,529 thousands and TL 39,000 thousands to the first and second legal reserves, respectively, from retained earnings.

Non-controlling interests

As of 31 December 2012, net non-controlling interests amount to TL 140,524 thousands (31 December 2011: TL 112,583 thousands). Non-controlling interests are detailed as follows:

	2012	*2011*
Capital	43,648	43,648
Retained earnings and other reserves	68,961	49,505
Net income for the period	27,915	19,430
	140,524	112,583

(Currency: Thousands of Turkish Lira (TL))

23 Fair value information

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation and best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgment is necessary required to interpret market data to determine the estimated fair value. While management uses available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities are not materially different than their recorded values except for those of loans and advances to customers and investment securities. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements and money market fundings, loans and advances from banks and other institutions, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair value of loans and advances to customers is TL 101,630,975 thousands (2011: TL 91,951,558 thousands), whereas the carrying amount is TL 102,260,080 thousands (2011: TL 92,653,780 thousands) in the accompanying consolidated statement of financial position as of 31 December 2012.

Fair value of investment securities is TL 39,962,081 thousands (2011: TL 36,174,665 thousands), whereas the carrying amount is TL 39,861,281 thousands (2011: TL 35,941,390 thousands) in the accompanying consolidated statement of financial position as of 31 December 2012.

The table below analyses financial instruments carried at fair value, by valuation method:

2012	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets at fair value through profit or loss	324,528	222,181	4,217	550,926
Derivative financial assets	5,776	704,991	-	710,767
Debt and other instruments available-for-sale	36,233,273	14.983	2,246,071	38,494,327
Financial Assets at Fair Value	36,563,577	942,155	2,250,288	39,756,020
Derivative financial liabilities	-	926,945	-	926,945
Financial Liabilities at Fair Value	-	926,945	-	926,945

2011	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets at fair value through profit or loss	381,391	203	37,677	419,271
Derivative financial assets	4,962	1,050,360	-	1,055,322
Debt and other instruments available-for-sale	25,339,162	2	5,815,696	31,154,860
Financial Assets at Fair Value	25,725,515	1,050,565	5,853,373	32,629,453
Derivative financial liabilities	95	1,214,168	-	1,214,263
Financial Liabilities at Fair Value	95	1,214,168	-	1,214,263

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

(Currency: Thousands of Turkish Lira (TL))

24 Commitments and contingencies

In the ordinary course of business, the Bank and its affiliates undertake various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit. Commitments and contingent liabilities comprise the following:

	2012	*2011*
Letters of guarantee	16,852,681	15,420,399
Letters of credit	6,141,429	6,231,224
Acceptance credits	720,896	515,550
Other guarantees and endorsements	66,300	70,236
	23,781,306	22,237,409

As of 31 December 2012, commitment for unpaid capital of affiliated companies amounts to TL 7,944 thousands (2011: TL 11,407 thousands).

As of 31 December 2012, commitments for unused credit limits for credit cards, overdrafts, cheques and loans to customers, and commitments for "credit linked notes" amount to TL 27,955,379 thousands (2011: TL 27,495,547 thousands) in total.

As of 31 December 2012, commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 443,318 thousands (2011: TL 364,278 thousands) in total.

As of 31 December 2012, the securities acquired under security borrowing transactions include shares with a total market value of TL 20,499 thousands (2011: EUR 235,360,684 of eurobonds and TL 15,043 thousands of shares) and a total carrying value of TL 20,499 thousands (2011: TL 737,814 thousands) (2011: with a latest maturity of July 2028 for eurobonds).

25 Derivative financial instruments

As of 31 December 2012, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 53,725,410 thousands (2011: TL 43,880,483 thousands), approximately 94% of which are due within a year.

The following tables summarize the contractual amounts of the forward, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the date of the statement of financial position. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognized in the statement of comprehensive income, except for contracts of cash flow hedges as stated above.

(Currency: Thousands of Turkish Lira (TL))

25 Derivative financial instruments (continued)

	Notional amount with remaining life of					
2012	*Up to 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Over 1 year*	*Total*
Interest Rate Derivatives						
Interest rate options	-	-	353,880	986,426	517,432	1,857,738
Purchases	-	-	*176,940*	*493,213*	*258,716*	*928,869*
Sales	-	-	*176,940*	*493,213*	*258,716*	*928,869*
Interest rate swaps (*)	119	7,970	2,396	7,765	699,426	717,676
Purchases	*52*	*5,014*	*2,137*	*3,329*	*312,906*	*323,438*
Sales	*67*	*2,956*	*259*	*4,436*	*386,520*	*394,238*
Interest rate futures	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Other Derivatives						
Securities, shares and index options	29,866	39,520	176,819	866	-	247,071
Purchases	*14,910*	*18,000*	*85,799*	*433*	-	*119,142*
Sales	*14,956*	*21,520*	*91,020*	*433*	-	*127,929*
Other forward contracts	26,235	13,442	15,316	18,976	3,690	77,659
Purchases	*21,550*	*13,442*	*13,442*	*18,976*	*3,690*	*71,100*
Sales	*4,685*	-	*1,874*	-	-	*6,559*
Other future contracts	-	52,461	83,737	36,108	-	172,306
Purchases	-	*527*	-	-	-	*527*
Sales	-	*51,934*	*83,737*	*36,108*	-	*171,779*
Other swap contracts	2,283,011	10,515	23,127	40,257	6,597	2,363,507
Purchases	*404,392*	*6,601*	*11,730*	*10,669*	*3,309*	*436,701*
Sales	*1,878,619*	*3,914*	*11,397*	*29,588*	*3,288*	*1,926,806*
Currency Derivatives						
Spot exchange contracts	2,930,700	-	-	-	-	2,930,700
Purchases	*2,299,236*	-	-	-	-	*2,299,236*
Sales	*631,464*	-	-	-	-	*631,464*
Forward exchange contracts	2,391,000	835,204	591,233	713,185	260,644	4,791,266
Purchases	*1,433,434*	*483,772*	*451,958*	*320,583*	*146,384*	*2,836,131*
Sales	*957,566*	*351,432*	*139,275*	*392,602*	*114,260*	*1,955,135*
Currency/cross currency swaps	14,272,959	1,765,819	1,431,553	3,618,580	1,275,828	22,364,739
Purchases	*6,571,602*	*782,958*	*1,210,284*	*2,888,835*	*767,177*	*12,220,856*
Sales	*7,701,357*	*982,861*	*221,269*	*729,745*	*508,651*	*10,143,883*
Options	9,241,601	3,276,394	2,819,884	2,324,436	512,713	18,175,028
Purchases	*4,653,278*	*1,698,486*	*1,505,103*	*1,144,139*	*248,427*	*9,249,433*
Sales	*4,588,323*	*1,577,908*	*1,314,781*	*1,180,297*	*264,286*	*8,925,595*
Foreign currency futures	-	27,720	-	-	-	27,720
Purchases	-	-	-	-	-	-
Sales	-	*27,720*	-	-	-	*27,720*
Subtotal Purchases	15,398,454	3,008,800	3,457,393	4,880,177	1,740,609	28,485,433
Subtotal Sales	15,777,037	3,020,245	2,040,552	2,866,422	1,535,721	25,239,977
Total of Transactions	31,175,491	6,029,045	5,497,945	7,746,599	3,276,330	53,725,410

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

(Currency: Thousands of Turkish Lira (TL))

25 Derivative financial instruments (continued)

	Notional amount with remaining life of					
2011	*Up to 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Over 1 year*	*Total*
Interest Rate Derivatives						
Interest rate options	-	-	-	-	888,861	888,861
Purchases	-	-	-	-	*888,861*	*888,861*
Sales	-	-	-	-	-	-
Interest rate swaps (*)	51,711	127,736	78,439	19,559	204,063	481,508
Purchases	*30,105*	*34,183*	*38,420*	*8,449*	*97,154*	*208,311*
Sales	*21,606*	*93,553*	*40,019*	*11,110*	*106,909*	*273,197*
Interest rate futures	-	500	-	-	-	500
Purchases	-	*62*	-	-	-	*62*
Sales	-	*438*	-	-	-	*438*
Other Derivatives						
Securities, shares and index options	60,788	45,826	25,867	37,418	11,230	181,129
Purchases	*52,218*	*26,417*	*21,834*	*28,686*	*5,615*	*134,770*
Sales	*8,570*	*19,409*	*4,033*	*8,732*	*5,615*	*46,359*
Other forward contracts	229,716	56,251	10,612	470	-	297,049
Purchases	*31,830*	*13,512*	*955*	-	-	*46,297*
Sales	*197,886*	*42,739*	*9,657*	*470*	-	*250,752*
Currency Derivatives						
Spot exchange contracts	1,518,641	-	-	-	-	1,518,641
Purchases	*612,097*	-	-	-	-	*612,097*
Sales	*906,544*	-	-	-	-	*906,544*
Forward exchange contracts	2,451,311	752,281	591,031	904,599	259,963	4,959,185
Purchases	*1,333,883*	*521,522*	*486,379*	*362,207*	*177,337*	*2,881,328*
Sales	*1,117,428*	*230,759*	*104,652*	*542,392*	*82,626*	*2,077,857*
Currency/cross currency swaps	6,136,716	7,117,523	3,150,508	2,675,009	1,359,576	20,439,332
Purchases	*2,274,967*	*841,223*	*1,411,994*	*1,728,528*	*381,383*	*6,638,095*
Sales	*3,861,749*	*6,276,300*	*1,738,514*	*946,481*	*978,193*	*13,801,237*
Options	4,021,097	2,812,858	3,317,677	4,266,782	631,356	15,049,770
Purchases	*2,292,627*	*1,398,283*	*1,892,654*	*2,137,104*	*315,283*	*8,035,951*
Sales	*1,728,470*	*1,414,575*	*1,425,023*	*2,129,678*	*316,073*	*7,013,819*
Foreign currency futures	-	64,508	-	-	-	64,508
Purchases	-	*5,344*	-	-	-	*5,344*
Sales	-	*59,164*	-	-	-	*59,164*
Subtotal Purchases	6,627,727	2,840,546	3,852,236	4,264,974	1,865,633	19,451,116
Subtotal Sales	7,842,253	8,136,937	3,321,898	3,638,863	1,489,416	24,429,367
Total of Transactions	14,469,980	10,977,483	7,174,134	7,903,837	3,355,049	43,880,483

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

26 Financial risk management disclosures

This section provides details of the Bank and its affiliates' exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank and its affiliates are exposed, are credit risk, liquidity risk, market risk and operational risk.

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 26.2 contains risk management information related to the trading portfolio and section 26.3 deals with the non-trading portfolio.

Risk management framework

The Bank's Risk Management Strategy is established as part of a maintainable long term, value adding growth strategy. This strategy involves optimal allocation of economic capital to business lines considering the risk-return balance by measuring risks with the methods in compliance with its activities and national regulations and international standards.

The Bank determines the necessary approaches in order to update, revise, apply and manage its policies set for the proper assessment and management of risks considering changes in conditions.

It is the ultimate responsibility of the top management to apply and improve risk management strategies, policies and procedures that are approved by the board of directors, to inform the board of directors about the important risks the Bank is exposed to, to assess internal control, internal audit and risk reports with regard to the Bank's departments and to eliminate the risks, deficiencies or defects identified in these departments or to take the necessary precautionary actions to prevent those risks, deficiencies and defects, to participate in the determination of risk limits.

The risk management activities are structured under the responsibility of the Bank's board of directors. The top management is responsible to the board of directors for monitoring and managing of risks. Besides, the following departments participate in monitoring of risks coordinately, independent from executive functions; Internal Control, Risk Management, Fraud, Compliance and Internal Audit.

The risks are evaluated on a continuously developing structure that is managed by internationally accepted applications and in compliance with the Bank's policies and procedures and the international and local regulations.

The risks are also managed through risk mitigations using hedging transactions beside measurement, limitation and capital allocation techniques. The data of the Bank and the market are regularly monitored for better risk monitoring and management. As part of limitation of risks, internal limits are also set beside the legal limits. The possible changes in economic conditions and the risks that can be faced under extraordinary conditions are taken into consideration.

In order to ensure the compliance with the rules altered pursuant to the Articles 23, 29 and 31 of the Turkish Banking Law No. 5411 and the Articles 20, 36, 40, 60 and 71 of Regulation on Internal Systems of Banks published in the Official Gazette dated 28 June 2012, the Bank periodically reviews the current written policies and implementation procedures regarding management of each risk encountered in its activities.

The Bank purchased an integrated software system to place better risk management and Basel II applications in order to support and improve risk management activities. The Basel II application has became mandatory for all the banks operating in Turkey effective from 1 July 2012.

26 Financial risk management disclosures (continued)

Audit Committee

The audit committee consists of two members of the board of directors who do not have any executive functions. The audit committee, which was established to assist the board of directors in its auditing and supervising activities, is responsible for:

- Monitoring the effectiveness and adequacy of the Bank's internal control, risk management and internal audit systems, operation of these systems and accounting and reporting systems in accordance with applicable regulations and the integrity of resulting information;
- Performing the preliminary studies required for the election of independent audit firms and regularly monitoring their activities;
- Ensuring that the internal audit functions of consolidated organizations are performed in a consolidated and coordinated manner.

Liquidity Risk Management Committee

- Determining the excess liquidity that the Bank holds in foreign currencies;
- Periodically monitoring the liquidity report and early-warning signals;
- Determining the stress level of the Bank; monitoring internal and external factors that might affect the Bank's liquidity in case of a liquidity crisis;
- Ensuring that the action plan aligned with the Contingency Funding Plan is properly implemented;
- Determining measures required by the Bank's customer confidence, cost of funding and key liquidity increasing strategies, and ensuring internal communication and coordination with regard to the implementation of committee decisions.

Other Committees

Market, credit and operational sub-risk committees have been established in order to facilitate exchange of information and views with the relevant units of the Bank and to promote the use of risk management and internal audit systems within the Bank.

26.1 Derivative financial instruments

The Bank and its affiliates enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the dates of the statements of financial position are set out in Note 25. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below:

Swaps

Swaps are over-the-counter agreements to exchange future cash flows based upon agreed notional amounts. Most commonly used swaps are currency swaps. The Bank and its affiliates are subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in market rates relative to the contractual rates of the contract.

26 Financial risk management disclosures (continued)

Futures and forwards

Futures and forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardized exchange-traded contracts whereas forwards are individually traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are clearing houses. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell (put option) to the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange, bond, equity index, interest rate options, not only vanilla options but also exotic options. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

26.2 Trading activities

The Bank and its affiliates maintain active trading positions in non-derivative financial instruments. Most of the trading activities are customer driven. In anticipation of customer demand, an inventory of capital market instruments is carried and access to market liquidity is maintained by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt and equity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank and its affiliates to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximize net trading income. Trading activities are managed by type of risk involved and on the basis of the categories of trading instruments held.

Counterparty credit risk

The Bank and its affiliates' counterparty credit exposure at the date of the statement of financial position from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

26 Financial risk management disclosures (continued)

Market risk

Market Risk is defined as the losses that the trading portfolio of the Bank may incur due to the risks caused by market price changes (interest rate, equities, foreign exchange and commodity prices), the correlations between market prices and the uncertainty in the volatility levels.

All trading instruments are subject to market risk. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income.

The Bank and its affiliates manage its use of trading instruments in response to changing market conditions.

The board of directors monitors the effectiveness of risk management systems through audit committee, related other committees and top management, and in the light of various risk reports and the assessments made by the audit committee.

The risk policies and application procedures have been approved by the board of directors and regularly revisited. The market risk is also managed by risk mitigations through hedging transactions beside measuring the risks in compliance with the international standards, limiting such risk and allocating capital accordingly.

Market risks arising from trading portfolios are measured by the Bank as per "standard" and "value at risk (VaR)" methods. The measurements as per the standard method are performed on a monthly basis, and taken into consideration in the calculation of capital adequacy. Whereas, the measurements as per VaR method are performed on a daily basis. VaR is calculated using three different methods, namely historical simulation, monte carlo simulation and parametric methods. The Bank takes the historical VaR results as the basis for the internal management of market risk and limit setting. The calculations made according to other two methods are used for comparison and monitoring purposes. In the VaR calculation, one year historical market data set is used, and 99% confidence interval and one-day holding period (10 days for regulatory capital calculation) are taken into account. In order to test the reliability of the VaR model, back tests are performed. Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations. Beside the VaR limits, the limits on transaction, trader, desk, stop-loss approved by the board of directors for trading portfolio are also applied for limiting the market risk.

The capital requirement for general market risk and specific risks is calculated using the standard method defined by the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" as set out by the BRSA and reported monthly on a bank-only basis and quarterly on a consolidated basis.

26.3 Non-trading activities

Below is a discussion of the various risks the Bank and its affiliates are exposed to as a result of its non-trading activities and the approach taken to manage those risks.

Liquidity risk

Liquidity risk is defined as the risk that the Bank may not be able to fullfil its payment obligations in a timely manner due to the lack of available cash or cash inflows in quality and in quantity to cover the cash outflows in a complete and timely manner due to imbalances in the cash flows of the Bank and its affiliates.

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

In order to manage the liquidity risk, the Bank and its financial affiliates diversify their funding sources considering their short and long term liquidity requirements, through instruments such as customer deposits, repurchase transactions, bond issuances and foreign borrowings. Besides, in order to secure the maturity match between the assets and liabilities, the strategies for maturity extension of funding, exist. The liquidity needs in different currencies are managed through transactions such as currency swaps. In order to meet the cash outflow requirements during crises periods, high-liquid asset reserves are maintained.

In the context of Turkish Lira and foreign currencies liquidity management, the Bank monitors the cash flows regarding assets and liabilities and forecast the required liquidity in future periods. By monitoring stress conditions, necessary measures shall be taken in line with liquidity needs.

There exists a contingency funding plan that includes the mechanisms to prevent a liquidity risk increase under ordinary operations and liquidity crisis scenarios under various conditions and levels of stress. Available liquid sources are determined by considering the liquidity crisis. As per this plan, the liquidity risk is monitored through possible actions and scenarios at various stress levels of liquidity risks and early warning signals.

Exposure to liquidity risk

The calculation method used to measure the banks compliance with the liquidity limit is set by the BRSA. Currently, this calculation is performed on a bank only basis. In November 2006, the BRSA issued a new communiqué on the measurement of liquidity adequacy of banks. The legislation requires the banks to meet minimum 80% liquidity ratio of foreign currency assets/liabilities and minimum 100% liquidity ratio of total assets/liabilities on a weekly and monthly basis effective from June 2007 on a bank-only basis. The Bank's liquidity ratios for the years 2012 and 2011 are as follows:

	2012			
	First Maturity Bracket (Weekly)		*Second Maturity Bracket (Monthly)*	
	FC	*FC + TL*	*FC*	*FC + TL*
Average (%)	131.56	139.73	98.80	104.67

	2011			
	First Maturity Bracket (Weekly)		*Second Maturity Bracket (Monthly)*	
	FC	*FC + TL*	*FC*	*FC + TL*
Average (%)	135.89	148.57	94.32	109.14

The Bank's banking affiliate in the Netherlands is not subject to a similar liquidity measurement, however the Dutch Central Bank requires the bank to have a positive liquidity gap, i.e. the liquidity gap should be greater than zero.

The Bank's banking affiliate in Russia is subject to three levels of liquidity requirement; instant liquidity of minimum 15%, current liquidity of minimum 50% and long-term liquidity of maximum 120%.

The Bank's banking affiliate in Romania calculates the liquidity ratio as a ratio of effective liquidity in local currency equivalent to necessary liquidity in local currency equivalent for several individual time buckets (<1 month, 1-3 months, 3-6 months, 6-12 months, >1 year) and each ratio for each bucket should be >1.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	31 December 2012							
	Demand Accounts	*Up to 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Undistributed*	*Total*
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	1,293,951	-	-	-	-	-	-	1,293,951
Financial assets at fair value through profit or loss	49,449	-	8,570	119,139	288,273	3,527	-	468,958
Loans and advances to banks	147,454	344,233	105,866	443,760	1,552,401	-	-	2,593,714
Loans and advances to customers	109,081	15,657,512	5,976,928	6,687,622	22,819,808	6,480,786	(615,722)	57,116,015
Derivative financial assets	-	138,023	65,364	158,368	120,982	-	-	482,737
Other assets	15,408	243,254	19,909	37,386	4,682	3,007	4,022,294	4,345,940
Investment securities	24,986	-	946,729	15,342,237	14,701,464	4,827,307	-	35,842,723
Deferred tax asset	-	-	-	-	-	-	454,209	454,209
Total Turkish Lira monetary assets	1,640,329	16,383,022	7,123,366	22,788,512	39,487,610	11,314,627	3,860,781	102,598,247
Foreign Currency								
Cash and balances with central banks	2,427,030	798,424	-	-	-	-	-	3,225,454
Financial assets at fair value through profit or loss	42,364	3,205	-	-	7,590	28,809	-	81,968
Loans and advances to banks	1,512,499	694,613	367,196	1,096,811	1,218,096	1,926,664	-	6,815,879
Loans and advances to customers	33,382	2,146,486	3,624,936	7,919,515	15,658,271	15,547,496	213,979	45,144,065
Derivative financial assets	-	-	7,637	11,302	135,198	73,893	-	228,030
Other assets	131,317	13,486,173	6,550	14,407	19,319	1,691	12,449	13,671,906
Investment securities	4,784	2	28,577	64,157	2,655,838	1,265,200	-	4,018,558
Deferred tax asset	-	-	-	-	-	-	13,689	13,689
Total foreign currency monetary assets	4,151,376	17,128,903	4,034,896	9,106,192	19,694,312	18,843,753	240,117	73,199,549
Total Monetary Assets	5,791,705	33,511,925	11,158,262	31,894,704	59,181,922	30,158,380	4,100,898	175,797,796
MONETARY LIABILITIES								
Turkish Lira								
Deposits	8,475,791	34,997,327	6,094,658	328,695	2,812	-	-	49,899,283
Obligations under repurchase agreements and money market fundings	-	12,035,768	313	210,092	-	-	-	12,246,173
Loans and advances from banks and other institutions	-	2,001,033	375,903	210,309	3,004,375	-	-	5,591,620
Bonds payable	-	781,831	322,140	1,040,020	73,009	-	-	2,217,000
Subordinated liabilities	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	181,053	27,062	58,419	345,505	-	-	612,039
Other liabilities, accrued expenses and provisions	143,431	4,537,274	336,430	65,042	-	3,288,153	1,487,913	9,858,243
Total Turkish Lira monetary liabilities	8,619,222	54,534,286	7,156,506	1,912,577	3,425,701	3,288,153	1,487,913	80,424,358
Foreign Currency								
Deposits	13,426,185	23,100,261	4,773,348	5,095,155	1,460,695	20,360	-	47,876,004
Obligations under repurchase agreements and money market fundings	-	588,163	569,400	703,208	-	-	-	1,860,771
Loans and advances from banks and other institutions	-	1,110,642	1,329,830	9,507,985	5,195,544	3,143,734	-	20,287,735
Bonds payable	-	-	-	-	1,591,824	2,317,162	-	3,908,986
Subordinated liabilities	-	-	-	-	70,864	77,816	-	148,680
Derivative financial liabilities	-	38,775	11,411	28,765	151,967	83,988	-	314,906
Other liabilities, accrued expenses and provisions	408,456	107,768	94,861	15,401	721	36,371	76,801	740,379
Total foreign currency monetary liabilities	13,834,641	24,945,609	6,778,850	15,350,514	8,471,615	5,679,431	76,801	75,137,461
Total Monetary Liabilities	22,453,863	79,479,895	13,935,356	17,263,091	11,897,316	8,967,584	1,564,714	155,561,819

(Currency: Thousands of Turkish Lira (TL))

	31 December 2011							
	Demand accounts	*Up to 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Undistributed*	*Total*
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	1,589,478	-	-	-	-	-	-	1,589,478
Financial assets at fair value through profit or loss	38,040	20,329	32,988	52,100	139,037	8,488	-	290,982
Loans and advances to banks	137,269	236,087	56,350	305,180	1,805,433	-	-	2,540,319
Loans and advances to customers	114,918	12,450,879	5,512,141	7,004,294	18,515,422	5,072,307	(420,998)	48,248,964
Derivative financial assets	-	101,194	147,271	197,182	46,030	126,359	-	618,036
Other assets	156,398	306,343	17,652	36,203	2,991	-	2,841,647	3,361,234
Investment securities	23,682	169,430	2,195,202	775,981	25,212,463	2,078,800	-	30,455,558
Deferred tax asset	-	-	-	-	-	-	200,663	200,663
Total Turkish Lira monetary assets	2,059,784	13,284,262	7,961,604	8,370,941	45,721,376	7,285,954	2,621,313	87,305,234
Foreign Currency								
Cash and balances with central banks	1,840,342	-	-	-	-	-	-	1,840,342
Financial assets at fair value through profit or loss	80,389	2,889	-	2,447	26,588	15,976	-	128,289
Loans and advances to banks	2,489,980	5,169,654	531,310	1,282,337	327,283	2,891,831	-	12,692,395
Loans and advances to customers	8,878	2,437,836	4,545,309	7,236,533	14,313,012	15,720,810	142,438	44,404,816
Derivative financial assets	0	61,100	110,758	91,146	31,862	142,420	-	437,286
Other assets	1,877	7,257,953	31	608	6,509	8,747	29,704	7,305,429
Investment securities	1,706	2	-	141,245	2,480,332	2,862,546	-	5,485,832
Deferred tax asset	-	-	-	-	-	-	33,089	33,089
Total foreign currency monetary assets	4,423,173	14,929,433	5,187,408	8,754,316	17,185,586	21,642,330	205,231	72,327,477
Total Monetary Assets	6,482,957	28,213,695	13,149,012	17,125,256	62,906,962	28,928,285	2,826,545	159,632,712
MONETARY LIABILITIES								
Turkish Lira								
Deposits	7,209,413	32,719,479	6,561,056	1,153,350	4,371	-	-	47,647,670
Obligations under repurchase agreements	-	8,340,331	299	-	-	-	-	8,340,630
Loans and advances from banks	-	1,342,748	161,805	344,868	3,064,506	701,210	-	5,615,138
Bonds payable	-	767,193	-	1,371,442	-	-	-	2,138,635
Subordinated liabilities	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	111,391	87,881	374,408	268,945	49,766	-	892,391
Other liabilities, accrued expenses and provisions	140,743	3,477,192	15,288	461,237	44,352	-	3,272,208	7,411,019
Total Turkish Lira monetary liabilities	7,350,156	46,758,333	6,826,330	3,705,305	3,382,175	750,976	3,272,208	72,045,483
Foreign Currency								
Deposits	13,120,364	20,284,190	5,549,404	4,951,675	1,515,089	167,413	-	45,588,134
Obligations under repurchase agreements	-	988,014	1,214,846	-	1,194,667	-	-	3,397,527
Loans and advances from banks	-	798,821	1,182,034	8,657,443	5,205,886	2,866,228	-	18,710,411
Bonds payable	-	-	-	-	562,616	1,040,805	-	1,603,421
Subordinated liabilities	-	264	2,856	4,692	16,408	1,097,870	-	1,122,090
Derivative financial liabilities	-	47,614	19,171	97,753	67,741	89,593	-	321,872
Other liabilities, accrued expenses and provisions	90,876	152,985	141,669	5,887	3,046	336	67,405	462,204
Total foreign currency monetary liabilities	13,211,240	22,271,887	8,109,981	13,717,449	8,565,452	5,262,245	67,405	71,205,659
Total Monetary Liabilities	20,561,395	69,030,221	14,936,311	17,422,755	11,947,627	6,013,221	3,339,613	143,251,142

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

Contractual maturity analysis of liabilities according to remaining maturities

The remaining maturities table of the contractual liabilities includes the undiscounted future cash outflows for the principal amounts of the Bank and its financial affliates' financial liabilities as per their earliest likely contractual maturities.

