

## IMPORTANT NOTICE

**OFFERINGS UNDER THE PROGRAMME ARE AVAILABLE ONLY TO INVESTORS WHO ARE PERSONS OTHER THAN U.S. PERSONS (AS DEFINED IN REGULATION S) OUTSIDE OF THE U.S.**

**IMPORTANT: You must read the following before continuing.** The following applies to this Base Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of this Base Prospectus. In accessing this Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Bank as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. SECURITIES OFFERED UNDER THE PROGRAMME HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S (“**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 AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND IN PARTICULAR MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. 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, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES OFFERED THEREUNDER.

**Confirmation of your Representation:** In order to be eligible to view this Base Prospectus, investors must be persons other than U.S. persons (as defined in Regulation S) outside of the U.S. This Base Prospectus is being sent at your request and by accepting the e-mail and accessing this Base Prospectus, you shall be deemed to have represented to the Bank that (1) you and any customers you represent are outside of the U.S. and that the electronic mail address that you gave the Bank and to which this e-mail has been delivered is not located in the U.S. and (2) you consent to delivery of such Base Prospectus by electronic transmission.

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

The materials relating to the Programme do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

This Base Prospectus has been sent 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 Yapı ve Kredi Bankası A.Ş., the Arrangers (as defined below), the relevant Dealer(s), or any person who controls any of them, nor any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from Yapı ve Kredi Bankası A.Ş., the Arrangers or the relevant Dealer(s).

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail 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.

This Base Prospectus is being distributed only to and directed only at (i) 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**”), (ii) high net worth bodies corporate falling within Article 49(2) of the Order and (iii) those persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as “**relevant persons**”). This Base Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Base Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

## BASE PROSPECTUS



Yapı ve Kredi Bankası A.Ş.

€1,000,000,000

### Global Covered Bond Programme

Under this €1 billion Global Covered Bond Programme (the “**Programme**”), Yapı ve Kredi Bankası A.Ş., a Turkish banking institution organised as a public joint stock company and registered at the Istanbul Trade Registry under number 32736 (the “**Bank**” or the “**Issuer**”), may from time to time issue covered bonds (the “**Covered Bonds**”) denominated in any currency agreed between the Issuer and the relevant Dealer(s) or Covered Bondholder(s) (each as defined in this Base Prospectus).

Covered Bonds may be issued in either bearer or registered form (respectively “**Bearer Covered Bonds**” and “**Registered Covered Bonds**”). The maximum aggregate principal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €1 billion (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

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

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

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

**PRIIPs/IMPORTANT – EEA RETAIL INVESTORS** – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended the “**PRIIPs Regulation**”) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**MIFID II PRODUCT GOVERNANCE/TARGET MARKET** – The Final Terms in respect of any Covered Bonds may include a legend entitled “**MiFID II Product Governance**” which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels. A determination will be made in relation to each issue about whether, for the purpose of the MiFID II Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID II Product Governance Rules**”), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID II Product Governance Rules.

**PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B(1)(c) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE** – With respect to each issuance of Covered Bonds, the Issuer may make a determination about the classification of such Covered Bonds (or beneficial interests therein) for purposes of Section 309B(1)(a) of the Securities and Futures Act (Chapter 289) of Singapore (as modified or amended from time to time, the “**SFA**”). The Final Terms in respect of any Covered Bonds may include a legend titled “*Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore*” that will state the product classification of the applicable Covered Bonds (and, if applicable, beneficial interests therein) pursuant to Section 309B(1) of the SFA; however, unless otherwise stated in the applicable Final Terms, all Covered Bonds (or beneficial interests therein) shall be “*prescribed capital markets products*” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in the Monetary Authority of Singapore (the “**MAS**”) Notice SFA 04 N12: Notice on the Sale of Investment Products and the MAS Notice FAA N16: Notice on Recommendations on Investment Products). This notification or any such legend included in the relevant Final Terms will constitute notice to “*relevant persons*” for purposes of Section 309B(1)(c) of the SFA.

This Base Prospectus has been approved as a base prospectus by the Central Bank of Ireland, as competent authority under the Prospectus Regulation. The Central Bank of Ireland only approves this Base Prospectus as meeting standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or the quality of the Covered Bonds that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Covered Bonds. Such approval relates only to Covered Bonds that are to be admitted to trading on the regulated market of the Irish Stock Exchange plc trading as Euronext Dublin (“**Euronext Dublin**”) (the “**Regulated Market**”) or on another regulated market for the purposes of MiFID II and/or that are to be offered to the public in any member state of the European Economic Area in circumstances that require the publication of a prospectus. Application has been made to Euronext Dublin for Covered Bonds issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to its official list (the “**Official List**”) and to trading on the Regulated Market. References in this Base Prospectus to the Covered Bonds being “**listed**” (and all related references) shall mean that, unless otherwise specified in the applicable Final Terms, the Covered Bonds have been admitted to the Official List and trading on the Regulated Market. The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

This Base Prospectus is valid for 12 months from its date in relation to the Covered Bonds which are to be admitted to trading on a regulated market in the European Economic Area. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid.

The Covered Bonds to be issued under the Programme are mortgage covered bonds (in Turkish, *ipotek teminatl  menkul kıymet*) within the meaning of the Communiqu  on Covered Bonds III-59.1 of the Capital Markets Board (the “CMB”) of the Republic of Turkey (“Turkey”). Application has been made to the CMB, in its capacity as competent authority under Law No. 6362 (the “Capital Markets Law”) of Turkey relating to capital markets, for the issuance and sale of Covered Bonds by the Bank outside of Turkey. No Covered Bonds may be sold before the necessary approvals (including the issuance certificate (*ihra  belgesi*)) are obtained from the CMB. The CMB approval (and the approved issuance certificate (*ihra  belgesi*) annexed thereto) relating to the issuance of Covered Bonds based upon which any offering of the Covered Bonds may be conducted was obtained on 5 December 2019 by the CMB letter No. 70/1584, and a written approval (which may be in the form of an approved tranche issuance certificate or in any other form required under the applicable legislation) will be required to be obtained from the CMB before any sale and issuance of each Tranche (as defined in this Base Prospectus) of Covered Bonds. The maximum covered bond amount that the Bank can issue under such approval is  500,000,000 (or its equivalent in other currencies) in aggregate. It should be noted that, regardless of the outstanding Covered Bond amount or the amount permitted to be issued under the Programme, unless the Bank obtains new approval(s) from the CMB, the aggregate covered bond amount to be issued under such approval (whether issued under the Programme or otherwise) cannot exceed such approved amount.

Under current Turkish tax law, withholding tax may apply to payments of interest on the Covered Bonds. See “Taxation—Certain Turkish Tax Considerations”.

Notice of the aggregate principal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other information that is applicable to each Tranche of Covered Bonds will be set out in a final terms document (for each Tranche, its “Final Terms”) (which, with respect to Covered Bonds to be listed on Euronext Dublin, will be filed with the Central Bank of Ireland). Copies of such Final Terms for Tranches admitted to trading on the Regulated Market will also be published on the Issuer’s website at <https://www.yapikredi.com.tr/en/investor-relations/mortgage-backed-covered-bond.aspx>.