	2012							
	Carrying Value	*Nominal Principal Outflows*	*Demand*	*Up to 1 Month*	*1 to 3 Months*	*3 to 12 Months*	*1 to 5 Years*	*Over 5 Years*
Deposits	97,775,287	97,420,145	21,901,905	57,886,202	10,809,037	5,359,080	1,443,750	20,171
Obligations under repurchase agreements and money market fundings	14,106,944	14,091,412	-	12,616,799	563,513	911,100	-	-
Loans and advances from banks and other Institutions	25,879,355	25,564,730	-	2,985,714	1,586,950	9,657,956	8,190,377	3,143,733
Bonds payable	6,125,986	5,944,755	-	777,335	322,140	1,039,170	1,648,458	2,157,652
Subordinated liabilities	148,680	146,890	-	-	-	-	69,080	77,810
Total Monetary Liabilities	144,036,252	143,167,932	21,901,905	74,266,050	13,281,640	16,967,306	11,351,665	5,399,366

	2011							
	Carrying Value	*Nominal Principal Outflows*	*Demand*	*Up to 1 Month*	*1 to 3 Months*	*3 to 12 Months*	*1 to 5 Years*	*Over 5 Years*
Deposits	93,235,804	92,794,344	20,329,653	52,758,129	12,020,957	6,020,817	1,497,668	167,120
Obligations under repurchase agreements and money market fundings	11,738,157	11,713,248	-	9,311,695	1,211,683	-	1,189,870	-
Loans and advances from banks and other institutions	24,325,549	24,031,519	-	2,001,104	1,239,850	8,953,148	8,269,981	3,567,436
Bonds payable	3,742,056	3,603,984	-	766,437	-	1,371,442	559,500	906,605
Subordinated liabilities	1,122,090	1,093,266	-	253	2,747	4,557	16,041	1,069,668
Total Monetary Liabilities	134,163,656	133,236,361	20,329,653	64,837,618	14,475,237	16,349,964	11,533,060	5,710,829

Market risk

Interest rate risk: The Bank and its affiliates' operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank and its affiliates are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the deposit rate and libor and different types of interest. Treasury activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

In general, as common in current economic environment, the consolidated financial statements are liability sensitive because its interest-earning assets have a longer duration and reprice slightly less frequently than interest-bearing liabilities. This means that in rising interest rate environments, margins earned will narrow as liabilities reprice. However, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in iuterest rate sensitivity within repricing periods and among currencies.

26 **Financial risk management disclosures** (continued)

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. This is done in accordance with the guidelines established by the Bank's asset-liability management committee.

Some assets have no defined maturities or interest rate sensitivities and are not readily matched with specific liabilities. Those assets are funded through liability pools based on the assets' estimated maturities and repricing characteristics.

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of interest rate sensivity of monetary assets and liabilities of the consolidated entities into relevant maturity groupings:

	31 December 2012						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	1,252,769	-	-	-	-	3,266,636	4,519,405
Financial assets at fair value through profit or loss	16,408	38,018	121,396	249,684	28,755	96,665	550,926
Loans and advances to banks	2,394,244	2,246,035	2,374,820	681,431	-	1,713,063	9,409,593
Loans and advances to customers	21,533,915	12,439,890	16,312,957	34,040,887	17,046,225	886,206	102,260,080
Other assets	511,231	5	2,768	4,241	4,698	18,205,670	18,728,613
Investment securities	4,110,473	11,016,852	12,666,130	5,851,131	1,920,337	4,296,358	39,861,281
Deferred tax asset	-	-	-	-	-	467,898	467,898
Total Monetary Assets	29,819,040	25,740,800	31,478,071	40,827,374	19,000,015	28,932,496	175,797,796
MONETARY LIABILITIES							
Deposits	60,894,948	11,153,639	6,464,748	753,761	-	18,508,191	97,775,287
Obligations under repurchase agreements and money market fundings	12,616,797	563,513	911,100	-	-	15,534	14,106,944
Loans and advances from banks and other institutions	7,080,139	2,289,722	8,736,299	5,530,270	1,928,300	314,625	25,879,355
Bonds payable	1,305,344	322,140	1,111,363	1,048,258	2,157,650	181,231	6,125,986
Subordinated liabilities	7,061	1,252	137,634	943	-	1,790	148,680
Other liabilities, accrued expenses and provisions	-	-	-	-	-	11,525,567	11,525,567
Total Monetary Liabilities	81,904,289	14,330,266	17,361,144	7,333,232	4,085,950	30,546,938	155,561,819

	31 December 2011						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	1,405,601	-	-	-	-	2,024,219	3,429,820
Financial assets at fair value through profit or loss	23,668	50,326	92,847	106,149	23,363	122,918	419,271
Loans and advances to banks	7,903,452	1,972,303	2,161,962	526,256	-	2,668,741	15,232,714
Loans and advances to customers	17,880,095	12,942,023	16,521,167	27,707,399	16,523,181	1,079,915	92,653,780
Other assets	508,095	1,000	2,498	7,473	9,118	11,193,801	11,721,985
Investment securities	4,082,318	10,457,354	6,670,167	9,735,846	2,423,625	2,572,080	35,941,390
Deferred tax asset	-	-	-	-	-	233,752	233,752
Total Monetary Assets	31,803,229	25,423,006	25,448,641	38,083,123	18,979,287	19,895,426	159,632,712
MONETARY LIABILITIES							
Deposits	54,794,936	12,057,944	6,605,528	1,988,842	139,209	17,649,345	93,235,804
Obligations under repurchase agreements and money market fundings	9,311,696	1,211,683	-	1,189,870	-	24,908	11,738,157
Loans and advances from banks and other institutions	11,458,672	1,770,579	3,464,085	3,495,556	3,842,625	294,032	24,325,549
Bonds payable	1,325,937	-	1,371,442	-	906,605	138,072	3,742,056
Subordinated liabilities	11,466	2,168	980,885	26,099	72,648	28,824	1,122,090
Other liabilities, accrued expenses and provisions	-	-	-	-	-	9,087,486	9,087,486
Total Monetary Liabilities	76,902,707	15,042,374	12,421,940	6,700,367	4,961,087	27,222,667	143,251,142

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for the years 2012 and 2011:

	2012			
	US$ %	*EUR* %	*TL* %	*Other Currencies* %
Assets				
Loans and advances to banks	1-6	1-5	5-13	1-6
Debt and other fixed or floating income instruments	2-12	3-7	4-21	3-10
Loans and advances to customers	1-14	1-14	6-23	1-53
Liabilities				
Deposits:				
- Foreign currency deposits	1-7	1-7	-	1-8
- Bank deposits	1-4	1-5	5-7	1-7
- Saving deposits	-	-	4-12	-
- Commercial deposits	-	-	4-12	-
- Public and other deposits	-	-	8	-
Obligations under repurchase agreements and money market fundings	1-2	1-5	4-6	6-7
Loans and advances from banks and other institutions	1-7	1-7	6-15	6-10
Bonds payable	3-5	-	7-9	-

	2011			
	US$ %	*EUR* %	*TL* %	*Other Currencies* %
Assets				
Loans and advances to banks	1-4	1-6	6-13	1-6
Debt and other fixed or floating income instruments	2-11	3-8	6-21	7-11
Loans and advances to customers	1-19	2-14	9-26	1-53
Liabilities				
Deposits:				
- Foreign currency deposits	1-7	1-8	-	1-8
- Bank deposits	1-4	1-5	5-10	1-7
- Saving deposits	-	-	6-11	-
- Commercial deposits	-	-	6-11	-
- Public and other deposits	-	-	10	-
Obligations under repurchase agreements and money market fundings	1-3	1-2	5-11	6
Loans and advances from banks and other institutions	2-5	1-4	9-14	-
Bonds payable	6	-	8	-

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

Interest rate risk in the banking book is evaluated considering the repricing risk, yield curve risk, basis risk and optionality, measured in compliance with the international standards and managed by risk mitigation through limits and hedging.

The interest rate sensitivity of assets, liabilities and off balance-sheet items are evaluated at the weekly Asset-Liability Committee meetings considering also the market developments.

The measurement process of interest rate risk resulting from banking book, is established and managed by the Bank on a bank-only basis to include the interest rate positions defined as banking book and to consider the relevant repricing and maturity data.

Duration gaps, gaps by maturity buckets and sensitivity analysis are used in monitoring of repricing risk resulting from maturity mismatch. The duration gap and sensitivity analysis are carried out every two weeks period.

In the duration gap analysis, the present values of interest-rate-sensitive asset and liability items are calculated using yield curves developed from market interest rates. In case of instruments with no maturities assigned, the maturity is determined as per interest rate fixing periods and customer behaviors. Such results are supported by sensitivity and scenario analysis applied periodically for possible instabilities in the markets.

The interest rate risk resulted from banking book is measured legally as per the "Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method" published in the Official Gazette no.28034 dated 23 August 2011, and the legal limit as per this measurement is monitored and reported monthly. The capital level is maintained considering the interest rate risk resulted from the banking book.

The interest rate risk on the interest-rate-sensitive financial instruments of the trading portfolio is evaluated as part of the market risk.

As of 31 December 2012, the economic value differences resulted from interest rate instabilities calculated on a bank-only basis for the banking book according to the relevant legislation as per the standard shock method are as follows;

Type of Currency	Shocks Applied (+/- basis points)	Gains/Losses	Gains/Equity-Losses/Equity
TL	(+) 500 bps	(2,820,578)	(12.92)%
TL	(-) 400 bps	2,761,432	12.65%
US$	(+) 200 bps	14,983	0.07%
US$	(-) 200 bps	(62,230)	(0.28)%
EUR	(+) 200 bps	(76,545)	(0.35)%
EUR	(-) 200 bps	82,518	0.38%
Total (of negative shocks)		**2,781,720**	**12.75%**
Total (of positive shocks)		**(2,882,140)**	**(13.20)%**

Currency risk

The Bank and its affiliates are exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

The Bank and its affiliates' main foreign operations are in the Netherlands and Russia. The measurement currencies of its operations are Euro and US Dollars. As the currency in which the Bank presents its consolidated financial statements is TL, the consolidated financial statements are affected by currency exchange rate fluctuations against TL.

The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. Currency swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved.

The foreign currency exchange risk of the Bank is managed through transaction, trader, desk and stop-loss limits approved by the board of directors for the trading portfolio beside the foreign currency net position standard ratio and the VaR limit.

The Bank and its affiliates' transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved. These exposures are as follows:

	2012			
	US$	***EUR***	***Other Currencies***	***Total***
Assets				
Cash and balances with central banks	1,207,243	1,940,816	77,395	3,225,454
Financial assets at fair value through profit or loss	32,818	6,786	42,364	81,968
Loans and advances to banks	4,215,676	2,402,017	198,186	6,815,879
Loans and advances to customers	28,814,907	14,786,411	1,542,747	45,144,065
Other assets	5,660,868	5,050,408	3,188,660	13,899,936
Investment securities	2,303,700	1,522,401	192,457	4,018,558
Investments in equity participations	-	664	2	666
Tangible assets	69	46,690	96,319	143,078
Deferred tax asset	-	384	13,305	13,689
Total Assets	*42,235,281*	*25,756,577*	*5,351,435*	*73,343,293*
Liabilities				
Deposits	26,024,207	17,504,789	4,347,008	47,876,004
Obligations under repurchase agreements and money market fundings	1,388,123	319,445	153,203	1,860,771
Loans and advances from banks and other institutions	12,401,465	7,856,278	29,992	20,287,735
Current and deferred tax liability	-	36,664	1,309	37,973
Bonds payable	3,908,986	-	-	3,908,986
Subordinated liabilities	-	148,680	-	148,680
Other liabilities, accrued expenses and provisions	386,970	270,473	359,869	1,017,312
Total Liabilities	*44,109,751*	*26,136,329*	*4,891,381*	*75,137,461*
Net Statement of Financial Position	*(1,874,470)*	*(379,752)*	*460,054*	*(1,794,168)*
Net Off Balance Sheet Position	*1,895,756*	*(703,083)*	*71,638*	*1,264,311*
Net Long/(Short) Position	*21,286*	*(1,082,835)*	*531,692*	*(529,857)*

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

	2011			
	US$	*EUR*	*Other Currencies*	*Total*
Total Assets	*40,449,832*	*27,399,585*	*4,635,688*	*72,485,105*
Total Liabilities	*40,191,399*	*26,227,614*	*4,786,646*	*71,205,659*
Net Statement of Financial Position	*258,433*	*1,171,971*	*(150,958)*	*1,279,446*
Net Off Balance Sheet Position	*(550,664)*	*(1,739,955)*	*701,885*	*(1,588,734)*
Net Long/(Short) Position	*(292,231)*	*(567,984)*	*550,927*	*(309,288)*

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies.

The short positions in the statement of financial position shown in the table above are hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

Credit risk

The Bank and its affiliates are subject to credit risk through the trading, lending, hedging and investing activities and the guarantees issued for their customers as well as in cases where they act as intermediaries on behalf of customers or other third parties.

The Bank and its affiliates' primary exposures to credit risk arise through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of these assets on the statement of financial position. The Bank developed a statistical-based internal risk rating model for its credit portfolio of corporate/commercial/medium-size companies. This internal risk rating model has been in use for customer credibility assessment since 2003 and is currently being reviewed and updated. Risk rating has become a requirement for loan applications, and ratings are used both to determine credit authorization limits and in credit assessment process.

The concentration table of the cash and non-cash loans for the Bank according to the risk rating system for its customers defined as corporate, commercial and medium-size enterprises is presented below:

	2012	*2011*
	%	%
Above Average	40	46
Average	53	49
Below Average	7	5
	100	100

Concentrations based on industries and groups are also monitored. Application scorecards are used during loan granting process for retail and credit card portfolios. Behavioural scorecards are also used for these portfolios.

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

The Bank and its affiliates are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statement of financial position. In addition, the Bank and its affiliates are exposed to off balance sheet credit risk through guarantees issued (Note 24).

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Exposure to credit risk

	Loans and advances to customers	
	2012	***2011***
Individually impaired	3,011,273	2,209,227
Allowance for impairment	(2,821,321)	(2,092,225)
Carrying amount	189,952	117,002
Portfolio basis allowance	(591,698)	(395,561)
Past due but not impaired	1,202,361	909,183
Carrying amount	1,202,361	909,183
Neither past due nor impaired	98,426,477	89,828,624
Loans with renegotiated terms	3,032,988	2,194,532
Carrying amount	101,459,465	92,023,156
Total carrying amount	102,260,080	92,653,780

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement due to lack of assets, high debtness ratio, insufficient working capital and/or equity of the customer.

Sectoral and geographical concentration of impaired loans

The Bank and its affiliates monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans and lease receivables is shown below:

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

	2012	2011
Consumer loans	1,291,139	1,073,266
Transportation vehicles and sub-industries	257,708	93,806
Service sector	250,969	101,554
Textile	203,002	174,380
Construction	146,259	88,651
Metal and metal products	133,963	132,712
Transportation and logistics	115,446	37,554
Food	102,012	74,642
Agriculture and stockbreeding	82,242	77,577
Durable consumption	37,419	29,129
Paper and paper products	35,996	31,083
Tourism	33,731	26,411
Energy	22,152	39,086
Chemistry and chemical products	21,838	15,243
Others	277,397	214,133
Total non-performing loans, factoring and lease receivables	3,011,273	2,209,227

	2012	2011
Turkey	2,450,769	1,790,926
Romania	387,830	297,640
Ukraine	66,778	69,728
England	49,778	-
Others	56,118	50,933
Total non-performing loans, factoring and lease receivables	3,011,273	2,209,227

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that individual impairment is not appropriate on the basis of the level of collateral available and the customer's current activities, assets and financial position.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a portfolio-basis loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off a receivable balance (and any related allowances for impairment losses) when it is determined that the receivable is uncollectible based on the evidence of insolvency issued by the court. In cases where any possible collections are negligible comparing to the prospective expenses and costs, such receivables are written off by the decision of the board of directors.

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

Collateral policy

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Bank and its affiliates currently hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Collateral generally is not held over loans and advanees to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2012 and 2011.

As part of its statutory capital adequacy calculations, and as per the legislation revised accounting to the Basel II requirements and effective from 1 July 2012, the Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals in compliance with the relevant local legislation. In the credit risk mitigation, cash and cash equivalent items and high-credit-quality debt instruments are used. The volatility adjustments regarding the receivables, collaterals and currency mismatch of the collaterals are made as per the standard volatility-adjustment approach defined in the relevant regulation. In cases where there are maturity mismatches resulted from shorter remaining life of collateral than of receivables, the value of collateral is considered as the volatility-adjusted value.

The fair value of collateral held against non-performing loans and receivables, is presented below, as per the collateral type, up to the outstanding total amount of exposures:

	2012	*2011*
Mortgages	676,546	369,277
Promissory notes	632,459	279,247
Pledge assets	315,303	170,967
Cash collateral	10,978	1,040
Unsecured	1,375,987	1,388,696
	3,011,273	2,209,227

The amounts reflected in the tables above represent the maximum accounting loss that would be recognized at the date of the statement of financial position if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for uncollectibility.

Operational risks

Operational risk expresses the probability of loss that may arise from the overlook of faults and inconsistency with the established rules due to the deficiencies in the Bank and its affiliates' internal controls, manner of the management and the personnel that are not in coherence with time and conditions, deficiencies in the bank management, faults and problems in information technology systems and disasters such as earthquake, fire, flood or terror attacks.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

26 Financial risk management disclosures (continued)

Currently, the value at operational risk is calculated according to the basic indicator approach as per the Article 14 of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" as pronounced by the BRSA.

The annual gross income is defined as net interest income plus net non-interest income reduced by realised gains/losses from the sale of securities available-for-sale and held-to-maturity, non-recurring gains and income derived from insurance claims. The result is added to risk weighted assets in the capital adequacy calculation.

Capital management – regulatory capital

The BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual hanking operations are directly supervised by their local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks. The Bank and its affiliates' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of the fair value reserve relating to unrealised gain/(loss) on assets classified as available-for-sale.

Banking operations arc categorised as either trading book or hanking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

Starting from 1 July 2012, the capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the "Regulation")", "Regulation on Credit Risk Mitigation Techniques" and "Regulation on Calculation of Risk Weighted Amounts for Securitisations" published in the Official Gazette no.28337 dated 28 June 2012 and the "Regulation on Equities of Banks" published in the Official Gazette no.26333 dated 1 November 2006. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as "trading book" and "banking book" according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and provisions.

In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the "Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables". The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per

(Curreney: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

the"Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Rcgulation and weighted as per Appendix-1 of the Regulation.

In the calculation of the value at credit risk for the derivative financial instruments and the credit derivaties classified in banking book, the receivables from counterparties are multiplied by the rates stated in the Appendix-2 of the Regulation, reduced as per the"Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the article 5 of the Regulation, the "counterparty credit risk" is calculated for repurchase transactions, securities and commodities borrowing agreements.

The Bank's and its affiliates' regulatory capital position on a consolidated basis as of 31 December 2012 is as follows:

	2012
Tier 1 capital	20,783,877
Tier 2 capital	1,984,805
Deductions from capital	(169,359)
Total regulatory capital	22,599,323
Value at credit, market and operational risks	133,948,547
Capital ratios (%)	
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	16.87
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	15.52

The prior period's capital adequacy ratio is not presented above as the calculation base has changed to Basel II starting from 1 July 2012 as stated above. The capital ratios as per the previous legislation were 15.76% and 14.12%, respectively, as of 31 December 2011.

26.4 Hedging

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its affiliates from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its affiliates enter into transactions to ensure that it is economically hedged in accordance with risk management policies. In the accompanying consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

The Bank enters into various interest rate swap transactions in order to hedge its certain cash flow and fair value exposures on floating/fixed rate assets and liabilities, through converting its floating/fixed rate income/payments into fixed/floating rate income/payments.

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

There are no outstanding cash flow or fair value hedges as of 31 December 2012.

The Bank has applied fair value hedge accounting for the fixed rate eurobonds issued in 2011 with a total face value of US$ 500 millions, maturity of 10 years and maturity date of 20 April 2021 which were priced at 6.375% originally and had a coupon rate of 6.25%, by designating interest rate swaps with the same face value amount and conditions. On 5 June 2012, the Bank ceased to apply hedge accounting and accordingly fair value calculations for these bonds. The accumulated fair value incurred starting from the date of hedge accounting up to the date on which it was ceased, is amortized.

27 Affiliates, associates and special purpose entities

The table below sets out the consolidated affiliates, associates and special purpose entities of the Bank and its shareholding interests in these entities:

Consolidated entities	*2012*	*2011*
Garanti Bank International NV	100.00	100.00
Garanti Holding BV (formerly, named D Netherlands Holding BV)	100.00	100.00
Garanti Bank Moscow	100.00	100.00
Garanti Portföy Yönetimi AŞ	100.00	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00	100.00
Garanti Bilişim Teknolojisi ve Tic. AŞ	100.00	100.00
Garanti Filo Yönetimi Hizmetleri AŞ	100.00	100.00
G Netherlands BV (formerly, named Doğuş GE BV)	100.00	100.00
Garanti Bank SA	100.00	100.00
Motoractive IFN SA	100.00	100.00
Ralfi IFN SA	100.00	100.00
Domenia Credit IFN SA	100.00	100.00
Garanti Finansal Kiralama AŞ (*)	99.96	99.96
Garanti Emeklilik ve Hayat AŞ	84.91	84.91
Garanti Faktoring Hizmetleri AŞ	81.84	81.84
Garanti Yatırım Ortaklığı AŞ	0.21	0.21
Garanti Diversified Payment Rights Finance Company ***(a)***	-	-

(a) Garanti Diversified Payment Rights Finance Company, a special purpose entity established for the Bank's securitization transactions, that are explained in Note 17, is consolidated in the accompanying consolidated financial statements. The Bank or any of its affiliates does not have any shareholding interests in this company.

T2 Capital Finance Company, a special purpose entity established for the subordinated debt granted to the Bank, again not an affiliate of the Bank or any of its affiliates, is excluded from the consolidation scope following the repayment of this debt as per the Bank's early repayment option on 6 February 2012.

(*) The Bank purchased 5.86% of the paid-in capital of Garanti Finansal Kiralama AŞ at a total face value of TL 4,278 thousands from Garanti Faktoring Hizmetleri AŞ for a consideration of TL 34,574 thousands on 5 December 2011.

(Currency: Thousands of Turkish Lira (TL))

28 Net fee and commission income

	2012	2011
Fee and commission income:		
Credit cards fees	1,381,179	1,131,262
Retail banking	499,062	609,651
SME banking	309,768	345,189
Commercial banking	232,008	219,011
Corporate banking	24,532	30,873
Others	133,918	198,180
Total fee and commission income	2,580,467	2,534,166
Fee and commission expense:		
Credit cards fees	373,177	318,329
Retail banking	32,401	13,406
SME banking	10,787	1,849
Commercial banking	3,412	523
Corporate banking	1,418	488
Others	86,523	68,968
Total fee and commission expense	507,718	403,563
Net fee and commission income	2,072,749	2,130,603

29 Trading gains/(losses)

Gains and losses from derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading gains/(losses) including the effective portion of fair value hedges, whereas, gains and losses arising from changes in the effective portion of the fair value of cash flow hedges are reflected as a separate component of equity. Net gains/(losses) from trading of financial assets is detailed in the table below:

	2012	2011
Derivative transactions	(439,901)	350,936
Fixed/floating securities	610,310	326,257
Trading gains, net	170,409	677,193

30 Other operating expenses

	2012	2011
Advertising expenses	115,304	110,826
Computer usage expenses	104,343	98,522
Saving deposits insurance fund	98,976	85,028
Utility expenses	68,832	63,586
Claim loss from insurance business	62,929	45,517
Repair and maintenance expenses	39,821	39,308
Stationary expenses	30,168	20,654
Research and development expenses	27,873	28,969
Insurance related expenses	24,563	21,818
Others	471,152	454,194
	1,043,961	968,422

31 Use of estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see Note 26).

Key sources of estimation uncertainty

Allowances for credit losses
Assets accounted for at amortized cost are evaluated for impairment on a basis described in Note 7.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgement about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

Portfolio-basis assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of portfolio-basis assessed allowances relates to country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the specific allowances depends on the estimated future cash flows for specific counterparties and the assumptions and inputs to the impairment used in determining collective allowances.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in significant accounting policies section and Note 23. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

Financial asset and liability classification

The Bank and its affiliates' accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy *(h) Financial instruments*.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy *(h) Financial instruments*.

(Currency: Thousands of Turkish Lira (TL))

31 Use of estimates and judgements (continued)

- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy *(h) Financial instruments.*

Securitizations

In applying its policies on securitised financial assets, the Bank has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Bank over tbe other entity:

- When the Bank, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Bank's consolidated statement of financial position.
- When the Bank has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Bank's consolidated statement of financial position.
- When the Bank transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets have been derecognised from the Bank's consolidated statement of financial position.

Details of the Bank's securitization activities are given in Note 17.

32 Significant events

At the annual general assembly of the Bank dated 12 April 2012, it was decided to distribute the net income of the year 2011 as follows:

2011 PROFIT DISTRIBUTION TABLE	
2011 Net income	**3,070,575**
A – I. Legal reserve (Turkish Commercial Code 466/1) at 5%	(153,529)
Undistributable funds	(193,695)
B – First dividend at 5% of the paid-in capital	(210,000)
C – Extraordinary reserves at 5% after above deductions	(135,352)
D – Second dividend to the shareholders	(390,000)
E – Extraordinary reserves	(1,948,999)
F – II. Legal reserve (Turkish Commercial Code 466/2)	(39,000)

In accordance with its decision dated 2 November 2011 and numbered 11-55/1438-M, the Competition Board initiated proceedings pursuant to Law on the Protection of Competition numbered 4054 against 12 banks and 2 related institutions (including the Bank and two of its subsidiaries) with significant market shares in the Turkish Banking industry to determine whether they have entered into agreements restricting competition or to determine whether they have engaged in concerted practices as regards to the interest rates applied to banking products. The proceedings are still pending and the potential outcome cannot be determined at this point, therefore there is no provision made in the accompanying consolidated financial statements as of 31 December 2012.

33 Subsequent events

As a result of the inspections held by the Istanbul Large-Scale Taxpayers Office of the Tax Inspection Board regarding the banking and insurance transaction tax (BITT), it was claimed that the payments made under the name of "service fee" by the Bank's contracted merchants to an institution other than the Bank itself in the years 2007, 2008, 2009 and 2010, should have been collected by the Bank, because of this application the Bank undercalculated the BITT, and accordingly, the Tax Audit Reports for the relevant years were prepared.

The tax audit report and tax/penalty notifications for the year 2007 were sent to the Bank. The audit reports for other years are also expected to be notified. The total tax assessment including fines for the years 2007, 2008, 2009 and 2010 is estimated to be approximately at the level of TL 36,300 thousands. As per the Bank's assessment, the Bank's practice is in compliance with the relevant legislation and the Bank will take legal actions against such assessments of the tax authority.

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AUDITED CONSOLIDATED IFRS FINANCIAL STATEMENTS OF THE GROUP FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011 (INCLUDING COMPARATIVE 2010)

Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

Consolidated Financial Statements
As at and for the year ended
31 December 2011
With Independent Auditors' Report Thereon

1 February 2012

This report contains the "Independent Auditors' Report" comprising 2 pages and; the "Consolidated Financial Statements and Their Explanatory Notes" comprising 81 pages.

Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

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Deloitte.

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To the Board of Directors of
Türkiye Garanti Bankası A.Ş.
İstanbul

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Türkiye Garanti Bankası A.Ş. (the "Bank") and its consolidated affiliates (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Deloitte.

Basis for Qualified Opinion

As of the balance sheet date, the accompanying consolidated financial statements include a general provision amounting to TL 450,000 thousands, TL 90,000 thousands of which was charged to the income statement as expense in the current period provided by the Bank management in line with conservatism principle considering the circumstances which may arise from any changes in the economy or market conditions.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

DRT Bağımsız Denetim ve SMMM A.Ş.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

İstanbul, 1 February 2012

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Financial Position
At 31 December 2011

(Currency: Thousands of Turkish Lira (TL))

	Notes	31 December 2011	31 December 2010
Assets			
Cash and balances with central banks	*4*	3,429,820	5,073,058
Financial assets at fair value through profit or loss	*5*	419,271	774,843
Loans and advances to banks	*6*	15,232,714	9,810,401
Loans and advances to customers	*7.23*	92,653,780	71,092,418
Other assets	*9*	12,459,799	6,710,657
Investment securities	*10,22,23*	35,941,390	40,361,866
Investments in eqnity participations	*11*	24,593	82,793
Tangible assets, net	*12*	1,710,768	1,584,660
Goodwill, net	*13*	32,948	33,170
Deferred tax asset	*20*	233,752	278,849
Total Assets		162,138,835	135,802,715
Liabilities			
Deposits from banks	*14*	3,096,810	2,808,006
Deposits from customers	*15*	90,138,994	76,295,528
Obligations under repurchase agreements	*16*	11,738,157	11,735,342
Loans and advances from banks	*17*	24,325,549	19,964,404
Bonds payable	*18*	3,742,056	-
Subordinated liabilities	*19*	1,122,090	978,054
Current tax liability	*20*	80,437	298,222
Deferred tax liability	*20*	6,987	391
Other liabilities, accrued expenses and provisions	*21*	9,737,876	6,849,940
Total Liabilities		143,988,956	118,929,887
Equity attributable to owners of the bank			
Share capital	*22*	5,145,012	5,146,371
Share premium	*22*	11,880	11,880
Unrealised gains on available-for-sale assets	*10.22*	92,778	1,627,351
Hedging reserve	*22*	(389)	(1,482)
Translation reserve	*22*	(16,382)	1,222
Legal reserves	*22*	757,480	553,459
Retained earnings	*22*	12,046,917	9,436,566
		18,037,296	16,775,367
Non-controlling interests	*22*	112,583	97,461
Total Equity		18,149,879	16,872,828
Total Liabilities and Equity		162,138,835	135,802,715
Commitments and Contingencies	*24*		

The notes on pages 5 to 81 are an integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Comprehensive Income
For The Year Ended 31 December 2011

(Currency: Thousands of Turkish Lira (TL))

	Notes	2011	2010
Statement of Income:			
Interest income:-			
Interest on loans		7,165,025	5,663,963
Interest on securities		3,677,404	3,863,118
Interest on deposits at banks		309,804	403,528
Interest on lease business		172,135	203,804
Others		68,738	92,670
		11,393,106	10,227,083
Interest expense:-			
Interest on saving, commercial and public deposits		(4,047,763)	(3,661,582)
Interest on borrowings and obligations under repurchase agreements		(1,743,956)	(1,212,394)
Interest on bonds payable		(177,431)	-
Interest on bank deposits		(107,148)	(72,469)
Interest on subordinated liabilities		(69,623)	(59,943)
Others		(11,292)	(6,289)
		(6,157,213)	(5,012,677)
Net interest income before provisions for loans and other credit risks		5,235,893	5,214,406
Provisions for loans and other credit risks, net	5,6,7,8,10,21	(220,070)	(76,219)
Net interest income after provisions for loans and other credit risks		5,015,823	5,138,187
Fee and commission income		2,534,166	2,227,038
Fee and commission expense		(403,563)	(316,206)
Net fee and commission income	27	2,130,603	1,910,832
Trading gains, net	28	677,193	316,622
Gain on sale of assets		259,011	9,528
Premium income from insurance business		228,713	199,074
Foreign exchange gains, net		-	81,971
Other operating income		201,419	101,256
Other operating income		1,366,337	708,450
Total operating Income		8,512,763	7,757,469
Salaries and wages		(1,321,469)	(1,200,361)
Credit card rewards and promotion expenses		(438,765)	(431,926)
Foreign exchange losses, net		(340,950)	-
Employee benefits	21	(330,928)	(314,105)
Depreciation and amortization	12	(233,751)	(207,312)
Rent expenses		(193,994)	(159,661)
Communication expenses		(150,159)	(156,203)
Impairment losses, net	9,11,12,13,21	(133,646)	(8,558)
Taxes and duties other than on income		(128,589)	(118,047)
Other operating expenses	29	(968,423)	(863,831)
Total operating expenses		(4,240,674)	(3,460,004)
Income before tax		4,272,090	4,297,465
Taxation charge	20	(874,164)	(865,840)
Net income for the period		3,397,926	3,431,625
Other Comprehensive Income:			
Foreign currency translation differences for foreign operations	22	(16,019)	(33,584)
Cash flow hedges:			
Effective portion of changes in fair value	22	1,093	685
Net amount transferred to income	22	-	-
Fair value reserves (available-for-sale financial assets):			
Net change in fair values	22	(1,248,515)	455,925
Net amount transferred to income	22	(286,075)	(189,822)
Other comprehensive income for the period, net of tax		(1,549,516)	233,204
Total Comprehensive Income for the Period		1,848,410	3,664,829
Net income attributable to:			
Equity holders of the Bank		3,378,496	3,410,750
Non-controlling interests		19,430	20,875
		3,397,926	3,431,625
Total comprehensive income attributable to:			
Equity holders of the Bank		1,833,288	3,643,923
Non-controlling interests		15,122	20,906
		1,848,410	3,664,829
Weighted average number of shares with a face value of Kr 1 each	22	420 billions	420 billions
Basic and diluted earnings per share (full TL amount per TL 1 face value each)		0.804	0.812

The notes on pages 5 to 81 are integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Changes in Equity
For The Year Ended 31 December 2011

(Currency: Thousands of Turkish Lira (TL))

	Notes	Share Capital	Share Premium	Unrealised Gains/(Losses) on Available-for-Sale Assets	Hedging Reserve	Translation Reserve	Legal Reserves	Retained Earnings	Non-Controlling Interests	Total Equity
Balances at 31 December 2009		5,146,371	11,880	1,361,279	(2,167)	34,118	383,638	6,852,064	49,098	13,836,281
Effect of corrections	22	-	-	-	-	-	-	(25,567)	-	(25,567)
Restated balances at 31 December 2009		5,146,371	11,880	1,361,279	(2,167)	34,118	383,638	6,826,497	49,098	13,810,714
Foreign exchange difference on foreign currency legal reserves	22	-	-	-	-	-	(688)	-	-	(688)
Transfer to legal reserves		-	-	-	-	-	170,509	(170,509)	-	-
Dividends paid		-	-	-	-	-	-	(350,000)	-	(350,000)
Net unrealised market value gains from available-for-sale portfolio	22	-	-	455,894	-	-	-	-	31	455,925
Net gains on available-for-sale assets transferred to income statement at disposal	22	-	-	(189,822)	-	-	-	-	-	(189,822)
Foreign currency translation differences for foreign operations		-	-	-	-	(32,896)	-	-	-	(32,896)
Net fair value gains from cash flow hedges	22	-	-	-	685	-	-	-	-	685
Adjustments to equity for a newly consolidated affiliate		-	-	-	-	-	-	(280,172)	27,457	(252,715)
Net income for the year		-	-	-	-	-	-	3,410,750	20,875	3,431,625
Balances at 31 December 2010		5,146,371	11,880	1,627,351	(1,482)	1,222	553,459	9,436,566	97,461	16,872,828
Acquisition of treasury shares	22	(1,359)	-	-	-	-	-	-	-	(1,359)
Foreign exchange difference on foreign currency legal reserves	22	-	-	-	-	-	1,585	-	-	1,585
Transfer to legal reserves		-	-	-	-	-	202,419	(202,419)	-	-
Dividends paid		-	-	-	-	-	-	(570,000)	-	(570,000)
Net unrealised market value losses from available-for-sale portfolio	22	-	-	(1,248,498)	-	-	-	-	(17)	(1,248,515)
Net gains on available-for-sale assets transferred to income statement at disposal	22	-	-	(286,075)	-	-	-	-	-	(286,075)
Foreign currency translation differences for foreign operations		-	-	-	-	(17,604)	-	-	-	(17,604)
Net fair value gains from cash flow hedges	22	-	-	-	1,093	-	-	-	-	1,093
Adjustments to equity for share transfer of a consolidated affiliate		-	-	-	-	-	17	4,274	(4,291)	-
Net income for the year		-	-	-	-	-	-	3,378,496	19,430	3,397,926
Balances at 31 December 2011		5,145,012	11,880	92,778	(389)	(16,382)	757,480	12,046,917	112,583	18,149,879

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Cash Flows
For The Year Ended 31 December 2011

(Currency: Thousands of Turkish Lira (TL))

	Notes	2011	2010
Cash flows from operating activities:-			
Interests and commissions received		9,804,414	8,361,616
Interests and commissions paid		(6,256,190)	(4,676,615)
Other operating activities, net		(671,221)	1,680,134
Cash payments to employees and suppliers		(3,339,217)	(3,222,719)
		(462,213)	2,142,416
(Increase)/decrease in operating assets:-			
Loans and advances to banks		(1,592,000)	(985,149)
Balances with central banks		(3,459,739)	(1,580,675)
Financial assets at fair value through profit or loss		375,609	(52,813)
Loans and advances to customers		(14,887,723)	(11,795,481)
Consumer loans		(6,477,728)	(5,280,514)
Other assets		(973,475)	(864,382)
Increase/(decrease) in operating liabilities:-			
Deposits from banks		283,850	68,442
Deposits from customers		13,729,712	10,180,096
Obligations under repurchase agreements		3,329	1,004,358
Other liabilities		1,426,542	1,058,081
Net cash flows used in operating activities before taxes and duties paid		**(12,033,836)**	**(6,105,621)**
Income taxes and other duties paid	*20*	**(855,251)**	**(1,089,043)**
Net cash flows used in operating activities		**(12,889,087)**	**(7,194,664)**
Cash flows from investing activities:-			
Net decrease/(increase) in investment securities		3,244,428	(2,182,799)
Interest received for investment securities		2,925,063	3,232,846
Proceeds from sale of investments in equity participations, net		171,003	-
Dividends received		6,564	1,902
Proceeds from sale of tangible assets		196,191	121,712
Purchase of tangible assets		(530,618)	(511,850)
Net cash flows from investing activities		**6,012,630**	**661,810**
Cash flows from financing activities:-			
Increase in loans and advances from banks, net		4,317,666	4,378,770
Increase in bonds payable, net		3,603,984	-
Increase/(decrease) in subordinated liabilities, net		139,190	(11,746)
Dividends paid		(570,000)	(350,000)
Net cash flows from financing activities		**7,490,841**	**4,017,024**
Effect of exchange rate changes		**1,565,188**	**117,395**
Net increase/(decrease) in cash and cash equivalents		**2,179,573**	**(2,398,435)**
Cash and cash equivalents at the beginning of the period		6,895,898	9,294,333
Cash and cash equivalents at the end of the period	*2*	**9,075,471**	**6,895,898**

The notes on pages 5 to 81 are an integral part of these consolidated financial statements.

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank as of and for the year ended 31 December 2011 comprise the Bank, its affiliates (the Affiliates) and their interest in associates.

(a) Brief History

The foundation of the Bank was approved by the decree of the Council of Ministers numbered 3/4010 dated 11 April 1946 and "Articles of Association" was published in the official gazette dated 25 April 1946. The Bank provides retail, commercial, corporate and small and medium size enterprises (SME) banking, leasing, insurance, asset management and factoring services through a network of 796 domestic branches, seven foreign branches, four representative offices abroad and 111 offices. In addition to its branches, the Bank has 100% ownership in three banks each of which is located in Amsterdam, Bucharest and Moscow. The Bank and its affiliates in total have 19,685 employees. The Bank's head office is located at Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 İstanbul.

(b) Ownership

On 22 March 2011, Banco Bilbao Vizcaya Argentaria SA ("BBVA") acquired 78.120.000.000 shares of the Bank owned by GE Capital Corporation a total nominal value of TL 781,200 thousands representing 18.60% ownership and 26.418.840.000 shares of the Bank owned by Doğuş Holding AŞ at a total nominal value of TL 264,188 thousands representing 6.29% ownership.

Subsequently on 7 April 2011, BBVA acquired further 503.160.000 shares at a nominal value of TL 5,032 thousands and increased its ownership in the Bank's share capital to 25.01%. As per the agreement between Doğuş Holding AŞ and BBVA, if any of the parties acquires additional shares during the next five years, it is required to offer half of the acquired shares to other party, in case that other party does not accept to purchase the offered shares, usufruct rights shall be established on the voting rights of such shares in favour of other party. Accordingly, although BBVA has acquired additional shares in April, this does not affect their joint control on the Bank's management.

As of 31 December 2011, the companies owned by Doğuş Holding AŞ ("Doğuş Group") and by BBVA held 24.23% and 25.01% of the issued capital, respectively.

Significant accounting policies

(a) Statement of compliance

The Bank and its Turkish affiliates maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulatory and Supervisory Agency (BRSA); the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank's foreign affiliates maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS"). The accompanying consolidated financial statements are authorized for issue by the directors on 1 February 2012.

Significant accounting policies (continued)

(b) Basis of preparation

The accompanying consolidated financial statements are presented in thousands of TL, which is the Bank's functional currency.

The financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair value if reliable measures are available: derivative financial instruments, instruments at fair value through profit or loss, available-for-sale financial assets and tangible assets held for sale. Recognized assets and liabilities that are hedged under fair value hedges, are stated at fair value in respect of the risk that is hedged.

The accounting policies set out below have been applied consistently by the Bank and its affiliates to all periods presented in these consolidated financial statements.

(c) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are in Notes 7, 9, 10, 12, 13, 17, 18, 20, 21, 23, 24 and 30.

(d) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the parent company, the Bank, its affiliates and associates on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as of the date of the consolidated financial statements.

Affiliates

Affiliates are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of affiliates are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Bank and its affiliates have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its affiliates' share of the total recognized gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its affiliates share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its affiliates has incurred obligations in respect of the associate.

Significant accounting policies (continued)

Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. Special purpose entities are consolidated when the substance of the relationship between the Bank and the special purpose entity indicates that the special purpose entity is controlled by the Bank.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized gains and losses arising from intercompany transactions, are eliminated in the accompanying consolidated financial statements.

Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Bank and its affiliates' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(e) ***Foreign currency***

Foreign currency transactions

Transactions in the financial statements of the Bank are recorded in TL, which is the Bank's functional currency and the presentation currency for the accompanying consolidated financial statements. Transactions in foreign currencies are translated into the functional currency of the Bank at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into TL at the exchange rates ruling at date of the statement of financial position with the resulting exchange differences recognized in income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the statement of income as realized during the period.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to TL at foreign exchange rates ruling at the date of the statement of financial position. The revenues and expenses of foreign operations are translated to TL using average exchange rates. Foreign exchange differences arising on translation are recognized directly in a separate component of equity. When a foreign operation is disposed of in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the statement of income.

(f) ***Tangible assets and related depreciation***

Owned assets

The costs of the tangible assets purchased before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29. The tangible assets purchased after this date are recorded at their historical costs. Accordingly, tangible assets are carried at costs, less accumulated depreciation and impairment losses (refer to accounting policy *(s)*).

(Currency: Thousands of Turkish Lira (TL))

Significant accounting policies (continued)

Leased assets

Leases in terms of which the Bank and its affiliates assume substantially all the risks and rewards of ownership are classified as financial leases. Tangible assets acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer to accounting policy *(s)*). Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to the statement of income.

Subsequent Expenditure

Expenditures incurred to replace a component of a tangible asset that is accounted for separately, and major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are reflected as expense in the statement of income as incurred.

Depreciation

Tangible assets purchased before 2005 are depreciated over their estimated useful lives on a straight-line basis from the date of their acquisition. Assets acquired after this date are depreciated based on the declining balance method. For the assets acquired after 1 January 2009, the straight-line depreciation method is in use.

The estimated useful lives and depreciation rates are as follows:

Tangible assets	*Estimated useful lives (years)*	*Depreciation Rates (%) from 1 January 2009*	*Depreciation Rates (%) from 1 January 2005*	*Depreciation Rates (%) before 1 January 2005*
Buildings	50	2	4	2
Vaults	20-50	2-20	4-40	2-20
Motor vehicles	5-7	15-20	30-40	15-20
Other tangible assets	4-20	5-25	10-50	5-25

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Expenditures for major renewals and improvement of tangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

(g) Goodwill

Goodwill arose from business combinations and represents the excess of the total acquisition costs over the share of the Bank and its affiliates in the fair value of the net assets of the acquired companies at the dates of acquisitions. When the excess is negative, it is recognized immediately in the statement of income. Goodwill is assessed for indication of impairment at least annually using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of return on investments and carrying value of net assets. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than the carrying amount, the carrying amount is reduced to its recoverable amount, and impairment loss is recognized as an expense in the statement of income. The losses arising from the impairment of goodwill are not reversed in a subsequent period.

Significant accounting policies (continued)

(h) Financial instruments

Classification

Financial instruments at fair value through profit or loss are those instruments that are principally held for the purpose of short-term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated as effective hedging instruments, and liabilities from short-term sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank and its affiliates provide money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advanees to banks and customers.

Available-for-sale assets are financial assets that are not held for trading purposes, provided by the Bank and its affiliates, or held to maturity. Available-for-sale instruments include certain debt and equity investments.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank and its affiliates have the positive intent and ability to hold to maturity. These include certain loans and advances to banks and customers and certain debt investments.

Recognition

Financial assets at fair value through profit or loss and available-for-sale assets are initially recognized on the transaction date at which the Bank and its affiliates become a party to the contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets are recognized in the statement of income for the financial assets at fair value through profit or loss and in the other comprehensive income for available for-sale assets.

Held-to-maturity instruments, loans and receivables, deposits and subordinated liabilities are recognized in the statement of financial position on the date they are originated.

Measurement

Financial instruments are initially measured at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and available-for-sale assets are measured at fair value, except for any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at amortized cost.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Significant accounting policies (continued)

Fair value measurement principles

The fair values of financial instruments are based on their quoted market prices at the date of the statement of financial position without any deduction for transaction costs. If a quoted market price is not available, fair value of an instrument is estimated using the available market information and the appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realized in current market exchange.

The fair values of derivatives that are not exchange-traded are estimated at the amounts that the Bank and its affiliates would receive or pay to terminate the contracts at the date of the statement of financial position taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair values of trading financial instruments are recognized in the statement of income. Whereas, gains and losses arising from changes in the fair value of cash flow hedges and available-for-sale assets are deferred as a separate component of equity until the hedged transaction impacts earnings or the available-for-sale assets are sold or impaired.

Specific instruments

Cash and balances with central banks: Cash and balances with central banks comprise cash balances on hand, cash deposited with the central banks and other cash items. Money market placements are classified in loans and advances to banks.

Investments: Investments held for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank and its affiliates have the intent and ability to hold to maturity are classified as held-to-maturity assets.

Loans and advances to banks and customers: Loans and advances provided by the Bank and its affiliates are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Financial lease receivables: Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as financial leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest rate method. Financial lease receivables are included in loans and advances to customers.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired; the Bank (and/or its affiliates) retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or the Bank (and/or its affiliates) has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. A financial liability is derecognized when it is extinguished.

Significant accounting policies (continued)

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Bank and its affiliates commit to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognized on the dates they are transferred by the Bank and its affiliates.

(i) Derivatives held for risk management purposes

Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment for the changes in their fair value depends on their classification into the following categories:

Cash flow hedge

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the statement of income result, the effective portion of changes in the fair value of the derivative are recognised directly in the other comprehensive income and presented in the hedging reserve in equity. The amount recognised in the statement of comprehensive income is removed and included in the statement of income in the same period as the hedged cash flows affect the statement of income under the same line item as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the statement of income.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognized in the other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the statement of income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in the other comprehensive income is recognized immediately in the statement of income.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to income from that date.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank and its affiliates account for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivatives are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with the host contract.

Significant accounting policies (continued)

(j) Securities borrowing and lending business

Investments lent under securities lending arrangements continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

(k) Repurchase and resale agreements over investments

The Bank and its affiliates enter into purchases of investments under agreements to resell (reverse repo) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) are recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. The proceeds from the sale of the investments are reported as "obligations under repurchase agreements", a liability account.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

(l) Items held in trust

Assets, other than cash deposits, held by the Bank and its affiliates in fiduciary or agency capacities for its customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not under the ownership of the Bank.

(m) Financial guarantees

Financial guarantees are contracts that require the Bank and its affiliates to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount or the present value of any expected payment (when a payment under the guarantee has become probable).

(n) Employee benefits

(i) Defined benefit plan

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Bank has a defined benefit plan ("the Plan") for its employees namely Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı ("the Fund"). The Fund is a separate legal entity and a foundation recognized by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees.

(Currency: Thousands of Turkish Lira (TL))

Significant accounting policies (continued)

This benefit plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	31 December 2011	
	Employer	*Employee*
	%	%
Pension contributions	15.5	10.0
Medical benefit contributions	6.0	5.0

This benefit plan is composed of a) the contractual benefits of the employees, which are subject to transfer to Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") (see Note 21) and b) other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation ("excess benefits").

a) Pension and medical benefits transferable to SSF

As discussed in Note 21, the Bank expects to transfer a portion of the obligation of the Fund to SSF. This transfer will be a settlement of that portion of the Fund's obligation. Final legislation establishing the terms for this transfer was enacted on 8 May 2008. Although the settlement will not be recognized until the transfer is made, the Bank believes that it is more appropriate to measure the obligation as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the Temporary Article 20 of the Law No.5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law"). The pension disclosures set out in Note 21, therefore reflect the actuarial assumptions and mortality tables specified in the New Law, including a discount rate of 9.80%.

The pension benefits transferable to SSF are calculated annually by an independent actuary, who is registered with the Undersecretariat of the Treasury.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are directly charged to the statement of income.

b) Excess benefits not transferable to SSF

The excess benefits, which are not subject to the transfer, are accounted for in accordance with IAS 19, "*Employee Benefits*". The obligation in respect of the retained portion of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognized past service costs and the fair value of any plan assets are deducted.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are directly charged to the statement of income.

(ii) Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its affiliates calculated in accordance with the Turkish Labor Law. In accordance with Turkish Labor Law, the Bank and its affiliates are required to make lump-sum payments to each employee whose employment is terminated due to retirement or before the retirement date for reasons other than resignation or misconduct and has completed at least one year of service.

Significant accounting policies (continued)

Provision is made for the present value of the liability calculated using the projected unit credit method and all actuarial gains and losses are recognized immediately in the statement of income.

(iii) Short-term employee benefits

The Bank provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19.

(o) ***Operating leases***

Leases other than finance leases are classified as operating leases.

As lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

As lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(p) ***Taxes on income***

Taxes on income for the period comprise current taxes and deferred taxes. Current taxes on income comprises tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the statement of financial position method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax liabilities and assets are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank and its affiliates. Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Currently, enacted tax rates are used to determine deferred taxes on income.

An individual consolidated affiliate offsets deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority or where the legal right of offset exists.

Significant accounting policies (continued)

Deferred taxes related to fair value remeasurement of available-for-sale assets and cash flow hedges, are charged or credited directly to equity and subsequently recognized in the statement of income together with the deferred gains or losses that are realized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

(q) ***Offsetting***

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses from a group of similar transactions.

(r) ***Earnings per share***

Earnings per share disclosed in the accompanying consolidated statement of comprehensive income are determined by dividing net income by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings.

Additionally, considering the fact that the increase in the number of shares issued by way of bonus shares in fact does not require any cash injection by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

(s) ***Impairment***

Financial and non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

Loans and receivables and held-to-maturity instruments

The recoverable amounts of loans and receivables and held-to-maturity instruments, are calculated as the present values of the expected future cash flows discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the date of financial position. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance

Significant accounting policies (continued)

account are recognized in the statement of income. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the statement of income.

Financial assets remeasured to fair value

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value is impaired, the write-down is recognized in the statement of income.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of income.

(t) Income and expense recognition

Interest income and expense

Interest income and expense is recognized on an accrual basis by taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fee and commission

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commissions, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, available-for-sale, and from trading derivatives.

Dividend income

Dividend income is recognized in the statement of income when the right to receive payment is established.

Insurance business

Premium income: For short-term insurance contracts, premiums are recognized as income (earned premiums), net of premium ceded to reinsurer firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired

Significant accounting policies (continued)

risks at date of the statement of financial position is recognized as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions and deferred acquisition cost, and are gross of any taxes and duties levied on premiums. For long-term insurance contracts, premiums are recognized as income when the premiums are due from the policyholders. Premiums received for long-term insurance contracts with discretionary participation feature ("DPF"), are recognized directly as liabilities.

Unearned premium reserve: Unearned premiums are those proportions of the premiums written in a period that relate to the period of risk subsequent to the date of the statement of financial position for all short-term insurance policies. In accordance with the incumbent legislation on the computation of insurance contract liabilities, unearned premium reserve set aside for unexpired risks as at the dates of the statements of financial position, has been computed on a daily pro-rata basis. The change in the provision for unearned premium is recognized in the statement of income in the order that income is recognized over the period of risk.

Claims and provision for "outstanding" claims: Claims are recognized in the period in which they occur, based on reported claims or on the basis of estimates when not reported. The claims provision is the total estimated ultimate cost of settling all claims arising from events, which have occurred up to the end of the accounting period. Full provision is accounted for outstanding claims, including claim settlements reported at the period-end. Incurred but not reported claims ("IBNR") are also provided for under the provision for outstanding claims.

Liability adequacy test: At each statement of financial position date, asset-liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs. In performing these tests, current best estimates of future cash flows are used. Any deficiency is immediately charged to the statement of income.

Income generated from pension business: Income arising from asset management and other related services offered by the insurance affiliate of the Bank is recognized in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the insurance company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

Mathematical provisions: Mathematical provisions are the provisions recorded against the liabilities of the insurance affiliate of the Bank to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions. Mathematical provisions consist of actuarial mathematical provisions for long term insurance contracts, saving portion of the saving life products classified as investment contracts and related profit sharing reserves.

Actuarial mathematical provisions are calculated as the difference between the net present values of premiums written in return of the risk covered by the insurance affiliate and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Undersecretariat of Treasury, which are applicable for Turkish insurance companies.

Profit sharing reserves are the reserves provided against income obtained from asset backing saving life insurance contracts. These contracts entitle the beneficiaries of those contracts to

Significant accounting policies (continued)

a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the insurance affiliate from the eligible surplus available to date.

Mathematical provisions are presented under "other liabilities, accrued expenses and provisions" in the accompanying consolidated financial statements.

(u) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

(v) Segment reporting

An operating segment is a component of the Bank and its affiliates that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Bank's other components. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(y) New standards and interpretations

New and revised IFRSs affecting presentation and disclosure

- IAS1 (Amendments Related to Annual Improvements 2010) Presentation of Financial Statements
- IFRS3 (Amendments Related to Annual Improvements 2010) Business Combinations
- IFRS7 (Amendments Related to Annual Improvements 2010) Financial Instruments: Disclosures

New and revised IFRSs applied with no material effect on the consolidated financial statements

- IAS24 (Revised 2009) Related Party Disclosures
- IAS32 (Amendments) Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements
- IFRS1 First–Time Adoption of International Financial Reporting Standards (Additional Exemptions and Two Other Amendments)
- IFRIC14 (Amendments) Pre-payment of a Minimum Funding Requirement
- IFRIC19 Extinguishing Financial Liabilities with Equity Instruments
- Annual Improvements 2010: IFRS1, IFRS3, IAS27, IAS34 and IFRIC13

New and revised IFRSs in issue but not yet effective

- IFRS7 Financial Instruments: Disclosures
- IFRS9 Financial Instruments: Classification and Measurement
- IFRS10 Consolidated Financial Statements
- IFRS11 Joint Arrangements
- IFRS12 Disclosure of Interest in Other Entities
- IFRS13 Fair Value Measurements
- IAS1 Presentation of Financial Statements (2011) - Presentation of Items of Other Comprehensive Income
- IAS12 Income Taxes
- IAS19 Employee Benefits (2011) (Amendments)
- IAS27 Separate Financial Statements (2011)
- IAS28 Investments in Associates and Joint Ventures (2011)
- IAS32 Financial Instruments: Presentation Amendments to *Offsetting of Financial Assets and Financial Liabilities*

Index for the notes to the consolidated financial statements:

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting

The Bank has seven reportable segments from banking and other financial institutions, as described in the business segments part 1.2 below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the senior management reviews internal reports regularly. The following summary describes the operations in each of the Bank's reportable segments:

1.1 Geographical segments

The Bank and its affiliates operate principally in Turkey, but also have operations in the Netherlands, Russia, Turkish Republic of Northern Cyprus, Malta, Luxembourg, Germany and Romania. Total geographic sector risk concentrations, both on and off balance sheet, are presented in the table below:

	2011				
	Loans and Advances to Customers	*Total Assets*	*Total Liabilities*	*Non-Cash Loans*	*Capital Expenditures*
Turkey	85,453,005	133,197,181	102,164,001	18,002,636	383,767
England	255,929	8,385,464	13,638,626	193,697	-
Romania	3,264,975	5,330,564	1,297,317	227,971	20,159
USA	274,432	2,707,038	7,519,108	686,101	-
France	7,847	2,459,937	966,899	154,200	-
Netherlands	954,879	2,394,750	3,764,460	321,182	2,276
Germany	31,702	2,235,286	5,258,306	113,327	51
Russia	465,970	1,889,815	477,728	98,277	683
Switzerland	492,488	503,427	2,677,761	832,981	-
Luxembourg	12,909	228,738	984,806	7,987	-
United Arabian Emirates	91,307	39,008	360,116	82,998	-
Belgium	1,911	18,824	400,842	1,766	-
Canada	836	5,489	446,328	1,054	-
Others	1,345,590	2,743,314	4,032,658	1,513,232	-
	92,653,780	162,138,835	143,988,956	22,237,409	406,936

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

	2010				
	Loans and Advances to Customers	*Total Assets*	*Total Liabilities*	*Non-Cash Loans*	*Capital Expenditures*
Turkey	65,605,637	118,216,029	88,277,672	13,336,122	334,498
England	175,821	5,682,802	10,154,230	209,929	-
Romania	2,871,155	3,464,205	774,968	53,624	60,549
Netherlands	941,963	1,743,943	2,709,229	244,860	1,651
USA	83,222	1,576,966	6,179,918	746,744	-
Russia	258,909	1,438,459	295,614	52,273	34,131
Germany	11,756	1,343,091	3,812,652	93,939	122
Switzerland	353,357	383,684	1,014,358	529,663	-
Luxembourg	11,416	201,097	999,589	225	-
France	44,280	46,076	687,394	118,852	-
United Arabian Emirates	6,691	6,691	140,917	39,778	-
Belgium	-	738	340,028	2,926	-
Canada	-	631	284,120	845	-
Others	728,211	1,698,303	3,259,198	1,035,624	-
	71,092,418	135,802,715	118,929,887	16,465,404	430,951

Total geographic sector risk concentrations of the net income are presented in the table below:

	2011	*2010*
Turkey	3,080,774	3,355,438
Malta	124,000	12,227
Netherlands	121,776	78,632
Romania	20,374	(60,635)
Luxembourg	10,412	22,796
Others	40,590	23,167
	3,397,926	3,431,625

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

1.2 *Business segments*

The main business segments are banking, leasing, insurance and factoring sectors. Banking segment information is detailed further to retail banking and commercial, corporate and SME banking as these are the major banking activities. Other operations heading under the banking segment include mainly treasury and investment banking activities as well as unallocated income and expense items. The analysis is as follows:

31 December 2011	Retail Banking	Commercial, Corporate & SME Banking	Other Operations	Total Banking	Leasing	Insurance	Factoring	Other Financial	Other Non-Financial	Combined	Eliminations	Total
Operating income	2,913,408	3,308,380	1,835,663	8,057,451	222,169	273,256	42,934	103,611	24,459	8,723,880	(211,117)	8,512,763
Operating expenses	(1,970,380)	(1,224,935)	(689,203)	(3,884,518)	(116,009)	(131,495)	(33,317)	(90,372)	(22,343)	(4,278,054)	37,381	(4,240,673)
Income from operations	943,028	2,083,445	1,146,460	4,172,933	106,160	141,761	9,617	13,239	2,116	4,445,826	(173,736)	4,272,090
Taxation charge	-	-	(816,180)	(816,180)	(22,600)	(28,765)	(4,916)	(132)	(1,571)	(874,164)	-	(874,164)
Net income for the period	943,028	2,083,445	330,280	3,356,753	83,560	112,996	4,701	13,107	545	3,571,662	(173,736)	3,397,926
Segment assets	28,915,024	62,377,918	62,809,098	154,102,040	2,885,206	3,007,532	1,268,168	531,329	36,335	161,830,610	(1,693,836)	160,136,774
Investments in equity participations	-	-	443,639	443,639	-	275	-	49	2,851	446,814	(422,221)	24,593
Unallocated assets	-	-	1,642,353	1,642,353	248,501	15,217	6,904	23,623	2,168	1,938,766	38,702	1,977,468
Total assets	28,915,024	62,377,918	64,895,090	156,188,032	3,133,707	3,023,024	1,275,072	555,001	41,354	164,216,190	(2,077,355)	162,138,835
Segment liabilities	56,647,209	35,510,636	46,653,697	138,811,542	2,608,244	2,580,883	1,190,101	438,713	14,610	145,644,093	(1,655,137)	143,988,956
Total equity	-	-	17,376,490	17,376,490	525,463	442,141	84,971	116,288	26,744	18,572,097	(422,218)	18,149,879
Total liabilities and equity	56,647,209	35,510,636	64,030,187	156,188,032	3,133,707	3,023,024	1,275,072	555,001	41,354	164,216,190	(2,077,355)	162,138,835

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

31 December 2010	*Retail Banking*	*Commercial Corporate & SME Banking*	*Other Operations*	*Total Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial*	*Other Non-Financial*	*Combined*	*Eliminations*	*Total*
Operating income	2,512,342	2,490,719	2,208,946	7,212,007	186,326	233,691	44,445	70,265	30,397	7,777,131	(19,662)	7,757,469
Operating expenses	(1,404,994)	(1,215,596)	(549,375)	(3,169,965)	(83,913)	(109,385)	(29,612)	(75,445)	(31,822)	(3,500,142)	40,138	(3,460,004)
Income from operations	**1,107,348**	**1,275,123**	**1,659,571**	4,042,042	102,413	**124,306**	**14,833**	**(5,180)**	(1,425)	4,276,989	**20,476**	4,297,465
Taxation charge	-	-	(812,087)	(812,087)	(24,621)	(24,717)	(3,058)	(888)	(469)	(865,840)	-	(865,840)
Net income for the period	**1,107,348**	**1,275,123**	**847,484**	**3,229,955**	**77,792**	**99,589**	**11,775**	**(6,068)**	**(1,894)**	**3,411,149**	**20,476**	**3,431,625**
Segment assets	22,305,253	46,723,135	58,910,687	127,939,075	2,365,519	2,363,319	1,570,267	500,690	24,702	134,763,572	(940,329)	133,823,243
Investments in equity participations	-	-	367,794	367,794	-	289	9,635	47	1,156	378,921	(296,128)	82,793
Unallocated assets	-	-	1,596,020	1,596,020	211,801	12,493	4,739	22,720	2,009	1,849,782	46,897	1,896,679
Total assets	**22,305,253**	**46,723,135**	**60,874,501**	**129,902,889**	**2,577,320**	**2,376,101**	**1,584,641**	**523,457**	**27,867**	**136,992,275**	**(1,189,560)**	**135,802,715**
Segment liabilities	44,596,689	29,942,712	39,171,331	113,710,732	2,149,322	2,046,871	1,516,065	416,197	8,990	119,848,177	(918,290)	118,929,887
Total equity	-	-	16,192,157	16,192,157	427,998	329,230	68,576	107,260	18,877	17,144,098	(271,270)	16,872,828
Total liabilities and equity	**44,596,689**	**29,942,712**	**55,363,488**	**129,902,889**	**2,577,320**	**2,376,101**	**1,584,641**	**523,457**	**27,867**	**136,992,275**	**(1,189,560)**	**135,802,715**

(Currency: Thousands of Turkish Lira (TL))

2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 31 December 2011 and 2010, included in the accompanying consolidated statements of cash flows are as follows:

	2011	*2010*
Cash at branches	1,043,588	914,337
Unrestricted balances with central banks	2,386,232	4,158,721
Placements at money markets	6,800	2,030
Loans and advances to banks with original maturity periods of less than three months	5,638,851	1,820,810
	9,075,471	6,895,898

3 Related party disclosures

For the purpose of this report, the shareholders jointly controlling the Bank namely Doğuş Holding AŞ and BBVA (before 22 March 2011; GE Group) and all their subsidiaries, and their ultimate owners, directors and executive officers and the Bank's unconsolidated affiliates are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank had the following balances outstanding from and transactions with related parties:

3.1 Outstanding balances

	2011	*2010*
Statement of financial position		
Loans and advances to banks	188,252	-
Loans granted in foreign currencies:	*US$ 100,148,526*	-
	EUR 609,068	-
Loans and advances to customers	357,262	316,462
Loans granted in TL	*150,378*	*133,443*
Loans granted in foreign currencies:	*US$ 95,837,534*	*US$ 43,755,921*
	EUR 11,623,143	*EUR 57,180,850*
	-	*RON 8,360*
Miscellaneous receivables	3,707	2,098
Deposits received	1,457,036	656,858
Loans and advances from banks	48,432	-
Commitments and contingencies		
Non-cash loans	586,465	424,809
Derivatives	1,095,491	3,992

3.2 Transactions

	2011	*2010*
Interest income	33,163	33,840
Interest expense	78,363	62,907
Operating income	15,573	16,924
Operating expense	53,037	39,365

3 Related party disclosures (continued)

In 2011, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 1.0%-8.0% and 0.5%-11% (2010: 1.0%-7.6% and 0.2%-11.0%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of 0.9%-15.0% and 7.5%-12.3%, respectively (2010: 0.8%-18.0% and 5.8%-11.5%). Various commission rates are applied to transactions involving guarantees and commitments.

No impairment losses or specific allowances have been recorded against balances outstanding during the period with related parties as of 31 December 2011 (2010: nil).

The Bank purchased 5.86% of the paid-in capital of Garanti Finansal Kiralama AŞ at a total face value of TL 4,278 thousands from Garanti Faktoring Hizmetleri AŞ at a price of TL 34,574 thousands on 5 December 2011.

As per the shareholders' agreement dated 21 June 2007 between the Bank and Eureko BV, the Bank and its affiliates sold their 20% shares of Eureko Sigorta AŞ with a nominal value of TL 12,000 thousands to Eureko BV for EUR 70 millions.

On 27 May 2010, the Bank purchased the shares of D Netherlands Holding BV, established in the Netherlands, presenting 100% ownership at a price of EUR 53.5 millions from Doğuş Holding AŞ, and subsequent to this share purchase, the paid-in capital of D Netherlands Holding BV was increased by EUR 118.4 millions. D Netherlands Holding BV is the shareholder of Doğuş GE BV directly, and GE Garanti Bank SA, Motoractive IFN SA, Ralfi IFN SA and Domenia Credit IFN SA, all resident in Romania, indirectly through Doğuş GE BV. The paid-in capital of D Netherlands Holding BV was increased to EUR 247,088,600 from EUR 217,088,600 on 27 August 2010. The funding raised from this paid-in capital increase was used to increase the paid-in capitals of the financial subsidiaries under D Netherlands Holding BV and accordingly, the participation ratio of the Bank in these financial institutions increased from 70.00% to 73.27%. Subsequently, as per the decision made at the board of directors' meeting of the Bank held on 8 December 2010, the existing capital of D Netherlands Holding BV, established in the Netherlands and a fully owned subsidiary of the Bank, was increased by EUR 82,000,000. Following this capital increase, as per the decisions made at the board of directors' meeting of D Netherlands Holding BV held on 16 December 2010; Leasemart Holding BV, the Netherlands-based company, was acquired by D Netherlands Holding BV from GE Capital Corporation for a consideration of EUR 46.4 millions. Following this share purchase transaction, the percentage of shares owned indirectly by the Bank increased from 73.27% to 100% in the Romania-based subsidiaries which are Garanti Bank SA (formerly GE Garanti Bank SA), Motoractive IFN SA, Domenia Credit IFN SA and Ralfi IFN SA. The remaining amount of the increased share capital of D Netherlands Holding BV was utilized to increase the share capital of Garanti Bank SA by EUR 35 millions through Doğuş GE BV. As of 27 January 2011, D Netherlands Holding BV's name changed to Garanti Holding BV, and Doğuş GE BV's name changed to G Netherlands BV.

Key management personnel compensation for the year ended 31 December 2011 amounted TL 136,808 thousands (2010: TL 115,654 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted TL 86,277 thousands (2010: TL 77,374 thousands) and of its affiliates amounted TL 50,531 thousands (2010: TL 38,280 thousands).

(Currency: Thousands of Turkish Lira (TL))

4 Cash and balances with central banks

	2011	*2010*
Cash at branches	1,043,588	914,337
Balances with central banks excluding reserve deposits	2,386,232	4,158,721
	3,429,820	5,073,058

5 Financial assets at fair value through profit or loss

	2011				*2010*
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments held at fair value:					
Gold	-	80,389	-	-	80,853
Government bonds indexed to CPI	56,466	76,832	10-49	2021	137,313
Government bonds in TL	65,107	69,354	7-12	2020	81,641
Discounted government bonds in TL	55,757	52,995	6-11	2013	237,059
Eurobonds	38,180	41,362	2-12	2041	9,424
Investment fund	-	30,544	-	-	24,310
Government bonds-floating	10,753	10,985	8-21	2018	101,795
Treasury bills in TL		-			63,748
Otbers		49,314			14,509
		411,775			750,652
Equity and other non-fixed income instruments:					
Listed shares		7,496			24,191
Total financial assets at fair value through profit or loss		419,271			774,843

Income from debt and other instruments held at fair value is reflected in the consolidated statement of comprehensive income as interest on securities. Gains and losses arising from trading of financial assets at fair value through profit or loss are recorded in net trading gains/(losses).

The impairment losses for the financial assets at fair value through profit or loss as of 31 December 2011 amount to TL 2,453 thousands (2010: TL 1,128 thousands).

As of 31 December 2011, financial assets at fair value through profit or loss amounting to TL 650,567 thousands are blocked against asset management operation and securitizations (2010: TL 98 thousands) (refer to Note 10).

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 2,036 thousands (2010: nil).

(Currency: Thousands of Turkish Lira (TL))

6 Loans and advances to banks

	2011			2010		
	TL	*Foreign Currency*	*Total*	*TL*	*Foreign Currency*	*Total*
Loans and advances-demand						
Domestic banks	694	3,288	3,982	1,030	2,197	3,227
Foreign banks	136,375	2,486,877	2,623,252	141,728	1,193,984	1,335,712
	137,069	2,490,165	2,627,234	142,758	1,196,181	1,338,939
Loans and advances-time						
Domestic banks	461,519	1,248,282	1,709,801	843,891	2,320,759	3,164,650
Foreign banks	1,914,629	8,927,842	10,842,471	2,292,059	2,973,819	5,265,878
	2,376,148	10,176,124	12,552,272	3,135,950	5,294,578	8,430,528
Placements at money markets	6,800	-	6,800	2,030	-	2,030
Income accrual on loans and advances to banks	20,302	26,106	46,408	21,375	17,529	38,904
Total loans and advances to banks	2,540,319	12,692,395	15,232,714	3,302,113	6,508,288	9,810,401
Less: allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	2,540,319	12,692,395	15,232,714	3,302,113	6,508,288	9,810,401

As of 31 December 2011, majority of loans and advances-time are short-term with interest rates ranging between 1%-15% per annum for foreign currency time placements and 5%-13% per annum for TL time placements (2010: 1%-9% and 3%-10%, respectively).

As of 31 December 2011, loans and advances at domestic and foreign banks include blocked accounts of TL 7,982,224 thousands (2010: TL 5,872,428 thousands) held against securitizations, fundings and insurance business.

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers

Outstanding loans and advances to customers are divided between economic sectors and loan types as follows:

	2011	*2010*
Consumer loans	28,804,750	22,327,021
Credit card receivables	*9,455,308*	*7,689,576*
Mortgage loans	*9,426,631*	*8,119,429*
Auto loans	*1,100,089*	*782,059*
General purpose and other consumer loans	*8,822,722*	*5,735,957*
Service sector	8,840,305	7,171,457
Energy	6,686,124	5,490,907
Construction	5,712,675	3,881,854
Food	4,634,551	3,391,408
Transportation and logistics	4,294,677	3,515,850
Metal and metal products	3,911,535	3,507,717
Textile	3,480,649	2,789,290
Transportation vehicles and sub-industry	2,917,806	2,246,514
Tourism	2,466,146	1,390,895
Data processing	2,260,765	1,270,558
Financial institutions	2,150,904	1,393,375
Agriculture and stockbreeding	1,829,093	1,118,373
Chemistry and chemical products	1,373,571	905,464
Mining	1,195,394	746,609
Durable consumption	1,159,667	807,841
Stone, rock and related products	1,106,460	929,303
Machinery and equipment	856,329	715,966
Electronic, optical and medical equipment	757,366	602,029
Plastic products	509,628	412,273
Paper and paper products	413,251	325,628
Others	2,568,649	2,281,215
Total performing loans	87,930,295	67,221,547
Financial lease receivables, net of unearned income (Note 8)	2,478,834	1,512,243
Factoring receivables	1,247,327	1,444,633
Income accrual on loans and lease receivables	1,275,883	818,891
Non-performing loans, factoring and lease receivables	2,209,227	2,553,057
Allowance for probable losses from loans, factoring and lease receivables	(2,487,786)	(2,457,953)
Loans and advances to customers	92,653,780	71,092,418

As of 31 December 2011, interest rates on loans granted to customers range between 1%-53% (2010: 1%-53%) per annum for the foreign currency loans and 1%-26% (2010: 1%-32%) per annum for the TL loans.

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

The provision for probable losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers. The amount of the portfolio basis allowance is TL 395,561 thousands (2010: TL 283,461 thousands). Movements in the allowance for probable losses on loans, factoring and lease receivables including the portfolio basis allowances, are as follows:

	2011	*2010*
Balance at the beginning of the period	2,457,953	2,288,659
Newly consolidated affiliates	-	94,937
Write-offs	(230,780)	(68,032)
Recoveries and reversals	(502,734)	(645,293)
Provision for the period	763,347	787,682
Balance at the end of the period	2,487,786	2,457,953

A part of the non-performing loan portfolio of the Bank amounting to TL 483,876 thousands was sold to a local asset management company for a consideration of TL 53,925 thousands. The sale price is fully recognized as income under "gain on sale of assets" in the accompanying consolidated income statement as of 31 December 2011.

Furthermore, a part of non-performing receivables of the Bank's consolidated affiliates amounting to TL 20,584 thousands was sold for a consideration of TL 1,124 thousands. The income from this sale amounting to TL 282 thousands is recognized income under "gain on sale of assets" in the accompanying consolidated income statement as of 31 December 2011.

8 Financial lease receivables

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease. The receivables are secured by way of the underlying assets. Loans and advances to customers include the following financial lease receivables:

	2011	*2010*
Financial lease receivables, net of unearned income (Note 7)	2,478,834	1,512,243
Add: non-performing lease receivables	260,248	306,224
Less: allowance for probable losses on lease receivable	(93,359)	(108,594)
	2,645,723	1,709,873
Income accrual on lease receivables	14,442	9,935
Analysis of net financial lease receivables		
Due within 1 year	1,028,492	837,198
Due between 1 and 5 years	1,804,549	993,274
Due after 5 years	219,384	131,069
Financial lease receivables, gross	3,052,425	1,961,541
Unearned income	(406,702)	(251,668)
Financial lease receivables, net	2,645,723	1,709,873
Analysis of net financial lease receivables		
Due within 1 year	879,993	718,297
Due between 1 and 5 years	1,575,718	871,073
Due after 5 years	190,012	120,503
Financial lease receivables, net	2,645,723	1,709,873

(Currency: Thousands of Turkish Lira (TL))

9 Other assets

	2011	*2010*
Reserve deposits at central banks	7,139,416	3,679,677
Insurance premium receivables	2,413,890	1,913,403
Accrued gains on derivatives	1,055,322	473,655
Receivables from securities lending market	737,814	-
Miscellaneous receivables	324,284	170,517
Prepaid expenses, insurance claims and similar items	283,380	245,909
Tangible assets held for sale	127,656	104,033
Prepaid taxes and taxes and funds to be refunded	115,635	57,162
Others	262,402	66,301
	12,459,799	6,710,657

Reserve deposits at central banks

Reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its affiliates. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of liabilities in TL, foreign currencies and gold taken at the rates determined by the Central Bank of Turkey. The reserve deposits do not earn interest.