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

Series of Covered Bonds issued under the Programme may either be rated (whether by Moody’s Investors Service Ltd. (“Moody’s”) and/or any other Relevant Rating Agency (as defined in this Base Prospectus)) or unrated. Where a Tranche of Covered Bonds is rated (other than unsolicited ratings), the initial such rating(s) will be disclosed in the Final Terms for such Tranche and will not necessarily be the same as the rating assigned to the Covered Bonds of other Series. The Bank has also been rated by Moody’s, Standard & Poor’s Credit Market Services Europe Limited (“S&P”) and Fitch Ratings Limited (“Fitch”) (each, a “Rating Agency”). Each of Moody’s, S&P and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the “CRA Regulation”). As such, each of such rating agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority (“ESMA”) on its website (at <https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Amounts payable on Floating Rate Covered Bonds will be calculated by reference to one of LIBOR, EURIBOR or TRLIBOR as specified in the relevant Final Terms. As at the date of this Base Prospectus, the administrator of EURIBOR, European Money Markets Institute, and the administrator of LIBOR, Intercontinental Exchange Benchmark Administration Limited, are included in ESMA’s register of administrators under Article 36 of the Regulation (EU) No. 2016/1011 (the “Benchmarks Regulation”) and the administrator of TRLIBOR is not included in ESMA’s register of administrators under Article 36 of the Benchmarks Regulation. As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that The Banks Association of Turkey (as administrator of TRLIBOR) is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence).

#### *Arrangers and Dealers*

NATIXIS

UniCredit Bank

The date of this Base Prospectus is 3 February 2020.

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

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Covered Bonds issued under the Programme. To the best of the knowledge of the Issuer, the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect its import.

This Base Prospectus is to be read in conjunction with all documents that are (or portions of which are) deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*”). This Base Prospectus shall be read and construed on the basis that such documents (or the applicable portions thereof) are incorporated in, and form part of, this Base Prospectus.

Other than in relation to the documents which are deemed to be incorporated by reference (see “*Documents Incorporated by Reference*”), the information on the websites to which this Base Prospectus refers does not form part of this Base Prospectus and has not been scrutinised or approved by the Central Bank of Ireland.

To the fullest extent permitted by law, none of the Dealers, the Arrangers, the Agents, the Security Agent, the Calculation Agent, the Cover Monitor or the Offshore Account Bank accepts any responsibility for the information contained in and/or incorporated by reference into this Base Prospectus or any other information provided by the Issuer in connection with the Programme or for any statement inconsistent with this Base Prospectus made, or purported to be made, by a Dealer or an Arranger or on its behalf in connection with the Programme. Each Dealer and Arranger, each Agent, the Security Agent, the Calculation Agent, the Cover Monitor and the Offshore Account Bank accordingly disclaims all and any liability that it might otherwise have (whether in tort, contract or otherwise) in respect of the accuracy or completeness of any such information or statements.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers are a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or its affiliate on behalf of the Issuer in such jurisdiction.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or any Covered Bonds or relevant Final Terms and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Arrangers or Dealers.

Neither this Base Prospectus nor any other information supplied by (or on behalf of) the Issuer or any of the Arrangers or Dealers in connection with the Programme or any Covered Bonds or relevant Final Terms: (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation by the Issuer or any of the Arrangers or Dealers that any recipient of this Base Prospectus or any such other information should invest in any Covered Bonds. Each investor contemplating investing in any Covered Bonds should determine for itself the relevance of the information contained in and/or incorporated by reference in this Base Prospectus and make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Covered Bonds based upon such investigation as it deems necessary. Neither this Base Prospectus nor, except to the extent explicitly stated therein, any such other information (including any Final Terms) constitutes an offer or invitation by or on behalf of the Issuer or any of the Arrangers or Dealers to any person to invest in any Covered Bonds.

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

with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arrangers and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention.

None of the Arrangers, Dealers nor any of their respective affiliates shall be responsible for any act or omission of the Issuer or any other person in connection with the Programme and the issue and offering of Covered Bonds thereunder.

The distribution of this Base Prospectus and/or the offer or sale of Covered Bonds (or beneficial interests therein) might be restricted by law in certain jurisdictions. None of the Issuer, the Arrangers or the Dealers represents that this Base Prospectus may be lawfully distributed, or that any Covered Bonds (or beneficial interests therein) may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer that is intended to permit a public offering of any Covered Bonds (or beneficial interests therein) or distribution of this Base Prospectus in any jurisdiction in which action for that purpose is required. Accordingly: (a) no Covered Bonds (or beneficial interests therein) may be offered or sold, directly or indirectly; and (b) neither this Base Prospectus nor any advertisement or other offering material may be distributed or published, in any jurisdiction, in each case, except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this Base Prospectus or any Covered Bonds (or beneficial interests therein) may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds (or beneficial interests therein). In particular, there are restrictions on the distribution of this Base Prospectus and/or the offer or sale of Covered Bonds (or beneficial interests therein) in the Republic of Turkey, the United States, the European Economic Area (including the United Kingdom), the People's Republic of China ("**PRC**"), Hong Kong, Japan, Switzerland, Italy and Singapore. See "*Subscription and Sale and Selling Restrictions*."

This Base Prospectus has been prepared on a basis that would permit an offer of Covered Bonds (or beneficial interests therein) with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Regulation to publish a prospectus. As a result, any offer of Covered Bonds (or beneficial interests therein) in any member state of the European Economic Area (each, a "**Relevant Member State**") must be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of Covered Bonds (or beneficial interests therein). Accordingly, any person making or intending to make an offer of Covered Bonds (or beneficial interests therein) in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Arranger or Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer. Neither the Issuer nor any Arranger or Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds (or beneficial interests therein) in circumstances in which an obligation arises for the Issuer or any Arranger or Dealer to publish or supplement a prospectus for such offer.

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

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

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

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the applicable Covered Bonds, the merits and risks of investing in such Covered Bonds and the information contained in and/or incorporated by reference into this Base Prospectus or any applicable supplement hereto;
- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the applicable Covered Bonds and the impact its investment in such Covered Bonds will have on its overall investment portfolio;
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the applicable Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies or where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understands thoroughly the terms of the applicable Covered Bonds and is familiar with the behaviour of financial markets; and
- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that might affect its investment in the Covered Bonds and its ability to bear the applicable risks.

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

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

The Issuer has obtained the CMB approval through the CMB letter dated 5 December 2019 No. 70/1584 (the “**CMB Approval**”) required for the issuance of Covered Bonds under the Programme. The maximum covered bond amount that the Bank can issue under the CMB Approval is €500,000,000 (or its equivalent in other currencies) in aggregate. It should be noted that, regardless of the outstanding Covered Bond amount or the amount permitted to be issued under the Programme, unless the Bank obtains new approval(s) from the CMB, the aggregate covered bond amount to be issued under such approval cannot exceed such approved amount. In addition to the CMB Approval, but only to the extent required by applicable laws and regulations, a written approval (whether in form of a tranche issuance certificate (*tertip ihraç belgesi*) or in any other form required under the applicable legislation) in respect of each Tranche of Covered Bonds is required to be obtained by the

Issuer prior to the issue date (for each Tranche, its “**Issue Date**”) of such Tranche of Covered Bonds, which date will be as specified in the applicable Final Terms. The Issuer will maintain or obtain (as applicable) all authorisations and approvals of the CMB necessary for its offer, sale and issue of Covered Bonds under the Programme. Consequently, the scope of the CMB Approval might be amended and/or new approvals from the CMB might be obtained from time to time.