The reserve deposits at the Central Bank of the Netherlands, as required by the Dutch Banking Law, are calculated as 2% (will be %1 for 2012) on all customer deposits with an original maturity less than 2 years and 2% (will be %1 for 2012) on bank deposits of non-EU banks with an original maturity less than 2 years.

The banks operating in Romania are obliged to keep minimum reserve requirements in accounts held with Romanian Central Bank (NBR). The reserve requirements are to be held in RON for RON liabilities and in Euro or US$ for foreign currency liabilities. Currently, in line with stipulations of related legislation in force, the rates for reserve requirements are 15% for RON denominated liabilities with a remaining maturity less than 2 years and 20% for foreign currency denominated liabilities with a remaining maturity less than 2 years excluding Romanian banks' fundings (31 December 2010: 15% and 25%, respectively). The interest rates paid by the NBR to banks for reserve requirements are subject of permanent update, currently the rates are 1.43% for RON reserves, 0.65% for Euro reserves and 0.33% for US$ reserves.

The reserve deposits at the Central Bank of Russia are not available for the daily business, as required by the Russian Banking Law, these reserve deposits are calculated on the basis of RUB and foreign currency liabilities taken at the rates determined by the Central Bank of Russia. In accordance with the current legislation, the reserve deposit rates for RUB and foreign currency liabilities legal entities-nonresidents, including banks-nonresident (RUB and foreign currency liabilities) are 5.5%, individuals (RUB and foreign currency liabilities) and other liabilities are 4.0%.

Tangible assets held for sale

The tangible assets held for sale are comprised of foreclosed real estate acquired by the Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from the regulators. In case of real estates held for sale, this requirement is valid only if the legal limit on the size of the real estate portfolio that a bank can maintain is exceeded. Currently, as the Bank is within this legal limit, it is not subject to the above requirement.

Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms. As of 31 December 2011, real estates held for sale have been impaired by TL 11,982 thousands (2010: TL 12,868 thousands).

As of 31 December 2011, the rights of repurchase on various tangible assets held for sale amounted to TL 6,273 thousands (2010: TL 6,293 thousands).

(Currency: Thousands of Turkish Lira (TL))

10 Investment securities

	2011				2010
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments available-for-sale:					
Government bonds indexed to CPI	8,253,007	11,128,147	9-25	2020	10,785,629
Government bonds at floating rates *(a)*	6,527,056	6,678,750	7-11	2017	9,334,262
Government bonds in TL	4,874,971	4,726,353	7-23	2020	2,118,851
Discounted government bonds in TL	4,196,407	3,704,782	7-10	2013	1,685,871
Bonds issued by corporations *(b)*	2,630,070	2,647,282	1-12	2034	2,965,713
Bonds issued by financial institutions	1,007,189	1,019,593	3-12	2021	1,085,860
Bonds issued by foreign governments	889,766	886,002	4-11	2020	674,107
Eurobonds	343,499	338,562	5-12	2034	842,695
Treasury bills in TL		-			4,872,880
Others		25,389			102,072
Total securities available-for-sale		31,154,860			34,467,940
Debt and other instruments held-to-maturity:					
Government bonds in TL	2,175,083	2,026,372	18	2012	2,898,959
Eurobonds	1,573,777	1,578,712	7-8	2036	1,286,672
Government bonds at floating rates *(a)*	893,525	916,647	6-9	2014	1,397,271
		4,521,731			5,582,902
Income accrual on held-to-maturity portfolio		264,799			311,024
Total securities held-to-maturity		4,786,530			5,893,926
Total investment securities		35,941,390			40,361,866

(a) The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.

(b) Bonds issued by corporations include credit linked notes with a total face value of US\$ 428,333,333 (2010: US\$ 730,555,556) and a total carrying value of TL 810,571 thousands (2010: TL 1,124,270 thousands).

Interest income from debt and other fixed or floating instruments is reflected in interest on securities, whereas, gains and losses arising from changes in the fair values of available-for-sale assets are deferred as a separate component of equity.

The impairment losses for the investment securities as of 31 December 2011 amount to TL 113 thousands (2010: nil).

The sale of shares in Visa and Mastercard resulted an income of TL 79,595 thousands in the accompanying consolidated income statement as of 31 December 2011 which is recognized under "gain on sale of assets".

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 12,578,072 thousands (2010: TL 12,286,398 thousands).

(Currency: Thousands of Turkish Lira (TL))

10 Investment securities (continued)

The following table summarizes securities that were deposited as collaterals with respect to various banking, insurance and asset management transactions:

	2011		*2010*	
	Face Value	*Carrying value*	*Face Value*	*Carrying value*
Collateralized to foreign banks	11,160,702	11,897,388	6,831,761	7,343,009
Deposited at Istanbul Stock Exchange	6,316,085	7,062,295	6,731,321	8,611,298
Deposited at central banks for repurchase transactions	2,899,219	3,377,536	1,628,955	1,653,529
Deposited at CBT for interbank transactions	1,763,273	1,929,076	578,234	604,493
Deposited at Clearing Bank (Takasbank)	158,241	195,744	66,100	67,609
Deposited at CBT for foreign currency money market transactions	100,000	100,994	511,000	531,437
Others		31,027		34,851
		24,594,060		18,846,226

11 Investments in equity participations

	2011		*2010*	
	Carrying Value	*Ownership %*	*Carrying Value*	*Ownership %*
IMKB Takasbank AŞ	11,962	5.83	11,962	5.83
Eureko Sigorta AŞ	-	-	60,244	20.00
Others	12,631		10,587	
	24,593		82,793	

The liquidations of Trifoi Investment SRL and Garanti Broker Asigurari BRL were completed in May and September 2011, respectively.

80% shares of a previously consolidated affiliate, Garanti Sigorta AŞ, owned by the Bank had been sold to Eureko BV on 21 June 2007. After the sale, the remaining 20% was reclassified as investments in equity participations and accounted for under the equity method of accounting. On 1 October 2007, the legal name of the company changed as Eureko Sigorta AŞ. In the second quarter of 2011, as per the same shareholders' agreement dated 21 June 2007 between the Bank and Eureko BV, the Bank and its affiliates sold their remaining 20% shares of Eureko Sigorta AŞ with a nominal value of TL 12,000 thousands to Eureko BV for EUR 70 millions. A gain of TL 92,784 thousands is recognized under "gain on sale of assets" related to this sale in the accompanying consolidated income statement as of 31 December 2011.

At the Bank's board of directors meeting held on 3 June 2009, it was decided to participate in the capital increase of Kredi Garanti Fonu AŞ by TL 4,000 thousands and to subscribe for future capital increases up to TL 4,000 thousands in restructuring of the company to build a three-shareholders structure including the Turkish Union of Chambers and Commodity Exchanges (TOBB), the Small and Medium Size Enterprises Development Organization (KOSGEB) and the banks. As per this decision, the Bank has paid TL 2,000 thousands of its capital commitment of TL 4,000 thousands on 15 October 2009 for the capital increase of Kredi Garanti Fonu AŞ decided on 11 September 2009. A further TL 1,000 thousands was paid in July 2011.

(Currency: Thousands of Turkish Lira (TL))

11 Investments in equity participations (continued)

Others include "Garanti Konut Finansmanı Danışmanlık Hizmetleri AŞ" which was established as per the decision made during the board of directors meeting of the Bank on 15 September 2007 to provide consultancy and outsourcing services to banks, housing finance and mortgage finance companies. Its legal registration process was completed on 3 October 2007. The Bank owns 100% of the company shares. The share capital of the company amounting TL 750 is fully paid. This company is not consolidated in the accompanying consolidated financial statements as currently it does not have material operations compared to the consolidated performance of the Bank and its affiliates, instead it is recorded under investments in equity participations in "others" above and valued at cost.

IMKB Takasbank AŞ and other equity participations do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and impracticable, accordingly they are stated at cost, restated for the effects of inflation in TL units current at 31 December 2005.

There are no impairment losses charged to the statement of income for the investments in equity participations as of 31 December 2011 and 2010. The cumulative provisions for such impairment losses amounted to TL 3,152 thousands as of 31 December 2011 (2010: TL 3,455 thousands).

12 Tangible assets

Movement in tangible assets from 1 January to 31 December 2011 is as follows:

	1 January	*Additions*	*Effects of Movement in Exchange Rates*	*Disposals*	*31 December*
Costs					
Land and buildings	1,213,337	36,382	10,936	(21,173)	1,239,482
Furniture, fixture, equipments and motor vehicles	1,425,817	251,811	17,612	(150,702)	1,544,538
Leasehold improvements	408,498	100,931	11,146	(16,777)	503,798
	3,047,652	389,124	39,694	(188,652)	3,287,818
Less: Accumulated depreciation					
Buildings	270,625	26,296	478	(2,480)	294,919
Furniture, fixture, equipments and motor vehicles	931,459	119,443	5,362	(84,861)	971,403
Leasehold improvements	211,670	88,180	3,565	(7,708)	295,707
	1,413,754	233,919	9,405	(95,049)	1,562,029
Construction in progress	39,395	17,812	2,334	(6,603)	52,938
	1,673,293				1,778,727
Impairment in value of tangible assets	(88,633)				(67,959)
	1,584,660				1,710,768

(Currency: Thousands of Turkish Lira (TL))

12 **Tangible assets** (continued)

Movement in tangible assets from 1 January to 31 December 2010 is as follows:

	1 January	*Additions*	*Effects of Movement in Exchange Rates*	*Disposals*	*31 December*
Costs					
Land and buildings	1,138,775	94,033	(3,176)	(16,295)	1,213,337
Furniture, fixture, equipments and motor vehicles	1,273,239	226,637	(315)	(73,744)	1,425,817
Leasehold improvements	336,407	99,850	1,511	(29,270)	408,498
	2,748,421	420,520	(1,980)	(119,309)	3,047,652
Less: Accumulated depreciation					
Buildings	248,230	24,333	(164)	(1,774)	270,625
Furniture, fixture, equipments and motor vehicles	854,058	124,935	(856)	(46,678)	931,459
Leasehold improvements	153,052	75,862	4,229	(21,473)	211,670
	1,255,340	225,130	3,209	(69,925)	1,413,754
Construction in progress	54,187	10,431	537	(25,760)	39,395
	1,547,268				1,673,293
Impairment in value of tangible assets	(98,610)				(88,633)
	1,448,658				1,584,660

Depreciation expense for the year ended 31 December amounts to TL 233,751 thousands (2010: TL 207,312 thousands).

Assessment of the independent appraiser firms have been taken into consideration in the determination of the impairment losses provided for land and buildings. As of 31 December 2011, land and buildings at a total net book value before impairment of TL 428,324 thousands (2010: TL 415,079 thousands) have been impaired by TL 67,959 thousands (2010: TL 88,633 thousands).

13 **Goodwill**

As of 31 December 2011, goodwill arises from the direct acquisitions of Garanti Yatırım Menkul Kıymetler AŞ, Garanti Finansal Kiralama AŞ, Garanti Emeklilik ve Hayat AŞ and Garanti Faktoring Hizmetleri AŞ consisting of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of their acquisition as follows:

	2011	*2010*
Garanti Yatırım Menkul Kıymetler AŞ	20,984	20,984
Garanti Faktoring Hizmetleri AŞ	6,697	6,697
Garanti Finansal Kiralama AŞ	5,233	5,233
Garanti Emeklilik ve Hayat AŞ	34	34
Eureko Sigorta AŞ	-	222
	32,948	33,170
Impairment of goodwill	-	-
	32,948	33,170

Impairment losses when necessary are provided for decrease in the net asset value of the consolidated entities by assessing their internal and external resources.

(Currency: Thousands of Turkish Lira (TL))

14 Deposits from banks

Deposits from banks comprise the following:

	2011	*2010*
Payable on demand	827,375	933,800
Term deposits	2,260,100	1,869,825
	3,087,475	2,803,625
Expense accrual on deposits from banks	9,335	4,381
	3,096,810	2,808,006

Deposits from banks include both TL accounts amounting TL 673,380 thousands (2010: TL 1,400,212 thousands) and foreign currency accounts amounting TL 2,414,095 thousands (2010: TL 1,403,413 thousands) in total. As of 31 December 2011, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 6%-13% and 1%-8% (2010: 4%-9% and 1%-12%), respectively.

15 Deposits from customers

Deposits from customers comprise the following:

	2011			*2010*
	Demand	*Time*	*Total*	*Total*
Foreign currency	9,910,986	30,507,169	40,418,155	33,076,835
Saving	2,926,196	27,343,405	30,269,601	26,724,580
Commercial	3,725,307	12,005,304	15,730,611	14,671,850
Public and other	2,939,789	348,702	3,288,491	1,503,881
	19,502,278	70,204,580	89,706,858	75,977,146
Expense accrual on deposits from customers	114	432,022	432,136	318,382
	19,502,392	70,636,602	90,138,994	76,295,528

As of 31 December 2011, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 6%-13% and 1%-8% (2010: 5%-11% and 1%-12%), respectively.

16 Obligations under repurchase agreements

The Bank and its affiliates raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

(Currency: Thousands of Turkish Lira (TL))

16 Obligations under repurchase agreements (continued)

Assets sold under repurchase agreements comprise the following:

	Carrying value	*Fair value of underlying assets*	*Carrying amount of corresponding liabilities*	*Range of repurchase dates*	*Repurchase price*
2011					
Financial assets at fair value through profit or loss	2,036	2,036	2,010	Jan'12	2,010
Investment securities	12,578,072	12,585,355	11,736,147	Jan'12-May'14	11,832,096
	12,580,108	12,587,391	11,738,157		11,834,106
2010					
Investment securities	12,286,398	12,317,980	11,735,342	Jan-May'11	11,741,751

Expense accrual on obligations under repurchase agreements amounting to TL 24,909 thousands (2010: TL 25,423 thousands) is included in the carrying amount of corresponding liabilities.

In general the carrying values of such assets are more than the corresponding liabilities due to the margins set between the parties, since such funding is raised against assets collateralized.

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As of 31 December 2011, the maturities of the obligations varied from one day to 29 months and interest rates varied between 1%-13% (2010: 1%-5%).

17 Loans and advances from banks

Loans and advances from banks comprise the following:

	2011	*2010*
Short-term borrowings		
Domestic banks	1,443,306	1,553,692
Foreign banks	7,817,633	5,420,485
	9,260,939	6,974,177
Long-term debts		
Short-term portion	2,933,163	2,043,580
Medium and long-term portion	11,837,417	10,696,096
	14,770,580	12,739,676
Expense accrual on loans and advances from banks	294,030	250,551
	24,325,549	19,964,404

As of 31 December 2011, loans and advances from banks included various promissory notes amounting to TL 441,188 thousands in total with latest maturity by 2012 (2010: TL 215,593 thousands with latest maturity by 2011).

As of 31 December 2011, short-term borrowings included two one-year-syndicated-loan facilities to be utilized for general trade finance purposes including export and import contracts in two tranches of (i) US$ 304,500,000 and EUR 782,500,000 with rates of Libor + 1.1% and Euribor + 1.1% per annum with the participation of 42 banks from 19 countries (equivalent of TL 2,462,795 thousands), (ii) US$

(Currency: Thousands of Turkish Lira (TL))

17 Loans and advances from banks (continued)

233,587,500 and EUR 576,250,000 with the rates of Libor + 1% and Euribor + 1% per annum with the participation of 30 banks from 16 countries (equivalent of TL 1,831,088 thousands).

Long-term debts comprise the following:

	2011					2010
	Interest rate%	*Latest maturity*	*Amount in original currency*	*Short term portion*	*Medium and long term portion*	*Medium and long term debts*
Deutsche Bank AG	11-13	2017	TL 701 millions	-	701,210	701,210
DPR Securitisation-VIII	1	2017	US$ 322 millions	104,394	495,883	489,187
DPR Securitisation-IX	2	2018	EUR 172 millions	9,686	406,829	349,847
DPR Securitisation-XIII	2	2016	US$ 225 millions	-	419,349	-
DPR Securitisation-IV	1	2013	US$ 191 millions	238,406	117,358	289,815
EIB I	1-4	2022	US$ 208 millions	7,444	379,973	315,750
DPR Securitisation-V(*)	1	2013	US$ 179 millions	201,829	131,982	271,136
DPR Securitisation-VI(**)	1	2016	US$ 172 millions	92,598	227,421	260,423
DPR Securitisation-VI	1	2013	US$ 165 millions	195,694	111,864	250,438
DPR Securitisation-XII	3	2016	EUR 100 millions	-	242,160	203,750
EIB II	2	2012	EUR 100 millions	244,380	-	204,910
DPR Securitisation-XII	2	2022	EUR 75 millions	-	181,620	152,813
DPR Securitisation-XII	2	2022	EUR 75 millions	-	181,620	152,813
OPIC	3	2019	US$ 100 millions	-	186,500	152,000
DPR Securitisation-III	1	2013	US$ 82 millions	102,405	51,241	124,932
DPR Securitisation-VIII	1	2017	US$ 92 millions	29,827	141,681	139,768
DPR Securitisation-VIII	1	2017	US$ 92 millions	29,827	141,681	139,768
DPR Securitisation-XIII	3	2016	EUR 50 millions	-	121,080	-
EBRD-II	2-3	2025	US$ 60 millions	25,437	85,982	91,200
DPR Securitisation-VII	1	2014	US$ 50 millions	31,065	62,134	75,489
EBRD-I	4	2014	EUR 30 millions	39,586	32,354	60,529
DPR Securitisation-VIII	1	2015	US$ 29 millions	15,531	38,829	44,297
EBRD-III	3	2015	EUR 20 millions	6,719	41,513	40,750
DPR Securitisation-VII				-	-	504,530
Others				1,558,335	7,337,153	5,680,741
				2,933,163	11,837,417	10,696,096

(*) On 9 May 2009, the Bank completed a securitization (the "DPR Securitisation-X") transaction by issuance of certificates; a tranche of US$ 225 millions with a maturity of four years to refinance the debt of US$ 250 millions obtained in November 2005, as explained in subsequent paragraphs below, on an unwrapped basis with no cash effect on the consolidated financial statements.

(**) On 8 September 2010, the Bank completed a securitization (the "DPR Securitisation-XI") transaction by issuance of certificates; a tranche of US$ 214.5 millions with a maturity of six years to refinance the debt of US$ 225 millions obtained in May 2006, as explained in subsequent paragraphs below, on an unwrapped basis with no cash effect on the consolidated financial statements.

In June 2011, the Bank completed a securitization (the "DPR Securitization-XIII") transaction, arranged by SMBC Nikko Securities America Inc., WestLB AG and Wells Fargo Securities LLC in the amount of US$ 225 millions with five years maturity and by Standard Chartered Bank in the amount of EUR 50 millions with five years maturity.

In December 2010, the Bank completed a securitization (the "DPR Securitization-XII") transaction, with the involvement of European Investment Bank (EIB) in the amount of EUR 75 millions with 12 years maturity, by European Bank for Reconstruction and Development (EBRD) in the amount of EUR

17 Loans and advances from banks (continued)

75 millions with 12 years maturity, by West LB in the amount of EUR 100 millions with five years maturity.

In September 2010, the Bank signed a loan agreement with EBRD (EBRD-III) in the amount of EUR 50 millions which consists of 2 tranches for the financing of SMEs. The first tranche in the amount of EUR 20 millions with five years maturity has been financed by EBRD while the second tranche in the amount of EUR 30 millions with one year maturity by Standard Chartered Bank.

In June 2010, the Bank drew a second loan tranche worth of US$ 60,050,000 (equivalent of EUR 50 millions) with a maturity of 12 years, within the EUR 150,000,000 framework agreement signed with EIB (EIB I) on 25 November 2009. The fund will be used for the financing of the investment and working capital needs of SMEs located in Turkey. In December 2009, the Bank had been granted another funding by EIB again for the financing of SME loans in the amount of US$ 147,680,000 (equivalent of EUR 100 millions) with a maturity of 12 years.

In May 2010, the Bank signed a credit agreement with EBRD (EBRD-II) for a loan in the amount of US$ 60 millions which consists of two tranches. The loan, which is funded directly by EBRD with the 5-year tranche of US$ 48 millions and by the Clean Technology Fund which is established by the International Bank for Reconstruction and Development (the World Bank) in consultation with other international financial institutions, developed and developing countries and development partners, with the 15-year tranche of US$ 12 millions, will be utilized for the financing of the energy efficiency needs of the small sized enterprises.

In December 2009, the Bank signed a credit agreement with Overseas Private Investment Corporation (OPIC) for a facility for the financing of SMEs in the amount of US$ 100 millions with a maturity of ten years.

In November 2009, the Bank signed a credit agreement with EBRD (EBRD-I) for a facility of EUR 50 millions. The facility, which is comprised of 3 tranches, will be on lent to small-sized enterprises. EUR 23.4 millions of the facility is funded from EBRD's own sources and has a maturity of five year while EUR 14.5 millions of the facility is funded by the Netherlands Development Finance Company (FMO) with a maturity of three years. EUR 12.1 millions of the facility is provided by a group of 6 banks from 4 countries with a maturity of one year.

In August 2008, the Bank completed a securitization (the "DPR Securitization-IX") transaction by issuance of certificates; a tranche of EUR 200 millions with ten years maturity from EIB.

In December 2007, one of the Bank's consolidated affiliates signed a loan agreement with EIB (EIB II) in the amount of EUR 100 millions with a maturity of five years.

In June 2007, the Bank completed a securitization (the "DPR Securitization-VIII") transaction by issuance of certificates; three tranches of US$ 550 millions with ten years maturity wrapped by Ambac Assurance Corp., Financial Guaranty Insurance Corp. and XL Capital Assurance and a tranche of US$ 50 millions with eight years maturity and no financial guarantee.

In January 2007, the Bank borrowed TL 435 millions from Deutsche Bank AG, London with a maturity of ten years at 12.93% annual fixed interest rate through a secured financing transaction. Accordingly, the Bank pledged US$ 300 millions of cash collateral to Deutsche Bank AG, London. Subsequently, the Bank has entered into two more secured financing transactions with the same counterparty under the same collateral conditions and borrowed in total TL 266 millions in two separate transactions on 28 June and 3 July 2007 with maturity of ten years for each and pledged US$ 100 millions of cash collateral for each. The funding costs are 11.30% and 11.35%, respectively. The cash collaterals earn annually US$ libor floating interest rate.

(Currency: Thousands of Turkish Lira (TL))

17 Loans and advances from banks (continued)

In December 2006, the Bank completed a securitization (the "DPR Securitization-VII") transaction by issuance of certificates: US$ 400 millions tranche with a maturity of ten years and US$ 100 millions tranche with a maturity of eight years. Both of the series were issued on an unwrapped basis.

In May 2006, the Bank completed a securitization (the "DPR Securitization-VI") transaction by issuance of certificates: Euro 300 millions with a guarantee issued by MBIA Insurance Corp. with maturity of five years, US$ 300 millions with no financial guarantee and a maturity of seven years and US$ 225 millions with a guarantee issued by Ambac Assurance Corp. with maturity of ten years.

In November 2005, the Bank completed a securitization (the "DPR Securitization-V") transaction by issuance of certificate: US$ 150 millions with a guarantee issued by CIFG Inc. with a maturity of seven years, US$ 250 millions with a guarantee issued by XL Capital Assurance with a maturity of eight years and US$ 125 millions with no financial guarantee and a maturity of eight years. The XL Capital Assurance wrapped tranche was refinanced by the issuance of unwrapped notes in April 2009, with the maturity profile of the new series being kept identical to the refinanced series.

In September 2005, the Bank completed a securitization (the "DPR Securitisation-IV") transaction by issuance of certificate: US$ 150 millions with a guarantee issued by Financial Guaranty Insurance Corp. with a final maturity of seven years, US$ 150 millions with a guarantee issued by Financial Security Assurance with a final maturity of eight years, US$ 165 millions with a financial guarantee issued by Assured Guaranty Corp. with a final maturity of eight years, US$ 110 millions with a financial guarantee issued by Radian Asset Assurance Inc. with a final maturity of seven years, US$ 25 millions with no financial guarantee and a final maturity of 7 years.

In May 2005, the Bank completed a securitization (the "DPR Securitisation-III") transaction by issuance of certificate: US$ 300 millions with a guarantee issued by MBIA Insurance Corp., a final maturity of eight years.

The DPR securitization is a way of securitizing the Bank's payment orders created via SWIFT MT 103 or similar payment orders in terms of US Dollar, Euro and GBP accepted as derived primarily from the Bank's trade finance and other corporate businesses and paid through foreign depository banks.

18 Bonds payable

Bonds payable comprise of the following:

	2011		
	Latest maturity	*Interest rate %*	*Amount*
Bonds payable of TL 2,500 millions	2012	7.68-10.09	2,044,236
Bonds payable of US$ 500 millions	2021	6.25	924,305
Bonds payable of US$ 300 millions	2016	3-month libor+2.50	541,800
Bonds payable of TL 100 millions	2012	8.75	93,643
			3,603,984
Expense accrual on bonds payable			138,072
			3,742,056

In November 2011, the Bank issued bills with a total face value of TL 750,000 thousands, interest rate of 10.09% and a maturity of 178 days.

In October 2011, the Bank issued bills with a total face value of TL 750,000 thousands, interest rate of 8.10% and a maturity of 178 days.

In August 2011, one of the Bank's consolidated affiliates issued its first bills with a total face value of TL 100,000 thousands, interest rate of 8.75% and a maturity 179 days.

(Currency: Thousands of Turkish Lira (TL))

18 Bonds payable (continued)

In April 2011, the Bank isued USD 500 million 10-year fixed-rate notes with a maturity date of 20 April 2021 and coupon rate of 6.25% and USD 300 million 5-year floating-rate notes with a maturity date of 20 April 2016 and a coupon rate of 3-month libor + 2.50% in the international markets.

In January 2011, the Bank issued bills with a total face value of TL 1,000,000 thousands, interest rate of 7.68% and maturity of one year.