Pursuant to the CMB Approval, the offer, sale and issue of Covered Bonds under the Programme has been authorised and approved in accordance with Decree 32 on the Protection of the Value of the Turkish Currency (as amended from time to time, “**Decree 32**”), the Capital Markets Law, the *Debt Instruments Communiqué No. VII-128.8 issued by the CMB* (as amended from time to time, the “**Debt Instruments Communiqué**”) and the *Communiqué on Covered Bonds No. III-59.1* issued by the CMB (as amended from time to time, the “**Covered Bonds Communiqué**”) or its related legislation or regulations.

In addition, the Covered Bonds (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the CMB Approval. Under the CMB Approval, the CMB has authorised the offering, sale and issue of Covered Bonds outside of Turkey. Notwithstanding the foregoing, pursuant to the Banking Regulation and Supervision Agency of Turkey (*Bankacılık Düzenleme ve Denetleme Kurumu*) (the “**BRSA**”) decisions dated 6 May 2010 (No. 3665) and 30 September 2010 (No. 3875) and in accordance with Decree 32, residents of Turkey: (a) in the secondary markets only, may purchase or sell Covered Bonds (or beneficial interests therein) denominated in a currency other than Turkish Lira in offshore transactions on an unsolicited (reverse enquiry) basis; and (b) in both the primary and secondary markets, may purchase or sell Covered Bonds (or beneficial interests therein) denominated in Turkish Lira in offshore transactions on an unsolicited (reverse enquiry) basis; provided that (for each of sub-paragraphs (a) and (b) above) such purchase or sale is made through licensed banks or licensed brokerage institutions authorised pursuant to BRSA and/or CMB regulations and the purchase price is transferred through licensed banks authorised under BRSA regulations. As such, Turkish residents should use such licensed banks or licensed brokerage institutions while purchasing Covered Bonds (or beneficial interests therein) and transfer the purchase price through such licensed banks.

Moneys paid for the purchase of Covered Bonds are not protected by the insurance coverage provided by the Savings Deposit Insurance Fund of Turkey (*Tasarruf Mevduatı Sigorta Fonu*) (the “**SDIF**”).

## STABILISATION

In connection with the issue of any Tranche of Covered Bonds, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

Notwithstanding anything herein to the contrary, the Issuer may not (whether through over-allotment or otherwise) issue more Covered Bonds than have been approved by the CMB or are permitted under the Programme.



## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Presentation of Financial Information

The Bank maintains its books and prepares its statutory financial statements in Turkish Lira in accordance with the prevailing accounting principles and standards set out as per Articles 37 and 38 of the Banking Law, effective from 1 November 2005, the Turkish Commercial Code (Law No. 6102) (the “**Turkish Commercial Code**”) and Turkish tax legislation and other regulations, circulars, communiqués and pronouncements in respect of accounting and financial reporting and pronouncements made by the BRSA (collectively, the “**BRSA Principles**”).

The Bank’s consolidated and unconsolidated annual statutory financial statements as of and for the years ended 31 December 2018, 31 December 2017 and 31 December 2016, respectively (the “**Annual BRSA Financial Statements**”) have been prepared and presented in accordance with the “*Regulation on the Principles and Procedures Regarding Banks’ Accounting Applications and Safeguarding of Documents*” published in the Official Gazette No. 26333 dated 1 November 2006 by the BRSA which refers to “*Turkish Accounting Standards*” and “*Turkish Financial Reporting Standards*” issued by the Public Oversight Accounting and Auditing Standards Authority (“**POA**”) and other decrees, notes and explanations related to the accounting and financial reporting principles (all “**Turkish Accounting Standards**” or “**TAS**”) published by the BRSA.

The audited interim consolidated and unconsolidated financial statements as of and for the nine-month period ended 30 September 2019 (with 30 September 2018 comparatives for the statement of income) and as of and for the nine-month period ended 30 September 2018 (the “**Interim BRSA Financial Statements**”) have been reviewed in accordance with the Standard on Review Engagements (SRE) 2410, “Limited Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. The Interim BRSA Financial Statements and the Annual BRSA Financial Statements are referred to together in this Base Prospectus as the “**BRSA Financial Statements**”.

See the convenience translations into English of the relevant PwC and EY (each as defined below) reports incorporated by reference into this Base Prospectus.

The format and the details of the publicly announced financial statements and related disclosures to these statements have been prepared in accordance with the “Communiqué Related to Publicly Announced Financial Statements of Banks and Explanations and Notes Related to these Financial Statements” and changes and notes to this communiqué published in the Official Gazette No. 28337 dated 28 June 2012. It is important to note that the consolidated BRSA Financial Statements are prepared with inclusion of only financial subsidiaries whereas other equity participations are included as noted in the following paragraph. The Bank’s foreign affiliates maintain their books of account and prepare their financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries in which they operate; however, in order to provide fair presentation according to TAS, necessary adjustments and reclassifications are reflected to those financial statements.

The BRSA Financial Statements are prepared on a historical cost basis that were restated for the changes in the general purchasing power of TL until 31 December 2004 except for: financial assets and liabilities at fair value through profit or loss, financial assets available for sale, trading derivative financial liabilities and hedging derivative financial assets/liabilities and art objects and paintings in tangible assets and buildings in tangible assets. The carrying values of financial assets carried at amortised cost but subject to fair value hedge are adjusted to reflect the fair value changes related to the hedged risks.

Associates, subsidiaries and joint ventures are being carried at the equity method in the unconsolidated financial statements of the Bank starting from 30 June 2015. Any valuation differences arising from prior years are booked as “marketable securities valuation differences” under

equity and any valuation differences arising from current years are booked in the profit and loss statement. This accounting policy change was performed through an early adoption before the effective date of 1 January 2016 in accordance with the change of “Standard on Stand-alone Financial Statement (TAS 27)” No. 29321 on 9 April 2015 and confirmation by the BRSA’s letter No. 10686 on 14 July 2015.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of Ernst & Young Global Limited) (“**EY**”) audited and issued auditors’ reports with respect to the annual consolidated BRSA financial statements as of and for the year ended 31 December 2016 in accordance with the communiqué “Independent Audit of Banks” published by the BRSA in the Official Gazette No. 29314 dated 2 April 2015 and with the Independent Auditing Standards which is a part of the Turkish Auditing Standards promulgated by the POA. See the convenience translations in English of EY’s reports incorporated by reference into this Base Prospectus.

Due to mandatory regulatory requirements, the Bank rotated its auditors following completion of its annual audit as of and for the year ended 31 December 2016. Accordingly, the Bank has appointed PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of PricewaterhouseCoopers International Limited) (“**PwC**”) as its independent auditor effective as of 1 January 2017 and for a term of three years.

PwC audited and issued auditors’ reports with respect to the annual consolidated BRSA financial statements as of and for the years ended 31 December 2018 and 31 December 2017 in accordance with communiqué “Independent Audit of Banks” published by the BRSA in the Official Gazette No. 29314 dated 2 April 2015 and with the Independent Auditing Standards which is a part of the Turkish Auditing Standards promulgated by the POA. See the convenience translations in English of PwC’s reports incorporated by reference into this Base Prospectus.

Unless otherwise indicated, the financial information presented herein is based upon the BRSA Financial Statements incorporated by reference herein and have been extracted from the BRSA Financial Statements without material adjustment. The BRSA Financial Statements incorporated by reference into this Base Prospectus, all of which are in English, were prepared as convenience translations of the BRSA Financial Statements originally issued in the Turkish language (which translations the Bank confirms were direct and accurate). The English language BRSA Financial Statements were not prepared for the purpose of their inclusion in this Base Prospectus.

While neither the Bank nor the Group is required by law to prepare its accounts under any accounting standards other than the BRSA Principles, including under IFRS, the Bank’s management has elected to publish annual consolidated and semi-annual consolidated financial statements that have been prepared in accordance with IFRS, with the most recent such audited financial statements being the Group’s IFRS financial statements for the fiscal year ended 31 December 2018. IFRS financial statements are not used for any regulatory purposes and the Bank’s management uses the BRSA Financial Statements and the related BRSA Principles for the management of the Bank and communications with investors. While the Group’s IFRS financial statements are available on the Bank’s website, information in this Base Prospectus is based upon the BRSA Financial Statements, and the Group’s IFRS audited financial statements do not form a part of (and are not incorporated by reference in) this Base Prospectus.

Certain figures included in, or incorporated by reference into, this Base Prospectus have been subject to rounding adjustments (e.g., certain U.S. dollar amounts have been rounded to the nearest million). Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Unless otherwise indicated, the sources for statements and data concerning the Bank and its business are based upon best estimates and assumptions of the Bank’s management. Management believes that these assumptions are reasonable and that its estimates have been prepared with due

care. The data concerning the Bank included herein, whether based upon external sources or based upon the Bank's internal research, constitute the best current estimates of the information described.

The contents of any website referenced herein do not form part of (and are not incorporated into) this Base Prospectus and have not been scrutinised or approved by the Central Bank of Ireland.

### **BRSA Principles and IFRS**

BRSA Principles differ from IFRS. As an example, the provisioning policy used in the preparation of the Bank's IFRS financial statements differs from that used under BRSA Principles. For example, under BRSA Principles, provisioning is based on the length of the period of default, whereas under IFRS, provisioning is based on an evaluation made by management. For a discussion of the differences between BRSA Principles and IFRS, see "*Appendix A—Overview of Significant Differences between IFRS and BRSA Accounting Principles*".

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

To supplement the Group's consolidated financial statements presented in accordance with BRSA Principles, the Group uses certain ratios and measures included in this Base Prospectus that would be considered non-GAAP financial measures in the United States. A body of generally accepted accounting principles such as IFRS or BRSA Principles 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.

The non-GAAP measures included in this Base Prospectus are not in accordance with or an alternative to measures prepared in accordance with BRSA Principles 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 measures under BRSA Principles, 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 financial measures under BRSA Principles, 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 BRSA Principles. 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 measures under BRSA Principles, 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 Rates**

In this Base Prospectus, all references to:

- "**Turkish Lira**" and "**TL**" refer to the lawful currency for the time being of the Republic of Turkey;
- "**euro**", "**EUR**" and "**€**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;
- "**U.S. dollars**", "**U.S.\$**" and "**\$**" refer to United States dollars; and

- “Sterling” and “£” refer to pounds sterling.

Unless otherwise indicated, all amounts in this Base Prospectus are presented in Turkish Lira.

### **Certain Defined Terms, Conventions and Other Considerations in relation to the Presentation of Information in this Base Prospectus**

Capitalised terms that are used but not defined in any particular section of this Base Prospectus will have the meaning attributed thereto in “*Terms and Conditions of the Covered Bonds*” or any other section of this Base Prospectus.

In this Base Prospectus, “**Bank**” means Yapı ve Kredi Bankası A.Ş. on a standalone basis and “**Group**” means the Bank and its subsidiaries (and with respect to accounting information, its consolidated entities) unless the context otherwise requires.

In this Base Prospectus, any reference to Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking S.A. (“**Clearstream, Luxembourg**”) shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Fiscal Agent (together, the “**Clearing Systems**”).

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

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

The Issuer has derived substantially all of the information contained in this Base Prospectus concerning the Turkish market and its competitors, which may include estimates or approximations, from publicly available information, including press releases and filings made under various securities laws. Unless otherwise indicated, all data relating to the Turkish banking sector in this Base Prospectus has been obtained from the BRSA’s website at [www.bddk.org.tr](http://www.bddk.org.tr) and the Banks Association of Turkey’s website at [www.tbb.org.tr](http://www.tbb.org.tr) and all data relating to the Turkish economy, including statistical data, has been obtained from the website of the Turkish Statistical Institute (*Türkiye İstatistik Kurumu*) (“**TurkStat**”) at [www.turkstat.gov.tr](http://www.turkstat.gov.tr), the Central Bank of the Republic of Turkey’s (the “**Central Bank**” or “**CBRT**”) website at [www.tcmb.gov.tr](http://www.tcmb.gov.tr) and the Turkish Treasury’s website at [www.hazine.gov.tr](http://www.hazine.gov.tr). Data has been downloaded/observed on various days between the months of January 2019 and September 2019 and may be the result of calculations made by the Issuer and therefore may not appear in the exact same form on such websites or elsewhere. Such websites do not form part of, and are not incorporated into, this Base Prospectus. Unless otherwise indicated, the sources for statements and data concerning the Issuer and its business are based on best estimates and assumptions of the Issuer’s management. Management believes that these assumptions are reasonable and that its estimates have been prepared with due care. The data concerning the Issuer included herein, whether based on external sources or based on the Issuer’s management of internal research, constitute the best current estimates of the information described.

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

Certain information under the heading “*Book-Entry Clearance Systems*” has been extracted from information provided by the clearing systems referred to therein. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant clearing systems, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Information regarding the Bank’s shareholders (including ownership levels and agreements) in “*Business of the Bank*” and “*Share Capital and Ownership*” has been based upon public filings and announcements by such shareholders.