The Bank and its consolidated affiliates repurchased some of the Bank's own Turkish Lira securities with a total face value of TL 410,950 thousands and foreign currency securities with a total face value of TL 18,716 thousands, and netted off such securities in the accompanying consolidated financial statements as of 31 December 2011

19 Subordinated liabilities

Subordinated liabilities comprise of the following:

		2011		*2010*
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Subordinated debt of US$ 500 millions	2017	6.95	932,452	759,469
Subordinated debt of EUR 50 millions	2021	euribor+3.5	121,080	101,875
Subordinated deposits	2021	4.75-6	39,734	31,607
Subordinated bonds payable of EUR 30 millions			-	61,125
			1,093,266	954,076
Expense accrual on subordinated liabilities			28,824	23,978
			1,122,090	978,054

On 23 February 2009, the Bank has obtained a 12-year subordinated loan of EUR 50 millions due March 2021 from Proparco (Societe de Promotion et de Participation pour la Cooperation Economique SA) a company of the French Development Agency Group, with an interest of Euribor+3.5% and a repayment option for the Bank at the end of the seventh year.

On 5 February 2007, the Bank obtained a 10-year subordinated fixed-rate notes of US$ 500 millions due February 2017 with a repayment option for the Bank at the end of the fifth year. The fixed rate notes with Political Risk Insurance provided by Steadfast (a subsidiary of Zurich American Insurance Company) received a rating of Baa1 by Moody's Investors Service and priced at par to yield 6.95% to investors for the first five years and then 7.95% annually. The Bank decided to use its early repayment option. Accordingly, the debt will be repaid at 6 February 2012. The necessary permissions are obtained from the BRSA.

As of 31 December 2011, subordinated deposits obtained by one of the Bank's consolidated affiliates amounted approximately to EUR 16 millions (equivalent of TL 39,734 thousands) (2010: EUR 16 millions, equivalent of TL 31,607 thousands).

On 29 September 2006, one of the Bank's consolidated affiliates had issued a floating rate note for EUR 30 millions, Euro-denominated lower tier-2 capital, priced at 99.30, arranged by Deutsche Bank and traded on the alternative market in Frankfurt. This funding has been repaid before its maturity in September 2011.

20 Taxation

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes.

20 **Taxation** (continued)

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no. 2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no.27130 dated 3 February 2009, certain duty rates included in the articles no. 15 and 30 of the new Corporate Tax Law no. 5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the nonresident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, is 15%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from prior years. There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the end of the accounting year to which they relate. Tax returns and accounting records are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit the tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, the taxation charge, as reflected in the accompanying consolidated financial statements, represents the total amount of the taxation charge of each affiliate.

Investment allowance

The Temporary Article 69 added to the Income Tax Law no.193 with the Law no.5479, which became effective starting from 1 January 2006, upon being promulgated in the Official Gazette no.26133 dated 8 April 2006, stating that taxpayers can deduct the amount of the investment allowance exemption which they are entitled to according to legislative provisions effective at 31 December 2005 (including rulings on the tax rate) only from the taxable income of 2006, 2007 and 2008. Accordingly, the investment incentive allowance practice was ended as of 1 January 2006. At this perspective, an investment allowance which cannot be deducted partially or fully in three years time was not allowed to be carried forward to the following years and became unavailable as of 31 December 2008. On the other side, the Article 19 of the Income Tax Law was annulled and the investment allowance practice was ended as of 1 January 2006 with effectiveness of the Article 2 and the Article 15 of the Law no.5479 and the investment allowance rights on the investment expenditures incurred during the period of 1 January 2006 and 8 April 2006 became unavailable.

However, at 15 October 2009, the Turkish Constitutional Court decided to cancel the clause no.2 of the Article 15 of the Law no.5479 and the expressions of "2006, 2007, 2008" in the Temporary Article 69 related to investment allowance mentioned above that enables effectiveness of the Law as of 1 January 2006 rather than 8 April 2006, since it is against the Constitution. Accordingly, the time limitations for the carried forward investment allowances that were entitled to in the previous period of mentioned date and the limitations related with the investments expenditures incurred between the issuance date of the Law promulgated and 1 January 2006 were eliminated. According to the decision of Turkish Constitutional Court, cancellation related with the investment allowance became effective with promulgation of the decision on the Official Gazette and the decision of the Turkish Constitutional Court was promulgated in the Official Gazette no.27456 dated 8 January 2010. The expression of "only for the years 2006, 2007 and 2008" in the temporary article no. 69 of the Income Tax Law no. 193 that

20 **Taxation** (continued)

was cancelled by the decision no.2009/144 of the Turkish Constitutional Court published in the Official Gazette dated 8 January 2010 is revised by the Article 5 of the Law no.6009 effective with the promulgation on the Official Gazette no.27659 dated 1 August 2010. As per the new regulation, the investment allowances that cannot be benefited and transferred to future periods due to insufficient income level of the relevant year, can be used without any year limitation, however the investment allowance amount to be considered in the determination of taxable income, will not exceed 25% of the income of the relevant year. In addition to this, it is also agreed that the corporate tax rate for the companies to benefit from investment allowance will be the current applicable tax rate (20%) instead of 30%.

According to the decision mentioned above, the investment allowances carried forward to the year 2006 due to the lack of taxable income and the investment allowances earned through the investments started before 1 January 2006 and continued after that date constituting economic and technical integrity will be used not only in 2006, 2007 and 2008, but also in the following years. In addition, 40% of investment expenditures that are realized between 1 January 2006 and 8 April 2006, within the context of the Article 19 of the Income Tax Law will have the right for investment allowance exemption.

Tax applications for foreign branches

NORTHERN CYPRUS

According to the Corporate Tax Law of the Turkish Republic of Northern Cyprus no.41/1976 as amended, the corporate earnings (including foreign corporations) are subject to a 10% corporate tax and 15% income tax. This tax is calculated based on the income that the taxpayers earn in an accounting period. Tax base is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The corporations cannot benefit from the rights of offsetting losses, investment incentives and amortisation unless they prepare and have certified their statements of financial position, statements of comprehensive income and accounting records used for tax calculations by an auditor authorized by the Ministry of Finance. In cases where it is revealed that the earnings of a corporation were not subject to taxation in prior years or the tax paid on such earnings are understated, additional taxes can be charged in the next 12 years following that the related taxation period. The corporate tax returns are filed in the tax administration office in April after following the end of the accounting year to which they relate. The corporate taxes are paid in two equal installments in May and October.

MALTA

The corporate earnings are subjected to a 35% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowauces for tax purposes. The earnings of the foreign corporations' branches in Malta are also subject to the same tax rate that the resident corporations in Malta are subject to. The earnings of such branches that are transferred to their head offices are not subject to an additional tax. The prepaid taxes are paid in April, August and December in the related years. The prepayments can be deducted from the annual corporate tax calculated for the whole year earnings. The excess part of the corporate tax that is not covered by such prepayments is paid to the tax office in September.

20 Taxation (continued)

LUXEMBOURG

The corporate earnings are subject to a 21% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. An additional 5% of the calculated corporate income tax is paid as a contribution to unemployment insurance fund. 3% of the taxable income is paid as municipality tax addition to corporate tax, the municipalities have the right to increase this rate up to 200-350%. The municipality commerce tax, which the Bank's Luxembourg branch subject to currently is applied as 9% of taxable income The tax returns do not include any tax payable amounts. The tax calculations are done by the tax office and the amounts to be paid are declared to corporates through official letters called Note. The amounts and the payment dates of prepaid taxes are determined and declared by the tax office at the beginning of the taxation period. The corporations whose head offices are outside Luxembourg, are allowed to transfer the rest of their net income after tax following the allocation of 5% of it for legal reserves, to their head offices.

Tax applications for foreign affiliates

THE NETHERLANDS

In the Netherlands, corporate income tax is levied at the rate of 20% for tax profits up to EUR 200,000 and 25% for the excess part over this amount on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. There is an additional dividend tax of 5% computed only on the amounts of dividend distribution at the time of such payments. Under the Dutch taxation system, tax losses can be carried forward for nine years to offset against future taxable income. Tax losses can be carried back to one prior year. Companies must file their tax returns within nine months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. The corporate income tax has been calculated using the nominal tax rate of 25% over the Dutch taxable income and 30% over the local taxable income of Germany branch.

ROMANIA

The applicable corporate tax rate in Romania is 16%. The taxation system in Romania is continuously developing and is subject to varying interpretations and constant changes, which may become rarely retroactive. In Romania, tax periods remain open for tax audits for seven years. Tax losses can be carried forward to offset against future taxable income for seven years.

RUSSIA

The applicable corporate tax rate in Russia is 20% (2% federal and 18% regional). The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for a longer period.

(Currency: Thousands of Turkish Lira (TL))

20 Taxation (continued)

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	2011	*%*	*2010*	*%*
Taxes on income per statutory tax rate	854,418	20.00	859,493	20.00
Provision for general banking risks	18,000	0.42	-	-
Disallowable expenses	23,260	0.54	19,129	0.45
Income items exempt from tax or subject to different tax rates	(30,953)	(0.72)	(30,021)	(0.70)
Others	9,439	0.22	17,239	0.40
Taxation charge	874,164	20.46	865,840	20.15

The taxation charge is comprised of the following:

	2011	*2010*
Current taxes	482,355	1,058,191
Deferred taxes	391,809	(192,351)
Taxation charge	874,164	865,840

The movement of current tax liability is as follows:

	2011	*2010*
Balance at the beginning of the period	298,222	225,228
Current period taxation charge	482,355	1,058,191
Current taxes recognised under equity	26,599	(15,089)
Less: Corporate taxes paid during the period	(726,739)	(970,108)
Current tax liability	80,437	298,222

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the period. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the statement of financial position.

(Currency: Thousands of Turkish Lira (TL))

20 Taxation (continued)

Deferred tax asset and liabilities are attributable to the items detailed in the table below:

	2011	*2010*
Deferred tax asset		
Impairment losses on loans	180,236	121,301
Discount on miscellaneous receivables	38,623	27,386
Short-term employee benefits	30,851	38,958
Reserve for employee severance indemnity	26,253	20,538
Impairment of equity participations and tangible assets	15,107	17,589
Accruals on credit card rewards	8,871	9,298
Tax exemption for leasing business	1,741	11,959
Pro-rata basis depreciation expenses	(12,581)	(13,847)
Prepaid expenses and promotions	(27,526)	(15,634)
Valuation difference on financial assets and liabilities	(58,146)	47,864
Others, net	30,323	13,437
Total deferred tax asset	233,752	278,849
Deferred tax liability		
Total deferred tax liability	6,987	391

As of 31 December 2011, there are not any deferred tax assets and liabilities that have not been recognized in the accompanying consolidated financial statements.

Movements in deferred tax assets and liabilities are detailed in the table below:

	Opening balance	*Recognized in income statement*	*Recognized in equity*	*Closing balance*
2011				
Impairment losses on loans	121,301	58,935	-	180,236
Discount on miscellaneous receivables	27,386	11,237	-	38,623
Short-term employee benefits	38,958	(8,107)	-	30,851
Reserve for employee severance indemnity	20,538	5,715	-	26,253
Impairment of equity participations and tangible assets	17,589	(2,482)	-	15,107
Accruals on credit card rewards	9,298	(427)	-	8,871
Tax exemption for leasing business	11,959	(10,218)	-	1,741
Pro-rata basis depreciation expenses	(13,847)	1,266	-	(12,581)
Prepaid expenses and promotions	(15,634)	(11,892)	-	(27,526)
Valuation difference on financial assets and liabilities	47,864	(446,399)	340,389	(58,146)
Others, net	13,046	10,563	(273)	23,336
Net deferred tax asset	278,458	(391,809)	340,116	226,765

(Currency: Thousands of Turkish Lira (TL))

20 Taxation (continued)

	Opening balance	*Recognized in income statement*	*Recognized in equity*	*Closing balance*
2010				
Impairment losses on loans	71,008	50,293	-	121,301
Discount on miscellaneous receivables	11,017	16,369	-	27,386
Short-term employee benefits	25,728	13,230	-	38,958
Reserve for employee severance indemnity	14,938	5,600	-	20,538
Impairment of equity participations and tangible assets	18,863	(1,274)	-	17,589
Accruals on credit card rewards	7,242	2,056	-	9,298
Tax exemption for leasing business	32,383	(20,424)	-	11,959
Pro-rata basis depreciation expenses	(17,795)	3,948	-	(13,847)
Prepaid expenses and promotions	(20,626)	4,992	-	(15,634)
Valuation difference on financial assets and liabilities	(4,250)	115,293	(63,179)	47,864
Others, net	10,949	2,268	(171)	13,046
Net deferred tax asset	149,457	192,351	(63,350)	278,458

Transfer pricing

The article no.13 of the Corporate Tax Law describes the issue of transfer pricing under the title of "disguised profit distribution" by way of transfer pricing. "The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing" published at 18 November 2007, explains the application related issues on this topic.

According to this communiqué, if the taxpayers conduct transactions like purchase and sale of goods or services with the related parties where the prices are not determined according to the arm's length principle, then it will be concluded that there is a disguised profit distribution by way of transfer pricing. Such disguised profit distributions will not be deducted from the corporate tax base for tax purposes.

As stated in the "7.1 Annual Documentation" section of this communiqué, the taxpayers are required to fill out the "Transfer Pricing, Controlled Foreign Entities and Thin Capitalization" form for the purchase and sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices.

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions

The principal components of other liabilities, accrued expenses and provisions are as follows:

	2011	2010
Blocked accounts against expenditures of card holders	3,371,128	2,815,150
Payables to insurance and reinsurance companies relating to insurance business	2,372,713	1,860,534
Accrued losses on derivatives	1,214,263	538,095
Payables to securities lending market	737,814	6,813
Provision for general banking risks	450,000	360,000
Withholding taxes	211,849	131,558
Transfer orders	177,005	81,356
Insurance business related provisions	159,487	138,297
Short-term employee benefits	158,203	190,508
Miscellaneous payables	146,633	97,211
Reserve for employee severance indemnity	130,313	105,425
Provision for non-cash loans	128,043	111,493
Payables to suppliers relating to financial lease activities	117,591	45,573
Unearned income	88,176	121,336
Blocked accounts	68,858	44,073
Expense accruals	51,022	63,449
Others	154,778	139,069
	9,737,876	6,849,940

As of 31 December 2011, the other liabilities, accrued expenses and provision include a general provision amounting to TL 450,000 thousands (2010: TL 360,000 thousands) provided by the Bank in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions under the name of provision for general banking risks.

Recognized liability for defined benefit obligations

(i) Defined benefit plan

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, was originally set to be within three years from the enactment of the New Law in May 2008, however, has been postponed for two years as per the decision of the Council of Ministers published on 9 April 2011 as further explained below. The actual date of the transfer has not been specified yet. However, in the financial statements for the year ended 31 December 2007, the Bank has modified the accounting required by IAS 19 *Employee Benefits* as the Bank believes that it is more appropriate to measure the obligation, in respect of the benefits that will be transferred to SSF, at the expected transfer amount prior to the date on which the transfer and settlement will occur. The expected transfer amount is calculated based on the methodology and actuarial assumptions (discount rate and mortality tables) prescribed in the New Law. As such, this calculation measures the liability to be transferred at the expected settlement amount i.e., the expected value of the payment to be made to SSF to assume that obligation.

The obligation with respect to excess benefits is accounted for as a defined benefit plan under IAS 19.

21 Other liabilities, accrued expenses and provisions (continued)

a) Pension and medical benefits transferable to SSF

As per the provisional Article no.23 of the Turkish Banking Law no.5411 as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability (if any) on the transfer should be performed regarding the methodology and parameters determined by the commission established by Ministry of Labor and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated 15 December 2006 ("Decree") for the purpose of determining the principles and procedures to be applied during the transfer of funds. However the said Article was vetoed by the President and at 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional article no.23.

The Bank obtained an actuarial report regarding its obligations at 31 December 2006. This report, which was dated 12 February 2007, is from an actuary, who is registered with the Undersecretariat of the Treasury regarding this Fund in accordance with the Decree. Based on this Decree, the actuarial statement of financial position of the Fund has been prepared using a discount rate of 10.24% and the CSO 1980 mortality table. Based on the actuarial report, the assets of the plan exceed the amount that will be required to be paid to transfer the obligation at 31 December 2006. In accordance with the existing legislation at 31 December 2006, the pension and medical benefits within the social security limits were subject to transfer and the banks were not required to provide any excess social rights and payments.

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional article no.23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette numbered 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey ("Turkish Parliament") worked on the new legal arrangements by taking the cancellation reasoning into account. At 17 April 2008, the New Law has been accepted by the Turkish Parliament and the New Law has been enacted at 8 May 2008 following its publishment in the Official Gazette no 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The transfers are to take place within the three-year period starting from 1 January 2008. Subsequently, the transfer of the contributors and the persons receiving monthly or regular income and their right-holders from such funds established for employees of the banks, insurance and reinsurance companies, trade chambers, stock markets and unions that are part of these organizations subject to the provisional article 20 of the Social Security Law no.506 to the SSF, has been postponed for two years. The decision was made by the Council of Ministers on 14 March 2011 and published in the Official Gazette no. 27900 dated 9 April 2011 as per the decision of the Council of Ministers, numbered 2011/1559, and as per the letter no. 150 of the Ministry of Labor and Social Security dated 24 February 2011 and according to the provisional article 20 of the Social Security and Public Health Insurance Law no.5510.

On 19 June 2008, Cumhuriyet Halk Partisi ("CHP") had applied to the Constitutional Court for the cancellation of various articles of the Law including the first paragraph of the provisional Article 20. At the meeting of the Constitutional Court on 30 March 2011, it was decided that the article 73 and the first paragraph of the provisional Article 20 added to the law no. 5510 are not contradictory to the Constitutional Law, and accordingly the dismissal of the cancellation request has been denied with the majority of votes.

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions (continued)

The Bank obtained an actuarial report dated 11 January 2012 from an independent actuary reflecting the principles and procedures on determining the application of transfer transactions in accordance with the New Law. The actuarial statement of financial position of the Fund has been prepared using a discount rate of 9.80% and the CSO 1980 mortality table, and the assets of the plan exceed the amount that would be required to be paid to transfer the obligation at 31 December 2011.

The Bank's obligation in respect of the pension and medical benefits transferable to SSF has been determined as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the related article of the New Law.

The pension disclosures set out below therefore reflect the methodology and actuarial assumptions specified in the New Law. This calculation measures the benefit obligation at the expected transfer amount i.e., the estimated amount the Bank will pay to SSF to assume this portion of the obligation.

The pension benefits are calculated annually, as per the calculation as of 31 December 2011 the present value of funded obligations amounted to TL 90,768 thousands (2010: TL 68,487 thousands) and the fair value of the planned assets amounted to TL 1,233,840 thousands (2010: TL 1,020,383 thousands).

	2011	*2010*
Present value of funded obligations		
- Pension benefits transferable to SSF (obligation measured at the expected transfer amount)	(376,357)	(315,823)
- Medical benefits transferable to SSF (obligation measured at the expected transfer amount)	305,628	266,382
- General administrative expenses	(20,039)	(19,046)
	(90,768)	(68,487)
Fair value of plan assets	1,233,840	1,020,383
Asset surplus in the plan (*)	1,143,072	951,896

(*) *Asset surplus in this plan will be used as plan assets of the excess benefit plan.*

Plan assets consisted of the following:

	2011	*2010*
Cash and due from banks	34,964	737,039
Securities	1,091,882	185,594
Land and buildings	97,750	97,750
Other	9,244	-
	1,233,840	1,020,383

b) Excess benefits not transferable to SSF

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF. Therefore these excess benefits are accounted for as an ongoing defined benefit plan.

Asset surplus/(shortage) on present value of defined benefit obligation was as follows:

	2011	*2010*
Present value of defined benefit obligations		
- Pension	(264,514)	(242,307)
- Health	(137,859)	(205,251)
Fair value of plan assets (*)	1,143,072	951,896
Asset surplus over present value of defined benefit obligation	740,699	504,338

(*) *Plan assets are composed of asset surplus in the plan explained in paragraph* a).

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions (continued)

As per the actuarial calculation performed as of 31 December 2011 as detailed above, the asset surplus over the fair value of the plan assets to be used for the payment of the obligations also fully covered the benefits not transferable and still a surplus of TL 740,699 thousands (2010: TL 504,338 thousands) remains. However, the Bank's management, acting prudently, did not consider the health premium surplus amounting to TL 305,628 thousands (2010: TL 266,382 thousands) as stated above and resulted from the present value of medical benefits and health premiums transferable to SSF. However, despite this treatment there was no excess obligation that needed to be provided against as of 31 December 2011.

	2011	*2010*
Asset surplus over present value of defined benefit obligation	740,699	504,338
Net present value of medical benefits and health premiums transferable to SSF	(305,628)	(266,382)
Present value of asset surplus/(defined benefit obligation)	435,071	237,956

Expenses recognized in the statement of income regarding this benefit plan in the accompanying consolidated statements of comprehensive income for the year ended 31 December 2011 and 2010 are as follows:

	2011	*2010*
Total contribution payment	137,478	128,631
Provision for unfunded liability	-	-
	137,478	128,631

Principal actuarial assumptions used were as follows:

	2011 %	*2010* %
Discount rates (*)	9.52	10.00
Inflation rates (*)	5.06	5.10
Future real salary increase rates	1.5	1.5
Medical cost trend rates	40% above inflation	60% above inflation
Future pension increase rates (*)	5.06	5.10

(*) As of 31 December 2011, the above mentioned rates are effective rates, whereas the rates applied for the calculation differ according to the employees' years in service.

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 60 is 17 for males, and at age 58 for females is 23.

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions (continued)

The sensitivity analysis of defined benefit obligation of excess liabilities were as follows:

2011
% change in defined benefit obligation

Assumption change	*Pension Benefits* %	*Medical Benefits* %	*Overall* %
Discount rate +1%	(11.9)	(13.7)	(12.5)
Discount rate -1%	14.9	17.4	15.8
Medical inflation +10% of CPI		8.0	2.7
Medical inflation -10% of CPI		(7.3)	(2.5)

2010
% change in defined benefit obligation

Assumption change	*Pension Benefits* %	*Medical Benefits* %	*Overall* %
Discount rate +1%	(11.6)	(14.3)	(12.8)
Discount rate -1%	14.5	18.5	16.3
Medical inflation +10% of CPI		9.0	4.1
Medical inflation -10% of CPI		(7.8)	(3.6)

Short-term employee benefits

Movement in the provision for short-term employee benefits are as follows:

	2011	*2010*
Balance, beginning of the period	190,508	125,691
Payments	(314,949)	(220,712)
Provision for the period	282,644	285,529
Balance, end of the period	158,203	190,508

Insurance business related provisions

Insurance business related provisions are detailed in the table below:

	2011	*2010*
Reserve for unearned premiums, net	57,681	52,714
Gross	*106,071*	*98,737*
Reinsurers' share	*(48,390)*	*(46,023)*
Provision for claims, net	16,770	12,566
Gross	*25,179*	*21,538*
Reinsurers' share	*(8,409)*	*(8,972)*
Life mathematical reserves	85,036	73,017
	159,487	138,297

Reserve for employee severance indemnity

Movement in the reserve for employee severance indemnity is as follows:

	2011	*2010*
Balance, beginning of the period	105,425	76,003
Reversals and payments	(14,583)	(13,729)
Provision for the period	39,471	43,151
Balance, end of the period	130,313	105,425

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions (continued)

The computation of the liabilities is based upon the retirement pay ceiling announced by the government. The ceiling amounts applicable for each year of employment are TL 2,731.85 and TL 2,517.01 as of 31 December 2011 and 2010, respectively.

The Bank reassessed the accounting treatment applied for the reserve for employee severance indemnity in 2011 and restated the prior years' consolidated financial statements (see Note 22 for details).

The principal actuarial assumptions are as follows:

	2011(*)	*2010*
	%	%
Discount rates	4.25	4.66
Interest rates	9.52	10.00
Expected rates of salary increases	6.56	6.60
Inflation rates	5.06	5.10

(*) The above mentioned rates are effective rates, whereas the rates applied for the calculation deffer according to the employees' years in service.

Provision for non-cash loans

Movement in the provision for non-cash loans are as follows:

	2011	*2010*
Balance, beginning of the period	111,493	96,822
Provision for the period, net	16,550	14,671
Balance, end of the period	128,043	111,493

22 Equity

Share capital

The authorized nominal share capital of the Bank amounted to TL 4,200,000 thousands as of 31 December 2011. However, the shares acquired by one of the Bank's consolidated affiliates with a total nominal value of TL 1,359 thousands in the current period, are deducted from the share capital in the accompanying consolidated statement of financial position for presentation purposes.

Unrealised gains from changes in fair value of available-for-sale assets are detailed as follows:

	2011	*2010*
Balance at the beginning of the period	1,627,351	1,361,279
Net unrealised (losses)/gains from changes in fair value	(1,535,178)	573,498
Related deferred and current income taxes	286,680	(117,604)
Net gains transferred to the statement of comprehensive income on disposal	(358,486)	(238,206)
Related deferred and current income taxes	72,411	48,384
Balance at the end of the period	92,778	1,627,351

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (see Note 25.4 for the details).

(Currency: Thousands of Turkish Lira (TL))

22 Equity (continued)

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the functional currency of the Bank which is TL.

Legal reserves

As per the decisions made at the annual general assemblies of the Bank and its affiliates, 5% of the prior year's net income is allocated to legal reserves. The reserves include legal reserves amounting to TL 757,480 thousands in total which are generated by annual appropriations amounting to 5% of the statutory income of the Bank and its affiliates until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

At the annual general assembly of the Bank held on 31 March 2011, it was decided to distribute a dividend of TL 570,000 thousands to shareholders and to allocate TL 157,262 thousands and TL 36,000 thousands to the first and second legal reserves, respectively, from retained earnings.