## TABLE OF CONTENTS

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	<b>Page</b>
Risk Factors .....	1
Enforcement of Judgments and Service of Process.....	50
Documents Incorporated by Reference .....	52
Supplements to the Base Prospectus .....	54
Overview of the Group and the Programme.....	55
General Description of the Programme .....	58
Form of the Covered Bonds .....	92
Form of Applicable Final Terms .....	96
Terms and Conditions of the Covered Bonds.....	111
Description of the Transaction Documents .....	153
Use of Proceeds .....	178
Selected Financial Information.....	179
Exchange Rates .....	185
Capitalisation of the Bank .....	186
Business of the Bank .....	187
Mortgage Origination, Approval and Servicing.....	226
Risk Management.....	230
Management .....	256
Share Capital and Ownership .....	268
Related Party Transactions .....	270
Insolvency of the Issuer.....	275
Overview of the Turkish Residential Mortgage Loan Market .....	281
Summary of the Turkish Covered Bonds Legislation .....	285
Turkish Banking System .....	290
Turkish Regulatory Environment .....	297
Book-Entry Clearance Systems.....	326
Taxation .....	331
Subscription and Sale and Selling Restrictions .....	335
General Information .....	341
Glossary of Defined Terms .....	344
Appendix A Overview of Significant Differences between IFRS and BRSA Accounting Principles.....	349

## RISK FACTORS

*An investment in the Covered Bonds involves certain risks. Prior to making an investment decision, prospective purchasers of the Covered Bonds should carefully read the entire Base Prospectus. In addition to the other information in this Base Prospectus, prospective investors should carefully consider, in light of their own financial circumstances and investment objectives, the following risks related to the Group's business, Turkey, the Turkish banking industry, the Cover Pool and the Covered Bonds, before making an investment in the Covered Bonds. If any of the following risks actually occurs, the market value of the Covered Bonds may be adversely affected.*

*In addition, factors that are material for the purpose of assessing the market risks associated with the Covered Bonds are also described below. The Bank believes that the factors described below represent the principal risks inherent in investing in the Covered Bonds, but the Bank does not represent that the statements below regarding the risks of holding any Covered Bonds are exhaustive.*

### **Risks Related to the Group's Business**

***The Group's business, results of operations, financial condition and prospects are affected by general economic conditions in Turkey***

As of 30 September 2019, 96.56% of the Group's total assets and the majority of the Group's operations were in Turkey. As a result, the Group's business and results of operations are primarily affected by economic conditions in Turkey. Turkish GDP growth has fluctuated in the past several years with GDP growth of 6.1% in 2015, 3.2% in 2016, 7.5% in 2017, 2.8% in 2018 and (0.9%) in the nine months ended 30 September 2019 according to TurkStat. Turkey's economic conditions have weakened since the latter half of 2018 due to a number of macroeconomic factors, including the depreciation of the Turkish Lira, higher interest rates, increasing political uncertainties and global developments. Weaker economic conditions in Turkey could adversely impact the Group's business and operating results as a result of:

- reduced consumer confidence and decreases in business activity resulting in reduced demand for the Group's loans and fee and commission generating services;
- deterioration of creditworthiness of companies and individuals resulting in impairments on assets and/or collateral as well as increased levels of non-performing loans ("NPLs") and amounts of loan impairment charges;
- reduced, or no, access to capital markets due to unfavourable market conditions increasing funding costs and higher liquidity and financing risk; and
- lower deposit growth and/or increased competition for deposits leading to higher funding costs.

The deterioration of macroeconomic conditions in Turkey has already impacted the Turkish banking sector in several ways including (i) the high interest rate environment which increased the cost of funding, and lending rates, (ii) negative/slow economic growth and increased inflation which negatively impacted the demand and supply for lending and the asset quality of both corporate and retail loans and (iii) volatility in the exchange rate which also impacted both the asset quality and capital ratios of the Turkish banking sector. Accordingly, continued weakness in Turkish economic conditions could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

For further discussion of how conditions in Turkey affect the Group, see "*Risks Related to Turkey*".

***The Group's business is affected by international financial markets and global macroeconomic conditions***

As an open, emerging economy with a reliance on external funding, Turkey's economy is significantly impacted by global macroeconomic conditions, particularly those that impact emerging markets (including the U.S. Federal Reserve monetary policy). Accordingly, negative developments in international financial markets and global macroeconomic conditions may have a negative impact on the Turkish economy and could adversely impact the Group's business and operating results as a result of the factors discussed above in "*—The Group's business, results of operations, financial condition and prospects are affected by general economic conditions in Turkey*".

Since 2017, global credit and capital markets have been negatively affected by the increased possibility of global central banks' monetary tightening, mounting concerns over the possibility of a global trade war and the state of international political relations. In 2019, conditions in financial and credit markets have been more volatile, with the U.S. Federal Reserve reducing interest rates by 25 basis points ("**bps**") in each of July, September and October 2019 citing weaker conditions in the global economy and trade tensions. Any deterioration of global economic conditions or monetary tightening is likely to have a negative impact on the business, financial condition and/or results of operations of the Group.

***The Group is subject to credit risk in relation to its borrowers and counterparties***

The Group's business is subject to inherent risk concerning the credit quality of borrowers and counterparties, which affects the value of the Group's assets. Systemic risks and macroeconomic factors in the Turkish and global financial system discussed above can all impact the credit quality of the Group's customers and counterparties and negatively affect the value of the Group's assets.

As a result of weaker economic conditions in Turkey, NPL ratios have increased in the Turkish banking sector and for the Group. According to BRSA statistics, the ratio of NPLs to total loans in the Turkish banking sector was 3.1% as of 31 December 2016 (Group: 4.8%), 2.9% as of 31 December 2017 (Group: 4.4%), 3.8% as of 31 December 2018 (Group: 5.3%) and 4.8% as of 30 September 2019 (Group: 6.7%). The Turkish banking sector's NPL amount in TL increased by 37% as of 30 September 2019, compared to 31 December 2018, while the Group's NPL amount in TL increased by 27% in the same period, due to worsening asset quality resulting from the challenging operating environment and macro and political uncertainties. During the first nine months of 2019, the Bank classified several exposures as Stage 2 loans and NPLs. As of the first nine months of 2019 as a result of worsening macroeconomic condition, the BRSA's directive on NPL classification and the Bank's proactive and conservative asset quality management approach, Stage 2 loans to gross loans and NPL ratio increased to 16.2% and 6.9%, respectively.

In particular, the Group may be subject to increased credit risk as its business strategy is strongly focused on certain segments and lending as higher margin generating asset classes, such as the retail segment, small and medium enterprise ("**SME**") loans (9% of total loans as of 30 September 2019), general purpose loans (10% of total loans as of 30 September 2019) and credit cards generally (13% of total loans as of 30 September 2019), as well as on Turkish companies and project finance lending. Some of these segments are generally viewed as riskier segments with higher NPL levels and could place additional pressure on the asset quality of the Group. As of 30 September 2019, the ratio of NPLs to total loans in the credit card segment of the Turkish banking sector was 5.4% (Group: 3.5%) and in the commercial instalment loans segment was 7.5% (Group: 12.5%). In particular, negative developments in the Turkish economy, including the continued slowdown of GDP growth in Turkey, could affect consumer and SME borrowers more than large corporates, resulting in higher NPL levels and greater provisioning. As of 30 September 2019, the Group's share of performing loans and receivables in the consumer (including general purpose, auto and mortgage loans) segment was 15%, in the credit card segment (including corporate credit cards) was 13%, in the corporate segment was 72% and in the commercial instalment segment was 10%. As of 30 September 2019, the Group's restructured loans constituted 7% of the Bank's aggregate loan portfolio, compared to 2% as



of 31 December 2018, and the Group's watch loan ratio was 15.4%, compared to its level of 13.5% as at 31 December 2018.

The Bank also issues loans to SME borrowers under Turkey's Credit Guarantee Fund ("CGF") programme. CGF is subject to funding limits and any positive impact on growth may only be short term. Lending pursuant to the CGF programme could have a negative impact on the asset quality of the Group due to the possibility that SME borrowers entail greater risks than corporate borrowers.

In addition, the corporate sector may be particularly exposed to foreign exchange risk so far as corporate loans are denominated in foreign currencies. Borrowers under such corporate loans are susceptible to depreciation in the Turkish Lira if they do not have adequate foreign currency reserves or hedging, particularly if currency issues are compounded by particular macroeconomic factors that impact certain sectors or clients (such as the potential combined impact of Turkish Lira depreciation and global oil price reductions on the energy sector). As such, the Group's NPLs could materially increase in the near to medium term, in particular if there is a deterioration in macroeconomic conditions in Turkey.

The Group also has a substantial portfolio of derivative financial assets, including currency forwards, currency and interest rate swaps, options, an interest rate cap and floor arrangements and credit default swaps. As of 30 September 2019, the Group's total recognised derivatives had a notional value of TL 426,949,577 thousand, and the fair values of the derivative assets and liabilities were TL 5,193,242 thousand and TL 8,208,011 thousand, respectively. The Group is exposed to credit risk with respect to the ability of its counterparties to meet their obligations under these derivative financial assets. Furthermore, growth in the Group's loan portfolio may lead to an increase in loan to deposit ratios, unless matched by deposit growth.

Exposure to any or all of these credit risks could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

### ***The Group may not have sufficient loan loss provisions***

The Group records loss provisions in line with regulatory requirements and maintains capital ratios in excess of regulatory minimums, but such provisions and capital buffers may be insufficient for future credit losses, particularly if macroeconomic conditions in Turkey worsen more than anticipated, including as a result of lower earnings of the Group, declines in asset quality and foreign exchange volatility. The Group's total loss provisions have increased in recent years and amounted to TL 3,301,579 thousand or 1.37% (net of collections cost of risk) of gross loans and receivables as of 31 December 2016, TL 3,133,497 thousand or 1.07% (net of collections cost of risk) of gross loans and receivables as of 31 December 2017, TL 7,112,841 thousand or 2.57% (net of collections cost of risk) of gross loans and receivables as of 31 December 2018 and 5,722,017 thousand or 2.62% (net of collections cost of risk) of gross loans and receivables as of 30 September 2019. The Group's specific loan loss provisions amounted to TL 2,187,865 thousand or 1.11% (net of collections specific cost of risk) as of 31 December 2016, TL 2,829,333 thousand or 0.92% (net of collections cost of risk) of gross loans and receivables as of 31 December 2017, TL 4,622,317 thousand or 1.88% (net of collections specific cost of risk) as of 31 December 2018. Stage 3 provisions amounted to TL 4,881,867 thousand or 2.18% (net of collections specific cost of risk) as of 30 September 2019. The current level of provisions by the Group may not be sufficient to cover future losses and the Group may have to create significant additional provisions for possible credit losses in the future. The Group's provisioning policy was also impacted in 2018 by the adoption of IFRS 9, which in effect increased the sensitivity of the Bank's provisions to macroeconomic volatility, including the impact of exchange rate depreciations on Stage 1 and Stage 2 provisions. Any failure by the Group to monitor and regulate the adequacy of its provisioning levels could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

### ***The Bank is subject to liquidity and refinancing risks***

The Bank is exposed to liquidity risk, arising out of mismatches between the maturities of the Bank's assets and liabilities, which together with increased market volatility and changes in general economic conditions, may contribute to the Bank not being able to meet its net funding requirements at a reasonable cost, or at all. A significant portion of the Group's funding base consists of short-term debt and deposits and the Group 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 liability maturity gaps and ultimately liquidity problems. As of 30 September 2019, deposits constituted 55.05% of the Group's total liabilities and, of all deposits, 90.14% had maturities of three months or less.

In addition, the Group has increased the portion of its funding raised on the international markets, particularly with respect to longer denominated liabilities given the short-term nature of its deposit portfolio, and may need to access additional wholesale funding in the future to refinance existing liabilities, to balance the duration gap of its portfolio and to fund any future growth. As of 30 September 2019, the Group had a total of TL 44.4 billion of funds borrowed from wholesale sources, of which TL 42.4 billion of other borrowed funds from foreign sources, and TL 1.9 billion of debt securities in issue, in relation to its diversified payment rights securitisation and issued bonds in local currency. In order to cover the maturity mismatch from short-term funding and long-term lending, the Group has raised longer term funds in the form of syndications, securitisations and other loans, almost all of which are denominated in foreign currency. As of 30 September 2019, the Group's total foreign currency denominated bank deposits and borrowings constituted 19.34% of its consolidated foreign currency liabilities excluding equity and total bank deposits and borrowings with maturity of one year or more was 4.59% of total foreign currency liabilities excluding equity. The Group may have difficulties extending this type of funding source and such funding may become more difficult and costly in the event of further Turkish Lira depreciation.

The Bank's liquidity risk could be increased by market disruptions or credit downgrades, which may reduce the availability of funding. The Group's liquidity and financing risks may also be adversely affected by increases in interest rates. See "*—The Group may be negatively affected by volatility in interest rates*".

The Bank may be unsuccessful in managing its liquidity and maturity profile in the future. Particularly in light of the volatility in the market for emerging market debt, the Bank may have difficulty obtaining financing or extending and/or refinancing its existing indebtedness.

### ***The Bank is subject to risks in its trading activities***

As part of the Bank's treasury operations, it trades various securities and derivatives, including debt, equity, fixed income, currencies and commodities and related derivatives, as both agent and principal, and it derives a portion of its non-interest income from profits earned in such trades.

The Bank may be exposed to a number of risks related to changes in the value of such securities and derivatives, including the risk of unfavourable market price movements relative to its long or short positions, a decline in the market liquidity of the related 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 Bank chooses to hedge certain positions do not track the market value of those positions. Failure to earn profits or incurring losses from trading activities as a result of such risks could have a material adverse effect on the Bank.

In addition, the Group has a portfolio of derivative securities which expose it to fluctuations in interest rates. As of 30 September 2019, the total nominal interest rate swap volume (including cross currency interest rate swaps) amounted to TL 208,193,060 billion, out of which TL 101,111,846 billion was under hedge accounting and thus not affected by interest rate fluctuations. Nominal interest rates are sensitive to many factors beyond the Group's control, including monetary policies

pursued by the Turkish government (the “**Government**”) and both domestic and international economic and political conditions.

***The Group may be negatively affected by volatility in interest rates***

The Group may also be adversely affected by changes in interest rates. For example, if interest rates increase, the interest on the Group’s liabilities (predominantly short-term) may rise more quickly than on its assets, resulting in deteriorating interest margins.