Non-controlling interests

As of 31 December 2011, net non-controlling interests amount to TL 112,583 thousands (2010: TL 97,461 thousands). Non-controlling interests are detailed as follows:

	2011	*2010*
Capital	43,648	14,562
Retained earnings and other reserves	49,505	34,567
Non-controlling interests on a newly consolidated affiliate	-	27,457
Net income for the period	19,430	20,875
	112,583	97,461

Restatement of prior years' consolidated financial statements

The Bank reassessed the accounting treatment applied for the reserve for employee severance indemnity in 2011 and restated the prior years' consolidated financial statements. The effects of such corrections made to the consolidated financial statements as of 31 December 2010 are as follows:

	Total Assets	*Total Equity*	*Net Income*	*Reserve for Employee Severance Indemnity*	*Deferred Tax Asset*
As previously reported	135,792,006	16,915,664	3,448,894	51,880	268,140
Corrections	10,709	(42,836)	(17,269)	53,545	10,709
As restated	135,802,715	16,872,828	3,431,625	105,425	278,849

23 Fair value information

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation and best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgment is necessary required to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its

(Currency: Thousands of Turkish Lira (TL))

23 Fair value information (continued)

financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities are not materially different than their recorded values except for those of loans and advances to customers and investment securities. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, loans and advances from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair value of loans and advances to customers is TL 91,951,558 thousands (2010: TL 70,844,966 thousands), whereas the carrying amount is TL 92,653,780 thousands (2010: TL 71,092,418 thousands) in the accompanying consolidated statement of financial position as of 31 December 2011.

Fair value of investment securities is TL 36,174,665 thousands (2010: TL 40,901,829 thousands), whereas the carrying amount is TL 35,941,390 thousands (2010: TL 40,361,866 thousands) in the accompanying consolidated statement of financial position as of 31 December 2011.

The table below analyses financial instruments carried at fair value, by valuation method:

2011	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets at fair value through profit or loss	381,391	203	37,677	419,271
Accrued gains on derivatives	4,962	1,050,360	-	1,055,322
Debt and other instruments available-for-sale	25,339,162	2	5,815,696	31,154,860
Financial Assets at Fair Value	25,725,515	1,050,565	5,853,373	32,629,453
Accrued losses on derivatives	95	1,214,168	-	1,214,263
Financial Liabilities at Fair Value	95	1,214,168	-	1,214,263

2010	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets at fair value through profit or loss	761,260	11,844	1,739	774,843
Accrued gains on derivatives	1,491	472,164	-	473,655
Debt and other instruments available-for-sale	31,989,254	28,277	2,450,409	34,467,940
Financial Assets at Fair Value	32,752,005	512,285	2,452,148	35,716,438
Accrued losses on derivatives	23,040	514,028	1,027	538,095
Financial Liabilities at Fair Value	23,040	514,028	1,027	538,095

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

(Currency: Thousands of Turkish Lira (TL))

24 Commitments and contingencies

In the ordinary course of business, the Bank and its affiliates undertake various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit. Commitments and contingent liabilities comprise the following:

	2011	*2010*
Letters of guarantee	15,420,399	12,310,098
Letters of credit	6,231,224	3,934,455
Acceptance credits	515,550	164,105
Other guarantees and endorsements	70,236	56,746
	22,237,409	16,465,404

As of 31 December 2011, commitment for unpaid capital of affiliated companies amounts to TL 11,407 thousands (2010: TL 11,373 thousands).

As of 31 December 2011, commitments for unused credit limits for credit cards, overdrafts, cheques and loans to customers, and commitments for "credit linked notes" amount approximately to TL 27,495,547 thousands (2010: TL 23,496,957 thousands) in total.

As of 31 December 2011, commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 364,278 thousands (2010: TL 508,005 thousands) in total.

As of 31 December 2011, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 43,880,483 thousands (2010: TL 30,847,663 thousands), over 92% of which are due within a year.

The breakdown of outstanding commitments arising from derivatives is presented as follows:

	2011		*2010*	
	Purchases	***Sales***	***Purchases***	***Sales***
Forward agreements for customer dealing activities	1,990,012	1,350,635	890,209	965,465
Currency swap agreements for customer dealing activities	1,341,241	1,568,451	218,026	131,690
Options for customer dealing activities	2,678,396	1,327,300	2,242,725	410,591
Forward agreements for hedging purposes	891,316	727,222	923,070	152,921
Currency swap agreements for hedging purposes	5,296,854	12,232,786	5,582,038	8,491,964
Interest rate and credit default swap agreements	208,311	273,197	62,407	161,217
Interest rate, foreign currency and securities options	6,381,186	5,732,878	3,790,104	4,892,784
Forward rate agreements, foreign currency and interest rate futures	5,406	59,602	103,667	3,630
Forward agreements for gold trading	46,297	250,752	381,865	274,338
Spot foreign currency transactions	612,097	906,544	564,441	604,511
	19,451,116	24,429,367	14,758,552	16,089,111

The following tables summarize the contractual amounts of the forward, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the date of the statement of financial position. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognized in the statement of comprehensive income, except for contracts of cash flow hedges as stated above.

(Currency: Thousands of Turkish Lira (TL))

24 Commitments and contingencies (continued)

	Notional amount with remaining life of					
2011	***Up to 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***Over 1 year***	***Total***
Interest Rate Derivatives						
Interest rate options	-	-	-	-	*888,861*	*888,861*
Purchases	-	-	-	-	*888,861*	*888,861*
Sales	-	-	-	-	-	-
Interest rate swaps	51,711	127,736	78,439	19,559	204,063	481,508
Purchases	*30,105*	*34,183*	*38,420*	*8,449*	*97,154*	*208,311*
Sales	*21,606*	*93,553*	*40,019*	*11,110*	*106,909*	*273,197*
Interest rate futures	-	500	-	-	-	500
Purchases	-	*62*	-	-	-	*62*
Sales	-	*438*	-	-	-	*438*
Other Derivatives						
Securities, shares and index options	60,788	45,826	25,867	37,418	11,230	181,129
Purchases	*52,218*	*26,417*	*21,834*	*28,686*	*5,615*	*134,770*
Sales	*8,570*	*19,409*	*4,033*	*8,732*	*5,615*	*46,359*
Other forward contracts	229,716	56,251	10,612	470	-	297,049
Purchases	*31,830*	*13,512*	*955*	-	-	*46,297*
Sales	*197,886*	*42,739*	*9,657*	*470*	-	*250,752*
Currency Derivatives						
Spot exchange contracts	1,518,641	-	-	-	-	1,518,641
Purchases	*612,097*	-	-	-	-	*612,097*
Sales	*906,544*	-	-	-	-	*906,544*
Forward exchange contracts	2,451,311	752,281	591,031	904,599	259,963	4,959,185
Purchases	*1,333,883*	*521,522*	*486,379*	*362,207*	*177,337*	*2,881,328*
Sales	*1,117,428*	*230,759*	*104,652*	*542,392*	*82,626*	*2,077,857*
Currency/cross currency swaps	6,136,716	7,117,523	3,150,508	2,675,009	1,359,576	20,439,332
Purchases	*2,274,967*	*841,223*	*1,411,994*	*1,728,528*	*381,383*	*6,638,095*
Sales	*3,861,749*	*6,276,300*	*1,738,514*	*946,481*	*978,193*	*13,801,237*
Options	4,021,097	2,812,858	3,317,677	4,266,782	631,356	15,049,770
Purchases	*2,292,627*	*1,398,283*	*1,892,654*	*2,137,104*	*315,283*	*8,035,951*
Sales	*1,728,470*	*1,414,575*	*1,425,023*	*2,129,678*	*316,073*	*7,013,819*
Foreign currency futures	-	64,508	-	-	-	64,508
Purchases	-	*5,344*	-	-	-	*5,344*
Sales	-	*59,164*	-	-	-	*59,164*
Subtotal Purchases	6,627,727	2,840,546	3,852,236	4,264,974	1,865,633	19,451,116
Subtotal Sales	7,842,253	8,136,937	3,321,898	3,638,863	1,489,416	24,429,367
Total of Transactions	14,469,980	10,977,483	7,174,134	7,903,837	3,355,049	43,880,483

(Currency: Thousands of Turkish Lira (TL))

24 Commitments and contingencies (continued)

2010	Notional amount with remaining life of Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Interest Rate Derivatives						
Interest rate options	-	-	3,260,000	-	-	3,260,000
Purchases	-	-	*1,630,000*	-	-	*1,630,000*
Sales	-	-	*1,630,000*	-	-	*1,630,000*
Interest rate swaps	27,097	130,423	32,343	21,678	12,083	223,624
Purchases	*13,058*	*15,922*	*14,493*	*11,441*	*7,493*	*62,407*
Sales	*14,039*	*114,501*	*17,850*	*10,237*	*4,590*	*161,217*
Interest rate futures	-	91,200	-	-	-	91,200
Purchases	-	*91,200*	-	-	-	*91,200*
Sales	-	-	-	-	-	-
Other Derivatives						
Securities, shares and index options	5,856	477,842	145,516	77,831	12,198	719,243
Purchases	*3,309*	*276,755*	*72,758*	*37,590*	*6,099*	*396,511*
Sales	*2,547*	*201,087*	*72,758*	*40,241*	*6,099*	*322,732*
Other forward contracts	306,915	205,054	144,234	-	-	656,203
Purchases	*238,780*	*92,001*	*51,084*	-	-	*381,865*
Sales	*68,135*	*113,053*	*93,150*	-	-	*274,338*
Currency Derivatives						
Spot exchange contracts	1,168,952	-	-	-	-	1,168,952
Purchases	*564,441*	-	-	-	-	*564,441*
Sales	*604,511*	-	-	-	-	*604,511*
Forward exchange contracts	1,430,113	421,493	486,435	366,339	227,285	2,931,665
Purchases	*1,098,659*	*323,385*	*194,535*	*88,485*	*108,215*	*1,813,279*
Sales	*331,454*	*98,108*	*291,900*	*277,854*	*119,070*	*1,118,386*
Currency/cross currency swaps	6,036,172	2,220,721	2,550,065	2,570,385	1,046,375	14,423,718
Purchases	*2,264,356*	*415,042*	*1,112,647*	*1,704,019*	*304,000*	*5,800,064*
Sales	*3,771,816*	*1,805,679*	*1,437,418*	*866,366*	*742,375*	*8,623,654*
Options	2,471,188	2,334,114	1,553,900	918,925	78,834	7,356,961
Purchases	*1,430,708*	*1,243,605*	*795,038*	*464,232*	*72,735*	*4,006,318*
Sales	*1,040,480*	*1,090,509*	*758,862*	*454,693*	*6,099*	*3,350,643*
Foreign currency futures	547	15,550	-	-	-	16,097
Purchases	*547*	*11,920*	-	-	-	*12,467*
Sales	-	*3,630*	-	-	-	*3,630*
Subtotal Purchases	5,613,858	2,469,830	3,870,555	2,305,767	498,542	14,758,552
Subtotal Sales	5,832,982	3,426,567	4,301,938	1,649,391	878,233	16,089,111
Total of Transactions	11,446,840	5,896,397	8,172,493	3,955,158	1,376,775	30,847,663

25 Financial risk management disclosures

This section provides details of the Bank and its affiliates' exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank and its affiliates are exposed, are credit risk, liquidity risk, market risk and operational risk. Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) that affect the Bank's income or the value of its holdings of financial instruments.

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 25.2 contains risk management information related to the trading portfolio and section 25.3 deals with the non-trading portfolio.

Risk management framework

Developing risk management policies and strategies, and controlling these functions are among the responsibilities of the board of directors. Consequently, the risk management department, which carries out the risk management activities and works independently from executive activities, report directly to the board of directors.

The board of directors monitors the effectiveness of the risk management system through the audit committee, other related committees and senior management.

The senior management is responsible for applying risk policies, principles and application procedures approved by the board of directors, ensuring timely and reliable reporting to the board of directors about the important risks identified, assessing internal control, internal audit and risk reports prepared for departments and either eliminating risks, deficiencies or defects identified in these departments or taking the necessary precautions to prevent those and participating in determination of risk limits.

The Bank's risk management policy is established on its maintainable long term, value adding growth strategy. This policy is measuring risks with the methods in compliance with its activities and international standards, and optimal allocation of economic capital to business lines considering the risk-return balance.

The risk management system consists of all the mechanisms related to establishment of standards, information flow, determination of the compliance with standards, decision making and applications processes; which were put into practice by the board of directors in order to monitor, control and change when deemed necessary the risk-return structure and the future cash flows of the Bank and the quality and the level of related activities.

The risks are measured with the internationally accepted methodologies in compliance with local and international regulations, the Bank's structure, policy and procedures. The risks are assessed in a continuously developing manner. The Bank, through its training and management standards and procedures, aims to manage those risks effectively. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

In order to ensure the compliance with the rules altered pursuant to the Articles 23, 29 and 31 of the Turkish Banking Law No. 5411 and the Articles 36 and 43 of Regulation on Internal Systems within the Banks, dated 1 November 2006, the Bank periodically reviews the current written policies and implementation procedures regarding management of each risk encountered in its activities.

The Bank has purchased an integrated software system to place better risk management and Basel II applications in order to support and improve risk management activities. The Bank establishes the Basel II applications in line with the BRSA's roadmap.

25 Financial risk management disclosures (continued)

Audit Committee

The audit committee consists of two members of the board of directors who do not have any executive functions. The audit committee, which was established to assist the board of directors in its auditing and supervising activities, is responsible for:

- Monitoring the effectiveness and adequacy of the Bank's internal control, risk management and internal audit systems, operation of these systems and accounting and reporting systems in accordance with applicable regulations and the integrity of resulting information;
- Performing the preliminary studies required for the election of independent audit firms and regularly monitoring their activities;
- Ensuring that the internal audit functions of consolidated organizations are performed in a consolidated and coordinated manner.

Liquidity Risk Management Committee

- Determining the excess liquidity that the Bank holds in foreign currencies;
- Periodically monitoring the liquidity report and early-warning parameters;
- Determining the stress level of the Bank; monitoring internal and external factors that might affect the Bank's liquidity in case of a liquidity crisis;
- Ensuring that the action plan aligned with the Liquidity Crisis Plan is properly implemented;
- Determining measures required by the Bank's customer confidence, cost of funding and key liquidity increasing strategies, and ensuring internal communication and coordination with regard to the implementation of committee decisions.

Other Committees

Market, credit and operational sub-risk committees have been established in order to facilitate exchange of information and views with the relevant units of the Bank and to promote the use of risk management and internal audit systems within the Bank.

25.1 Derivative financial instruments

The Bank and its affiliates enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the dates of the statements of financial position are set out in Note 24. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below:

Swaps

Swaps are over-the-counter agreements to exchange future cash flows based upon agreed notional amounts. Most commonly used swaps are currency swaps. The Bank and its affiliates are subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in market rates relative to the contractual rates of the contract.

25 Financial risk management disclosures (continued)

Futures and forwards

Futures and forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardized exchange-traded contracts whereas forwards are individually traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are clearing houses. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell (put option) to the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange, bond, equity index, interest rate options, not only vanilla options but also exotic options. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

25.2 Trading activities

The Bank and its affiliates maintain active trading positions in non-derivative financial instruments. Most of the trading activities are customer driven. In anticipation of customer demand, an inventory of capital market instruments is carried and access to market liquidity is maintained by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt and equity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank and its affiliates to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximize net trading income. Trading activities are managed by type of risk involved and on the basis of the categories of trading instruments held.

Counterparty credit risk

The Bank and its affiliates' counterparty credit exposure at the date of the statement of financial position from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

25 Financial risk management disclosures (continued)

Market risk

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income.

The Bank and its affiliates manage its use of trading instruments in response to changing market conditions.

Market risks arising from trading transactions are measured by internal risk measurement model using value at risk (VaR) methodology. In the VaR calculations, trading and available-for-sale portfolios are taken into account. VaR is calculated by three different methods, namely historical simulation, Monte Carlo simulation and parametric method. The Bank takes the historical VaR results as the basis for the internal management of market risk and determination of limits. The calculations made according to other two methods are used for comparison and monitoring purposes. In the VaR calculation, one year historical market data set is used, and 99% confidence interval and one-day retention period are taken into account. In order to test the reliability of the VaR model, back tests are performed. Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations.

Internal limits are set as well as legal limits in order to restrict market risk; value at risk limits for trading portfolio, position limits set for trading desks, single transaction limits set for traders and stop-loss limits. Approval, update, monitoring, override and warning procedures of these limits are put into practice and changed with the approval of the board of directors.

The capital requirement for general market risk and specific risks is calculated using the standard method defined by the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" as set out by the BRSA and reported monthly.

25.3 Non-trading activities

Below is a discussion of the various risks the Bank and its affiliates are exposed to as a result of its non-trading activities and the approach taken to manage those risks.

Liquidity risk

Liquidity risk arises in the general funding of the Bank and its affiliates' activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank's approach to managing liquidity is to ensure, as for as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking the Bank's reputation. Funds are raised using a broad range of instruments including deposits, syndications, securitizations, bonds issuance, other funding sources and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Liquidity risk is continuously assessed through identifying and monitoring changes in funding required for meeting business goals and targets set in terms of the overall strategy. In addition, a portfolio of liquid assets is held as a part of the Bank's liquidity risk management strategy.

(Currency: Thousands of Turkish Lira (TL))

25 Financial risk management disclosures (continued)

Exposure to liquidity risk

The calculation method used to measure the banks compliance with the liquidity limit is set by the BRSA. Currently, this calculation is performed on a bank only basis. In November 2006, the BRSA issued a new communiqué on the measurement of liquidity adequacy of banks. The legislation requires the banks to meet minimum 80% liquidity ratio of foreign currency assets/liabilities and minimum 100% liquidity ratio of total assets/liabilities on a weekly and monthly basis effective from 1 June 2007. The Bank's liquidity ratios for the years 2011 and 2010 are as follows:

	2011			
	First Maturity Bracket (Weekly)		*Second Maturity Bracket (Monthly)*	
	FC	*FC + TL*	*FC*	*FC + TL*
Average (%)	135.89	148.57	94.32	109.14

	2010			
	First Maturity Bracket (Weekly)		*Second Maturity Bracket (Monthly)*	
	FC	*FC + TL*	*FC*	*FC + TL*
Average (%)	123.99	203.09	89.16	129.40

The Bank's banking affiliate in the Netherlands is subject to a similar liquidity measurement, however the Dutch Central Bank does not impose limits, rather monitors the banks' overall liquidity position to ensure there is no significant deterioration in the liquidity of the banks.

The Bank's banking affiliate in Russia is subject to three levels of liquidity requirement; instant liquidity of minimum 15%, current liquidity of minimum 50% and long-term liquidity of maximum 120%.

The Bank's banking affiliate in Romania calculates the liquidity ratio as a ratio of total effective liquidity in local currency equivalent to total necessary liquidity in local currency equivalent which should be >1.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	31 December 2011						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Undistributed*	*Total*
MONETARY ASSETS							
Turkish Lira							
Cash and balances with central banks	1,589,478	-	-	-	-	-	1,589,478
Financial assets at fair value through profit or loss	58,369	32,988	52,100	139,037	8,488	-	290,982
Loans and advances to banks	373,356	56,350	305,180	1,805,433	-	-	2,540,319
Loans and advances to customers	12,565,797	5,512,141	7,004,294	18,515,422	5,072,307	(420,998)	48,248,964
Accrued gains on derivatives	101,194	147,271	197,182	46,030	126,359	-	618,036
Other assets	461,334	2,412,328	-	2,978	-	498,619	3,375,259
Investment securities	193,112	2,195,202	775,981	25,212,463	2,078,800	-	30,455,558
Deferred tax asset	-	-	-	-	-	200,663	200,663
Total Turkish Lira monetary assets	15,342,639	10,356,280	8,334,738	45,721,363	7,285,955	278,284	87,319,259
Foreign Currency							
Cash and balances with central banks	1,840,342	-	-	-	-	-	1,840,342
Financial assets at fair value through profit or loss	83,278	-	2,447	26,588	15,976	-	128,289
Loans and advances to banks	7,659,634	531,310	1,282,337	327,283	2,891,831	-	12,692,395
Loans and advances to customers	2,446,714	4,545,309	7,236,533	14,313,012	15,720,810	142,438	44,404,816
Accrued gains on derivatives	61,100	110,758	91,146	31,862	142,420	-	437,286
Other assets	7,259,830	1,594	608	165,925	573,120	28,141	8,029,218
Investment securities	1,708	-	141,245	2,480,332	2,862,546	-	5,485,832
Deferred tax asset	-	-	-	-	-	33,089	33,089
Total foreign currency monetary assets	19,352,605	5,188,971	8,754,316	17,345,002	22,206,703	203,668	73,051,267
Total Monetary Assets	34,695,244	15,545,251	17,089,053	63,066,365	29,492,658	481,953	160,370,526
MONETARY LIABILITIES							
Turkish Lira							
Deposits	39,928,892	6,561,056	1,153,350	4,371	-	-	47,647,670
Obligations under repurchase agreements	8,340,331	299	-	-	-	-	8,340,630
Loans and advances from banks	1,342,748	161,805	344,868	3,064,506	701,210	-	5,615,138
Bonds payable	767,193	-	1,371,442	-	-	-	2,138,635
Subordinated liabilities	-	-	-	-	-	-	-
Accrued losses on derivatives	111,390	87,881	374,408	268,945	49,766	-	892,391
Other liabilities, accrued expenses and provisions	3,628,285	2,635	2,780,178	44,352	-	969,595	7,425,044
Total Turkish Lira monetary liabilities	54,118,839	6,813,677	6,024,246	3,382,175	750,976	969,595	72,059,508
Foreign Currency							
Deposits	33,404,554	5,549,404	4,951,675	1,515,089	167,413	-	45,588,134
Obligations under repurchase agreements	988,014	1,214,846	-	1,194,667	-	-	3,397,527
Loans and advances from banks	798,821	1,182,034	8,657,443	5,205,886	2,866,228	-	18,710,411
Bonds payable	-	-	-	562,616	1,040,805	-	1,603,421
Subordinated liabilities	264	2,856	4,692	16,408	1,097,870	-	1,122,090
Accrued losses on derivatives	47,614	19,171	97,753	67,741	89,593	-	321,872
Other liabilities, accrued expenses and provisions	967,651	141,669	47,619	3,046	335	25,673	1,185,993
Total foreign currency monetary liabilities	36,206,917	8,109,981	13,759,181	8,565,452	5,262,245	25,673	71,929,448
Total Monetary Liabilities	90,325,755	14,923,658	19,783,428	11,947,627	6,013,221	995,268	143,988,956

(Currency: Thousands of Turkish Lira (TL))

	31 December 2010						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Undistributed*	*Total*
MONETARY ASSETS							
Turkish Lira							
Cash and balances with central banks	3,163,504	-	-	-	-	-	3,163,504
Financial assets at fair value through profit or loss	180,849	52,344	94,771	216,680	133,417	-	678,061
Loans and advances to banks	915,778	72,841	513,671	1,799,823	-	-	3,302,113
Loans and advances to customers	9,734,797	4,971,829	3,600,414	14,049,669	4,155,482	(25,988)	36,486,203
Accrued gains on derivatives	89,348	45,184	134,098	51,841	20,710	-	341,181
Other assets	166,690	1,891,760	-	-	2,919	365,690	2,427,059
Investment securities	2,359,147	1,876,740	5,227,696	20,498,191	4,557,367	-	34,519,141
Deferred tax asset	-	-	-	-	-	262,866	262,866
Total Turkish Lira monetary assets	16,610,113	8,910,698	9,570,650	36,616,204	8,869,895	602,568	81,180,128
Foreign Currency							
Cash and balances with central banks	1,909,554	-	-	-	-	-	1,909,554
Financial assets at fair value through profit or loss	79,744	-	7,616	1,731	7,691	-	96,782
Loans and advances to banks	1,944,418	393,169	1,421,562	313,889	2,435,250	-	6,508,288
Loans and advances to customers	1,315,149	2,700,173	7,306,632	11,865,906	11,297,264	121,091	34,606,215
Accrued gains on derivatives	-	14,477	45,053	43,564	29,380	-	132,474
Other assets	3,757,659	3,844	105	4,301	2,606	41,428	3,809,943
Investment securities	71,158	13,683	827,024	1,747,471	3,183,389	-	5,842,725
Deferred tax asset	-	-	-	-	-	15,983	15,983
Total foreign currency monetary assets	9,077,682	3,125,346	9,607,992	13,976,862	16,955,580	178,502	52,921,964
Total Monetary Assets	25,687,795	12,036,044	19,178,642	50,593,066	25,825,475	781,070	134,102,092
MONETARY LIABILITIES							
Turkish Lira							
Deposits	39,174,678	4,335,544	572,414	6,258	-	-	44,088,894
Obligations under repurchase agreements	10,180,588	156,651	-	-	-	-	10,337,239
Loans and advances from banks	1,339,467	224,808	1,108,897	3,196,316	766,555	-	6,636,043
Bonds payable	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-	-
Accrued losses on derivatives	56,651	36,013	131,209	31,158	107,150	-	362,181
Other liabilities, accrued expenses and provisions	3,046,256	2,467	2,201,873	172,156	6,585	858,580	6,287,918
Total Turkish Lira monetary liabilities	53,797,640	4,755,483	4,014,393	3,405,888	880,290	858,580	67,712,275
Foreign Currency							
Deposits	25,701,372	5,017,190	3,027,114	1,097,867	171,097	-	35,014,640
Obligations under repurchase agreements	465,358	672,318	260,427	-	-	-	1,398,103
Loans and advances from banks	654,783	409,072	5,311,117	4,143,687	2,809,702	-	13,328,361
Bonds payable	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	8,311	969,743	-	978,054
Accrued losses on derivatives	38,889	13,447	41,843	56,636	25,099	-	175,914
Other liabilities, accrued expenses and provisions	185,397	66,268	46,755	91	21,672	2,357	322,540
Total foreign currency monetary liabilities	27,045,799	6,178,295	8,687,256	5,306,592	3,997,313	2,357	51,217,612
Total Monetary Liabilities	80,843,439	10,933,778	12,701,649	8,712,480	4,877,603	860,937	118,929,887

(Currency: Thousands of Turkish Lira (TL))

25 Financial risk management disclosures (continued)

Contractual maturity analysis of liabilities according to remaining maturities

The remaining maturities table of the contractual liabilities includes the undiscounted future cash outflows for the principal amounts of the Bank and its financial affliates' financial liabilities as per their earliest likely contractual maturities.