If the Group is unable for any reason to re-price or adjust the rates on its interest earning assets in response to changes in rates on its interest bearing liabilities in an expedited or an effective manner as a result of economic or other reasons, then the Group’s interest income margins would be adversely affected. An increase in interest rates may reduce the demand for loans from the Group and its ability to originate loans. In addition, higher interest rates increase the Group’s deposit and borrowing costs and the Group may be required to seek alternative sources of liquidity and funding, which may only be available at increased cost or have limited or no availability. A decrease in the general level of interest rates may affect the Group through, among other things, increased pre-payments on its loan portfolio and increased competition for deposits. In addition, the Group has a portfolio of derivative securities which expose it to fluctuations in interest rates, see “—*The Bank is subject to risks in its trading activities*”.

The Bank monitors interest rate risk from local and foreign currency assets separately. Under its risk management framework, the Bank’s foreign currency assets and liabilities are managed to align their maturities, taking into account the Bank’s expectations for international interest rate performance. However, interest rate risk from local currency assets is more pronounced due to the lag between the re-pricing of longer maturity assets and shorter maturity liabilities. When interest rates rise, the Group may be adversely affected by the re-pricing lag because its assets will retain lower interest rates as the interest on its liabilities rises resulting in an increase in interest expense relative to interest income, reducing margins and the Group’s net interest income. For example, in the second half of 2015 and the first three months of 2016, interest rates and deposit costs rose faster than loan re-pricing, which negatively impacted local currency net interest margins. For a description of the Group’s interest rate risk management, see “*Risk Management*”.

The nine months ended 30 September 2019 and the years ended 31 December 2018, 2017 and 2016 were characterised by a high degree of volatility in interest rates and changes in the Central Bank’s policy, as a result of a number of factors, including continued global volatility as well as increased political volatility in Turkey, which, among other factors, led S&P and Moody’s to downgrade Turkey’s sovereign credit rating. See “—*Risks Related to Turkey—Political developments in Turkey may have a material adverse effect on the Group’s business, financial condition, results of operations and prospects*”.

Accordingly, any volatility in interest rates can significantly affect the Group’s results of operation and financial condition.

***The Group’s loans and receivables may be concentrated among its largest borrowers and in certain industries***

As of 30 September 2019, the Group’s loans to and receivables from its 20 largest borrowers or borrower groups amounted to TL 35,311,744 million, or 15.2% of its total loans and receivables, as compared with TL 33,177 million, or 14.7% of its total loans and receivables as of 31 December 2018, TL 27,142 million, or 15% of its total loans and receivables as of 31 December 2017, TL 26,000 million, or 15% of its total loans and receivables as of 31 December 2016. Any impairment in the ability of one or more of these borrowers or borrower groups to service or repay their obligations to the Group could have a material adverse effect on the Group’s financial condition and results of operations. The Banking Act No. 5411, effective from 1 November 2005 (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.

As of 30 September 2019, the Bank's top ten sectors accounted for 47.3% of the Bank's gross cash loans. A further downturn or slower recovery in any of these sectors (particularly the construction and energy sectors, which are primary areas of focus for the Bank), individually or in the aggregate, may adversely affect the financial condition of the companies operating in such sectors and may result in, among other things, a decrease of funds that such corporate customers hold on deposit with the Bank, a default on their obligations owed to the Bank or a need for the Bank to increase its provisions in respect of such obligations. Similarly, a downturn of any one or more of the Bank's largest customers' financial positions may have similar effects.

Findings of the BRSA Financial Health Report (as defined in "*Turkish Regulatory Environment—Audit of Banks*") are typically finalised by the end of the year and may impact the classification of loans for certain borrowers and industries. For example, the BRSA Financial Health Report for 2019, once finalised, may result in an impact on the Bank's loan portfolio for the energy sector despite the Group having largely re-classified loans as necessary in the first half and in the third quarter of the year. The Group will make any changes necessary for compliance, such as potentially increasing provisions for any remaining stage 3 re-classifications as well as further pre-cautionary increases in provisions for stage 2 loans in the last quarter of the year. Such changes can impact the Group's financial planning, for example, for 2019 full year cost of risk is expected to be slightly higher than its guidance threshold of 300 bps and management anticipates that the Group's NPL ratio may be higher than the previous guidance threshold.

***The Group's risk management strategies and internal controls may leave it exposed to unidentified or unanticipated risks***

In the course of its business activities, the Group is exposed to a variety of risks, including credit risk, market risk, liquidity risk and operational risk. See "*Risk Management*". The Group's risk management strategies and techniques may 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 behaviour, which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures, which could therefore be significantly greater than historical measures indicate.

In particular, the Group may be unable to correctly assess the creditworthiness of credit applicants. The increase in the Group's loan portfolio (including a significant portion of unseasoned loans) has increased the Group's credit exposure and requires continuous improvement to internal monitoring by the Group's management of its lending policies, credit quality and adequacy of provisioning levels through the Group's risk management programme, particularly in its retail segment (including SMEs). A Turkish centralised credit bureau monitors and controls consumer credit information (including credit cards), but it includes only data shared by the Group and its competitors in Turkey, not information from other non-bank entities, such as utility companies. The Group uses internal models and scorecards (which incorporate credit bureau information), but the Group is not always independently able to confirm information provided by prospective clients and such models and scorecards could prove inadequate. New models and scorecards for retail customers were launched in January 2018, including for SMEs. Any failure of the Group's risk management procedures could also increase the Group's credit risk.

In addition, 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. If the Group's 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.

***Further depreciations of the Turkish Lira may adversely impact the Bank's business, results of operations and financial condition***

A significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly U.S. dollars and euros. The Bank translates such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains/(losses) realised upon the sale of such assets to Turkish Lira when preparing its financial statements. As a result, the Group's reported income is affected by changes in the value of the Turkish Lira against foreign currencies (primarily the U.S. dollar and euro). The overall effect of exchange rate movements on the Group's results of operations depends on the rate of depreciation or appreciation of the Turkish Lira against its principal trading and financing currencies. On average, management currently estimates that a 10% depreciation of the Turkish Lira would result in an average of 63 bps CET1 and 53 bps capital adequacy ratio erosion for the Bank. In addition, the Group has a portfolio of derivative securities which expose it to fluctuations in the value of the Turkish Lira against foreign currencies. For a description of the Group's risk management strategies, see "*Risk Management*".

Until February 2001, it was the stated policy of the Central Bank to devalue the Turkish Lira against the U.S. dollar in line with inflation. However, in recent years the depreciation of the Turkish Lira has not been consistent with inflation rates as a result of a variety of factors, including both domestic and international factors. The value of the Turkish currency against the U.S. dollar has been volatile over the last years, primarily as a result of uncertainties surrounding the political and economic landscape. The Turkish Lira depreciated by 39.5%, 7.2% and 21.0% and against the U.S. dollar, in 2018, 2017 and 2016, respectively. The exchange rate was TL 3.52 per U.S. dollar as of 31 December 2016, TL 3.77 per U.S. dollar as of 31 December 2017, TL 5.26 per U.S. dollar as of 31 December 2018 and TL 5.66 per U.S. dollar as of 30 September 2019.

***The Group is exposed to volatility in the securities markets***

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 2016, 2017, 2018 and the nine months ended 30 September 2019, accounting for 12.6%, 15.0%, 20.2% and 15.3%, respectively, of its total interest income.