	2011							
	Carrying Value	Nominal Principal Outflows	Demand	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years
Deposits	93,235,804	92,794,344	20,329,653	52,758,129	12,020,957	6,020,817	1,497,668	167,120
Obligations under repurchase agreements	11,738,157	11,713,248	-	9,311,695	1,211,683	-	1,189,870	-
Loans and advances from banks	24,325,549	24,031,519	-	2,001,104	1,239,850	8,953,148	8,269,981	3,567,436
Bonds payable	3,742,056	3,603,984	-	766,437	-	1,371,442	559,500	906,605
Subordinated liabilities	1,122,090	1,093,266	-	253	2,747	4,557	16,041	1,069,668
Total Monetary Liabilities	134,163,656	133,236,361	20,329,653	64,837,618	14,475,237	16,349,964	11,533,060	5,710,829

	2010							
	Carrying Value	Nominal Principal Outflows	Demand	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years
Deposits	79,103,534	78,780,771	15,240,399	49,413,615	9,309,706	3,555,753	1,090,569	170,729
Obligations under repurchase agreements	11,735,342	11,709,919	-	10,627,152	822,705	260,062	-	-
Loans and advances from banks	19,964,404	19,713,853	-	1,988,654	629,974	6,399,804	7,198,540	3,496,881
Subordinated liabilities	978,054	954,076	-	-	-	-	8,030	946,046
Total Monetary Liabilities	111,781,334	111,158,619	15,240,399	62,029,421	10,762,385	10,215,619	8,297,139	4,613,656

Market risk

Interest rate risk: The Bank and its affiliates' operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank and its affiliates are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the deposit rate and libor and different types of interest. Treasury activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, as common in current economic environment, the consolidated financial statements are liability sensitive because its interest-earning assets have a longer duration and reprice slightly less frequently than interest-bearing liabilities. This means that in rising interest rate environments, margins earned will narrow as liabilities reprice. However, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

25 Financial risk management disclosures (continued)

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. This is done in accordance with the guidelines established by the Bank's asset-liability management committee.

Some assets have no defined maturities or interest rate sensitivities and are not readily matched with specific liabilities. Those assets are funded through liability pools based on the assets' estimated maturities and repricing characteristics.

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of interest rate sensivity of monetary assets and liabilities of the consolidated entities into relevant maturity groupings:

	31 December 2011						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	1,405,601	-	-	-	-	2,024,219	3,429,820
Financial assets at fair value through profit or loss	98,638	14,693	53,510	106,149	23,363	122,918	419,271
Loans and advances to banks	7,903,452	1,972,303	2,161,962	526,256	-	2,668,741	15,232,714
Loans and advances to customers	17,881,761	12,949,259	16,526,752	27,707,580	16,523,181	1,065,247	92,653,780
Other assets	508,095	1,000	2,498	161,144	553,851	11,233,211	12,459,799
Investment securities	13,139,258	5,380,444	2,690,137	9,735,846	2,423,625	2,572,080	35,941,390
Deferred tax asset	-	-	-	-	-	233,752	233,752
Total Monetary Assets	40,936,805	20,317,699	21,434,859	38,236,975	19,524,020	19,920,168	160,370,526
MONETARY LIABILITIES							
Deposits	54,794,936	12,057,944	6,605,528	1,988,842	139,209	17,649,345	93,235,804
Obligations under repurchase agreements	9,311,696	1,211,683	-	1,189,870	-	24,908	11,738,157
Loans and advances from banks	11,458,672	1,770,579	3,464,085	3,495,556	3,842,625	294,032	24,325,549
Bonds payable	1,325,937	-	1,371,442	-	906,605	138,072	3,742,056
Subordinated liabilities	11,466	2,168	980,885	26,099	72,648	28,824	1,122,090
Other liabilities, accrued expenses and provisions	-	-	-	-	-	9,825,300	9,825,300
Total Monetary Liabilities	76,902,707	15,042,374	12,421,940	6,700,367	4,961,087	27,960,481	143,988,956

	31 December 2010						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	2,658,719	-	-	-	-	2,414,339	5,073,058
Financial assets at fair value through profit or loss	270,704	143,616	89,544	118,824	17,430	134,725	774,843
Loans and advances to banks	3,124,531	2,923,334	1,417,483	948,417	-	1,396,636	9,810,401
Loans and advances to customers	16,531,187	10,222,350	13,101,355	20,093,501	10,179,444	964,581	71,092,418
Other assets	427,333	11	-	1,495	5,525	6,276,293	6,710,657
Investment securities	14,678,518	5,603,354	8,363,054	5,501,911	2,396,537	3,818,492	40,361,866
Deferred tax asset	-	-	-	-	-	278,849	278,849
Total Monetary Assets	37,690,992	18,892,665	22,971,436	26,664,148	12,598,936	15,283,915	134,102,092
MONETARY LIABILITIES							
Deposits	51,555,969	9,267,811	4,352,444	920,890	141,906	12,864,514	79,103,534
Obligations under repurchase agreements	10,616,385	833,473	260,062	-	-	25,422	11,735,342
Loans and advances from banks	9,043,050	1,024,890	2,530,438	3,922,573	3,192,903	250,550	19,964,404
Bonds payable	-	-	-	-	-	-	-
Subordinated liabilities	456	62,823	881,490	4,517	4,790	23,978	978,054
Other liabilities, accrued expenses and provisions	-	-	-	-	-	7,148,553	7,148,553
Total Monetary Liabilities	71,215,860	11,188,997	8,024,434	4,847,980	3,339,599	20,313,017	118,929,887

(Currency: Thousands of Turkish Lira (TL))

25 Financial risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for the years 2011 and 2010:

	2011			
	US$ %	*EUR* %	*TL* %	*Other Currencies* %
Assets				
Loans and advances to banks	1-4	1-6	6-13	1-6
Debt and other fixed or floating income instruments	2-11	3-8	6-21	7-11
Loans and advances to customers	1-19	2-14	9-26	1-53
Liabilities				
Deposits:				
- Foreign currency deposits	1-7	1-8	-	1-8
- Bank deposits	1-4	1-5	5-10	1-7
- Saving deposits	-	-	6-11	-
- Commercial deposits	-	-	6-11	-
- Public and other deposits	-	-	10	-
Obligations under repurchase agreements	1-3	1-2	5-11	6
Loans and advances from banks	2-5	1-4	9-14	-
Bonds payable	6	-	8	-

	2010			
	US$ %	*EUR* %	*TL* %	*Other Currencies* %
Assets				
Loans and advances to banks	1-5	1-5	6-10	1-9
Debt and other fixed or floating income instruments	6	3	11	-
Loans and advances to customers	1-11	1-14	6-24	1-36
Liabilities				
Deposits:				
- Foreign currency deposits	1-7	1-8	-	1-12
- Bank deposits	1-5	1-5	4-7	1-7
- Saving deposits	-	-	5-9	-
- Commercial deposits	-	-	5-9	-
- Public and other deposits	-	-	9	-
Obligations under repurchase agreements	1-2	1	7	4
Loans and advances from banks	1-3	1-4	7-11	3-10

(Currency: Thousands of Turkish Lira (TL))

25 Financial risk management disclosures (continued)

The interest rate risk of the statement of financial position is monitored with static duration, gap and sensitivity analysis.

As a part of the duration-gap analysis, the bank-only sensitivity analysis for a +/-1 point change in the present values of interest sensitive balance sheet items excluding trading and available-for-sale portfolios and for a +/-5% point change in the foreign currency exchange rates used for foreign currency position and derivative transactions is provided in the table below:

Sensitivity analysis for TL interest rates:

	2011	*2010*
Stress applied	*Change in portfolio value*	*Change in portfolio value*
(+) %1	(130,364)	(124,366)
(-) %1	134,483	127,735

Sensitivity analysis for FC interest rates:

Stress applied	*Change in portfolio value*	*Change in portfolio value*
(+) %1	(307,477)	(230,871)
(-) %1	339,773	255,018

Sensitivity analysis for FX rates:

Stress applied	*Change in foreign exchange result*	*Change in foreign exchange result*
(+) %5	(6,788)	(10,037)
(-) %5	19,379	31,013

There are internal limits set to manage interest rate risk for non-trading portfolios approved by the board of directors. The structural interest rate risk limit is calculated based on the present value change in interest rate sensitive assets and liabilities, except trading portfolio, resulting from stress test applied as predefined point increase for interest rates. The single transaction limits are defined for asset-liability management dealers.

The consolidated value at market risks as of 31 December 2011 and 2010 calculated as per the statutory consolidated financial statements prepared for the BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no.26333 dated 1 November 2006, are as follows:

	2011			*2010*		
	Average	*Highest*	*Lowest*	*Average*	*Highest*	*Lowest*
Interest rates risk	3,904,784	4,296,087	2,969,338	3,688,428	4,045,988	3,232,925
Common share risk	168,368	290,025	96,363	221,145	247,613	194,213
Currency risk	1,313,403	2,364,675	545,312	683,013	891,438	470,113
Option risk	1,071,120	1,868,888	420,334	382,304	494,375	227,063
Commodity risk	17,875	58,700	-	-	-	-
Total value at risk	6,475,550	8,878,375	4,031,347	4,974,890	5,679,414	4,124,314

Currency risk

The Bank and its affiliates are exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

(Currency: Thousands of Turkish Lira (TL))

25 Financial risk management disclosures (continued)

The Bank and its affiliates' main foreign operations are in the Netherlands and Russia. The measurement currencies of its operations are Euro and US Dollars. As the currency in which the Bank presents its consolidated financial statements is TL, the consolidated financial statements are affected by currency exchange rate fluctuations against TL.

The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. Currency swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved.

The Bank and its affiliates' transactional exposures give rise to foreign currency gains and losses that are recognized in the statement of comprehensive income. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved. These exposures are as follows:

	2011			
	US$	*EUR*	*Other Currencies*	*Total*
Assets				
Cash and balances with central banks	170,511	1,603,895	65,936	1,840,342
Financial assets at fair value through profit or loss	40,412	7,618	80,259	128,289
Loans and advances to banks	7,672,035	3,773,488	1,246,872	12,692,395
Loans and advances to customers	28,484,631	14,419,709	1,500,476	44,404,816
Other assets	391,732	6,654,438	1,420,334	8,466,504
Investment securities	3,690,431	1,600,621	194,780	5,485,832
Investments in equity participations	-	757	2	759
Tangible assets	80	53,805	102,983	156,868
Deferred tax asset	-	9,043	24,046	33,089
Total Assets	*40,449,832*	*28,123,374*	*4,635,688*	*73,208,894*
Liabilities				
Deposits	23,492,133	17,564,182	4,531,819	45,588,134
Obligations under repurchase agreements	3,009,034	226,233	162,260	3,397,527
Loans and advances from banks	10,678,456	8,031,408	547	18,710,411
Current and deferred tax liability	11	-	1,333	1,344
Bonds payable	1,603,421	-	-	1,603,421
Subordinated liabilities	958,643	163,447	-	1,122,090
Other liabilities, accrued expenses and provisions	449,701	966,133	90,687	1,506,521
Total Liabilities	*40,191,399*	*26,951,403*	*4,786,646*	*71,929,448*
Net Statement of Financial Position	*258,433*	*1,171,971*	*(150,958)*	*1,279,446*
Net Off Balance Sheet Position	*(550,664)*	*(1,739,955)*	*701,885*	*(1,588,734)*
Net Long/(Short) Position	*(292,231)*	*(567,984)*	*550,927*	*(309,288)*

(Currency: Thousands of Turkish Lira (TL))

25 Financial risk management disclosures (continued)

	2010			
	US$	*EUR*	*Other Currencies*	*Total*
Total Assets	33,247,482	17,957,407	1,851,029	53,055,918
Total Liabilities	29,209,033	20,186,799	1,821,780	51,217,612
Net Statement of Financial Position	4,038,449	(2,229,392)	29,249	1,838,306
Net Off Balance Sheet Position	(4,673,908)	1,808,142	373,701	(2,492,065)
Net Long/(Short) Position	(635,459)	(421,250)	402,950	(653,759)

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies.

The short positions in the statement of financial position shown in the table above are hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

Credit risk

The Bank and its affiliates are subject to credit risk through the trading, lending, hedging and investing activities and the guarantees issued for their customers as well as in cases where they act as intermediaries on behalf of customers or other third parties.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process.

The Bank and its affiliates' primary exposures to credit risk arise through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of these assets on the statement of financial position. The Bank developed a statistical-based internal risk rating model for its credit portfolio of corporate/commercial/medium-size companies. This internal risk rating model has been in use for customer credibility assessment since 2003 and is currently being reviewed and updated. Risk rating has become a requirement for loan applications, and ratings are used both to determine credit authorization limits and in credit assessment process.

The concentration table of the cash and non-cash loans for the Bank according to the risk rating system for its customers defined as corporate, commercial and medium-size enterprises is presented below.

	2011	*2010*
	%	%
Above Average	46	50
Average	49	44
Below Average	5	6
	100	100

Concentrations based on industries and groups are also monitored. Application scorecards are used during loan granting processs for retail and credit card portfolios. Behavioural scorecards have also been developed for these portfolios.

(Currency: Thousands of Turkish Lira (TL))

25 Financial risk management disclosures (continued)

The Bank and its affiliates are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statement of financial position. In addition, the Bank and its affiliates are exposed to off balance sheet credit risk through guarantees issued (Note 24).

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Exposure to credit risk

	Loans and advances to customers	
	2011	***2010***
Individually impaired	2,209,227	2,553,057
Allowance for impairment	(2,092,225)	(2,174,492)
Carrying amount	117,002	378,565
Collectively impaired	-	-
Allowance for impairment	(395,561)	(283,461)
Carrying amount	(395,561)	(283,461)
Past due but not impaired	909,183	1,219,358
Carrying amount	909,183	1,219,358
Neither past due nor impaired	89,828,624	69,043,944
Loans with renegotiated terms	2,194,532	734,012
Carrying amount	92,023,156	69,777,956
Total carrying amount	92,653,780	71,092,418

Impaired loans

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement due to lack of assets, high debtness ratio, insufficient working capital and/or equity of the customer.

Sectoral and geographical concentration of impaired loans

The Bank and its affiliates monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans and lease receivables is shown below:

(Currency: Thousands of Turkish Lira (TL))

25 Financial risk management disclosures (continued)

	2011	*2010*
Consumer loans	1,073,266	1,271,408
Textile	174,380	197,457
Metal and metal products	132,712	109,894
Service sector	101,554	80,431
Transportation vehicles and sub-industries	93,806	158,250
Construction	88,651	116,528
Agriculture and stockbreeding	77,577	102,111
Food	74,642	81,781
Energy	39,086	13,214
Transportation and logistics	37,554	79,242
Paper and paper products	31,083	31,930
Durable consumption	29,129	28,637
Chemistry and chemical products	15,243	63,181
Tourism	26,411	30,917
Others	214,133	188,076
Total non-performing loans, factoring and lease receivables	2,209,227	2,553,057

	2011	*2010*
Turkey	1,790,926	2,227,246
Romania	297,640	229,952
Ukraine	69,728	49,739
Russia	25,044	14,099
Brasil	8,924	8,089
Switzerland	7,057	19,633
Netherlands	6,739	2,552
Others	3,169	1,747
Total non-performing loans, factoring and lease receivables	2,209,227	2,553,057

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available and the customer's current activities, assets and financial position.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a portfolio-basis loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off a receivable balance (and any related allowances for impairment losses) when it is determined that the receivable is uncollectible based on the evidence of insolvency issued by the Court. In cases where any possible collections are negligible comparing to the prospective expenses and costs, such receivables are written off by the decision of the board of directors.

(Currency: Thousands of Turkish Lira (TL))

25 Financial risk management disclosures (continued)

Collateral policy

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Bank and its affiliates currently hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2011 and 2010.

Approximately 74% of the outstanding performing cash loans is collateralized. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank and its affiliates' obligations. The extent of collateral held for performing guarantees and letters of credit is approximately 83%. The breakdown of performing cash and non-cash loans and advances to customers by type of collateral is as follows:

	2011	*2010*
Cash loans		
Secured loans:	67,940,352	49,767,041
Secured by cash collateral	1,635,289	1,292,609
Secured by mortgages	20,776,236	17,500,571
Secured by government institutions or government securities	3,491,898	2,546,669
Guarantees issued by financial institutions	414,920	221,095
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	41,622,009	28,206,097
Unsecured loans	23,716,104	20,411,382
Total performing loans, financial lease receivables and factoring receivables	91,656,456	70,178,423
Non-cash loans		
Secured loans:	18,562,530	13,677,868
Secured by cash collateral	720,394	914,207
Secured by mortgages	1,628,760	1,764,647
Secured by government institutions or government securities	9,099	-
Guarantees issued by financial institutions	70,778	33,942
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	16,133,499	10,965,072
Unsecured loans	3,674,879	2,787,536
Total non-cash loans	22,237,409	16,465,404

The fair value of collateral held against non-performing loans and receivables, is presented below, as per the collateral type, up to the outstanding total amount of exposures:

	2011	*2010*
Mortgages	369,277	582,745
Promissory notes and sureties	279,247	590,762
Pledge assets	170,967	343,787
Cash collateral	1,040	1,348
Unsecured	1,388,696	1,034,415
	2,209,227	2,553,057

25 Financial risk management disclosures (continued)

The amounts reflected in the tables above represent the maximum accounting loss that would be recognized at the date of the statement of financial position if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for uncollectibility.

Operational risks

Operational risk expresses the probability of loss that may arise from the overlook of faults and inconsistency with the established rules due to the deficiencies in the Bank and its affiliates' internal controls, manner of the management and the personnel that are not in coherence with time and conditions, deficiencies in the bank management, faults and problems in information technology systems and disasters such as earthquake, fire, flood or terror attacks.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

Currently, the value at operational risk is calculated according to the basic indicator approach as per the Article 14 of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" as pronounced by the BRSA.

The annual gross income is defined as net interest income plus net non-interest income reduced by realised gains/losses from the sale of securities available-for-sale and held-to-maturity, non-recurring gains and income derived from insurance claims. The result is added to risk weighted assets in the capital adequacy calculation.

Capital management – regulatory capital

The BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations are directly supervised by their local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks. The Bank and its affiliates' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.

- Tier 2 capital, which includes qualifying subordinated liabilities, general impairment allowances and the element of the fair value reserve relating to unrealised gain/(loss) on assets classified as available-for-sale.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a

(Curreney: Thousands of Turkish Lira (TL))

25 Financial risk management disclosures (continued)

balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the period.

The Bank's and its affiliates' regulatory capital position on a consolidated basis as of 31 December 2011 and 2010 was as follows:

	2011	*2010*
Tier 1 capital	18,022,835	14,980,508
Tier 2 capital	2,167,255	2,354,165
Deductions from capital	(80,068)	(106,274)
Total regulatory capital	20,110,022	17,228,399
Value at credit, market and operational risks	127,612,447	95,356,583
Capital ratios (%)		
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	15.76	18.07
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	14.12	15.71

25.4 Hedging

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its affiliates from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its affiliates enter into transactions to ensure that it is economically hedged in accordance with risk management policies. In the accompanying consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

The Bank entered into various interest rate swap transactions in order to hedge its certain cash flow and fair value exposures on floating/fixed rate assets and liabilities, through converting its floating/fixed rate income/payments into fixed/floating rate income/payments. The following table includes certain characteristics of the swap transactions outstanding as of 31 December 2011:

Notional amount	*Fixed payer rate (%)*	*Floating payer rate (%)*	*Fixed payment frequency*	*Maturity*
US$ 27.5 millions	3.35	3-month libor + 0.40	Quarterly	2012
US$ 150 millions	6.25	6-month libor + 2.61	Semi-annual	2021
US$ 200 millions	6.25	6-month libor + 2.61	Semi-annual	2021
US$ 150 millions	6.25	6-month libor + 2.61	Semi-annual	2021

(Currency: Thousands of Turkish Lira (TL))

25 Financial risk management disclosures (continued)

The Bank has applied fair value hedge accounting for the fixed rate eurobonds issued in 2011 with a total face value of US$ 500 millions, maturity of 10 years and maturity date of 20 April 2021 which were priced at 6.375% originally and had a coupon rate of 6.25%, by designating interest rate swaps with the same face value amount and conditions. Accordingly, for the year ended 31 December 2011, TL 129,335 thousands of income from these interest rate swaps held for fair value hedges was recognized in net trading gains and TL 123,081 thousands of expense from eurobonds subject to fair value hedges was netted with this income in net trading gains in the accompanying consolidated financial statements.

As per the calculations as of 31 December 2011, the hedge accounting was assessed as effective for cash flow and fair value hedges.

26 Affiliates, associates and special purpose entities

The table below sets out the consolidated affiliates, associates and special purpose entities of the Bank and its shareholding interests in these entities:

Consolidated entities	*2011*	*2010*
Garanti Bank International NV	100.00	100.00
Garanti Holding BV (formerly, named D Netherlands Holding BV)	100.00	100.00
Garanti Bank Moscow	100.00	100.00
Garanti Portföy Yönetimi AŞ	100.00	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00	100.00
Garanti Bilişim Teknolojisi ve Tic. AŞ	100.00	100.00
Garanti Filo Yönetimi Hizmetleri AŞ	100.00	100.00
G Netherlands BV (formerly, named Doğuş GE BV)	100.00	100.00
Garanti Bank SA	100.00	100.00
Motoractive IFN SA	100.00	100.00
Ralfi IFN SA	100.00	100.00
Domenia Credit IFN SA	100.00	100.00
Leasemart Holding BV(*)	-	100.00
Garanti Finansal Kiralama AŞ(**)	99.96	98.94
Garanti Emeklilik ve Hayat AŞ	84.91	84.91
Garanti Faktoring Hizmetleri AŞ	81.84	81.84
Garanti Yatırım Ortaklığı AŞ	0.21	0.21
Garanti Diversified Payment Rights Finance Company *(a)*	-	-
T2 Capital Finance Company *(a)*	-	-

(a) Garanti Diversified Payment Rights Finance Company and T2 Capital Finance Company are the special purpose entities established for the Bank's securitization and subordinated debt transactions, respectively, that are explained in Note 17. The Bank or any of its affiliates does not have any shareholding interests in these companies.

(*) Leasemart Holding BV, a consolidated affiliate was merged under Garanti Holding BV early in August 2011.

(**) The Bank purchased 5.86% of the paid-in capital of Garanti Finansal Kiralama AŞ at a total face value of TL 4,278 thousands from Garanti Faktoring Hizmetleri AŞ for a consideration of TL 34,574 thousands on 5 December 2011.

(Currency: Thousands of Turkish Lira (TL))

27 Net fee and commission income

	2011	2010
Fee and commission income:		
Credit cards fees	1,131,262	991,941
Retail banking	609,651	558,904
SME banking	345,189	302,348
Commercial banking	219,011	198,068
Corporate banking	30,873	30,066
Others	198,180	145,711
Total fee and commission income	2,534,166	2,227,038
Fee and commission expense:		
Credit cards fees	318,329	258,257
Retail banking	13,406	5,681
SME banking	1,849	1,021
Commercial banking	523	589
Corporate banking	488	111
Others	68,968	50,547
Total fee and commission expense	403,563	316,206
Net fee and commission ineome	2,130,603	1,910,832

28 Trading gains/(losses)

Gains and losses from derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading gains/(losses) including the effective portion of fair value hedges, whereas, gains and losses arising from changes in the effective portion of the fair value of cash flow hedges are reflected as a separate component of equity. Net gains/(losses) from trading of financial assets is detailed in the table below:

	2011	2010
Derivative transactions	350,936	63,104
Fixed/floating securities	326,257	253,518
Trading gains, net	677,193	316,622

29 Other operating expenses

	2011	2010
Advertising expenses	110,826	131,308
Computer usage expenses	98,522	85,511
Saving deposits insurance fund	85,028	71,298
Utility expenses	63,586	73,378
Claim loss from insurance business	45,517	29,842
Repair and maintenance expenses	39,308	38,105
Research and development expenses	28,969	33,636
Insurance related expenses	21,818	20,048
Stationary expenses	20,654	18,861
Others	454,195	361,844
	968,423	863,831

30 Use of estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see Note 25).

Key sources of estimation uncertainty

Allowances for credit losses
Assets accounted for at amortized cost are evaluated for impairment on a basis described in Note 7.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgement about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

Portfolio-basis assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of portfolio-basis assessed allowances relates to country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the specific allowances depends on the estimated future cash flows for specific counterparties and the assumptions and inputs to the impairment used in determining collective allowances.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in significant accounting policies section and Note 23. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

Financial asset and liability classification

The Bank and its affiliates' accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy *(h) Financial instruments*.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy *(h) Financial instruments*.

(Currency: Thousands of Turkish Lira (TL))

30 Use of estimates and judgements (continued)

- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy *(h) Financial instruments*.

Securitizations

In applying its policies on securitised financial assets, the Bank has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Bank over the other entity:

- When the Bank, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Bank's consolidated statement of financial position.
- When the Bank has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Bank's consolidated statement of financial position.
- When the Bank transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets have been derecognised from the Bank's consolidated statement of financial position.

Details of the Bank's securitization activities are given in Note 17.

31 Significant event

At the Bank's annual general assembly dated 31 March 2011, it was decided to distribute the net income of the year 2010 as follows:

2010 INCOME DISTRIBUTION TABLE	
2010 Net income as per BRSA reporting	**3,145,233**
A – I. Legal reserve (Turkish Commercial Code 466/1) at 5%	(157,262)
Undistributable funds	(20,996)
B – First dividend at 5% of the paid-in capital	(210,000)
C – Extraordinary reserves at 5% after above deductions	(137,849)
D – Second dividend to the shareholders	(360,000)
E – Extraordinary reserves	(2,223,126)
F – II.Legal reserve (Turkish Commercial Code 466/2)	(36,000)

Dividend payments to the Bank's shareholders started on 11 April 2011.

32 Subsequent events

- The decision to renew the agreement for the Turkish Airlines Frequent Flyer Cooperation Program between the Bank and Türk Hava Yolları AO expiring on 31 March 2012, has been made for a five-year period and accordingly, the negotiations between two parties have started.

32 Subsequent events (continued)

- At the meeting of the Bank's board of directors held on 14 July 2011, it has been resolved to issue TL denominated bank bills up to an amount of TL 1,000,000 thousands in various maturities in the domestic market. Accordingly, the related approvals were obtained, and the issuance of TL denominated bank bills amounting TL 650,000 thousands with 176-days maturity and annual compound interest rate of 10.98%, and TL 350,000 thousands with 92-days maturity and annual compound interest rate of 10.96% was started on 23 January 2012 and completed on 26 January 2012.

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