The Bank's position in certain Government securities, in particular, involves a risk that downward movements in the price of these securities could have a material adverse effect on the Group's business, financial condition and results of operations. The Group has a substantial portfolio of Government debt securities, which amounted to 13.2% of the Bank's total interest earning assets as of 30 September 2019. Any default by the Government in the payment of its securities held by the Bank would result in direct loss to the Bank. In addition, a default by the Government in making payments on its treasury bills would have a significant negative impact on the Turkish economy and the Turkish banking system generally. A continued decline in the returns from the Bank's trading and investment securities, continued increased sales of Government securities and/or a decline in the market value of Government securities could lead to a material adverse effect on the Bank's business, financial condition and results of operations.

While the contribution of income from the Group's securities portfolio has been relatively significant over recent years, the Group expects that with the normalisation of the CPI inflation, resulting in lower interest income from the CPI-linked securities, such income will not be as large in coming years. The Bank did not undertake any major bond sales from the Group's securities portfolio during 2016, 2017, 2018 and 2019.

***The Group's capital adequacy ratio and its ability to obtain funding may be affected by changes to its credit ratings and the credit ratings of Turkey.***

If the Rating Agencies negatively revise current ratings or outlooks for Turkey, the Bank or the Covered Bonds, such change could materially adversely affect the trading value of the Covered Bonds, the Group's ability to finance its operations or the expected expansion of its business going forward. A change in credit rating could adversely affect the Bank's calculation of its capital adequacy ratio. The Bank calculates its capital adequacy ratio according to the 2016 Capital Adequacy Regulation published by the BRSA, which allows the Bank to use only Fitch ratings to calculate the risk-weighted assets for capital adequacy purposes.

Credit ratings also affect the cost and other terms upon which the Group is able to obtain funding. Rating Agencies regularly evaluate the Bank and their ratings of the Bank's long-term debt are based on a number of factors, including its financial strength as well as conditions affecting the financial services industry generally. For more on the risks associated with the credit rating assigned to the Covered Bonds see "*—Market Risks associated with Investments in the Covered Bonds—Credit ratings – Credit ratings assigned to the Issuer or any Covered Bonds may not reflect all risks associated with an investment in those Covered Bonds*".

In addition, any downgrade in Turkey's credit rating would likely have a significant negative impact on the Turkish banking sector generally and might have a material adverse effect on the Bank's own rating and its business, financial condition and/or results of operations. For example, in both 2018 and 2019, each of Moody's, S&P and Fitch downgraded the Bank's rating or those of its financial products following the downgrade or negative review of the Turkish government's sovereign rating, debt rating or its foreign currency deposit ceiling.

Overall, management expects that Turkey's downgrade to below investment grade bond status may have medium-term negative implications on key macroeconomic balances. Any future or potential further downgrades of the Turkish sovereign rating could negatively affect the Rating Agencies' perception of the Bank's rating. See "*—Risks Related to Turkey—Political developments in Turkey may have a material adverse effect on the Group's business, financial condition, results of operations and prospects*" and "*—Increased political risks following the coup attempt of July 2016*", for further discussion of the reasons behind Turkey's sovereign debt rating downgrades and associated effects on the Bank.

***The Group is controlled by two large shareholders and has business with related parties***

The Bank is controlled by Koç Finansal Hizmetler A.Ş. ("**KFS**"), which is jointly owned by Koç Holding A.Ş. and its affiliates (the "**Koç Group**"), one of the largest conglomerate groups in Turkey, and UniCredit S.p.A. ("**UniCredit**"), an international financial services group engaged in a wide range of banking, financial and related activities in Europe. KFS owns 81.90% of the Bank's outstanding shares while the balance is held by minority shareholders. The Koç Group and UniCredit each owns 50% of the shares of KFS.

On 30 November 2019, UniCredit and the Koç Group announced an agreement to change the Bank's ownership structure. According to the agreement, UniCredit's stake in the Bank is to reduce to 31.93% while the Koç Group's stake is to increase to 49.99%. The completion of the shareholding reduction is subject to regulatory approvals in all relevant jurisdictions and is expected to take place in the first half of 2020.

A reduction in UniCredit's stake and change in the Bank's ownership structure may involve further changes to the relationship between the Bank and UniCredit. UniCredit may decide to discontinue its business with the bank or financial or other support for the Bank, which may have an adverse effect on the Bank's business, results of operations and credit rating. UniCredit's involvement in the Bank's market risk management, and assistance in identifying candidates to fill management roles within the Group may be subject to change or termination.

The announced change in the Bank's ownership structure would also provide some lenders with an opportunity to call outstanding loans under change of control provisions relating to, for example, the Group's syndicated loans. As of the date of this Base Prospectus, no lender has informed the Bank of any intent to call outstanding loans but the Bank cannot guarantee that lenders will not do so in the future.

Following the successful completion of the transaction, the Koç Group will control the Group as the controlling shareholder and will have the power to appoint board members and senior executives of the Bank and determine the outcome of most matters to be decided by shareholders' resolutions. The interests of the controlling shareholder and/or the BRSA may differ from those of the Bank and its creditors. As a result, the controlling shareholder and/or the BRSA may prevent the Bank from making certain decisions, may take certain actions that would benefit them or may take certain actions that fail to protect the interests of the Bank's other constituencies, including investors in the Covered Bonds. The Bank's decisions and actions may prioritise the long-term interests of the Group, rather than the interests of the Covered Bondholders. The Bank's decisions in such cases may negatively affect the Covered Bondholders.

The Bank believes that the continued involvement of the Koç Group is important in the pursuit and implementation of the Bank's strategy, including providing an important source of business for the Group. In the future the Koç Group may decide not to remain a shareholder or may discontinue its business with the Bank or financial or other support for the Bank. The Bank's credit rating, business and results of operations may be materially adversely affected if the major shareholder ceases to control the Bank.

***The Group may suffer a failure or interruption in or breach of its information systems***

The Group relies heavily upon information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or interruptions in its risk management, general ledger, deposit servicing, loan organisation and/or other important systems. 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 thereby lose business. Likewise, a temporary shutdown of the Bank's information systems could result in costs that are required for information retrieval and verification. In addition, despite its investments in IT infrastructure, failure to update and develop the Group's existing information systems as effectively as its competitors may result in a loss of the competitive advantages that it believes its information systems provide. Although the Group has developed business continuity plans, back-up systems and a disaster recovery centre, and expects to be able to continue its critical operations through branches and digital channels in case of emergency, no assurance can be given that failures will not occur. As part of its two year investment strategy, significant investment has been made for disaster recovery and cyber security infrastructure, but such effort may be insufficient.

***The Group's business may be subject to labour disputes***

The Group is exposed to the risk of labour disputes and other industrial actions. In total, as of 30 September 2019, 9,632 of the Bank's employees were members of the Union of Employees working at Banks and Insurance Companies (Banka ve Sigorta İşçileri Sendikası) (the "Union"), amounting to approximately 56% of the Bank's employees. The Bank may experience strikes, work stoppages or other industrial actions in the future. Any such action could disrupt operations, possibly for a significant period of time, result in increased wages and benefits or otherwise have a material adverse effect on the Bank's business, financial condition and/or results of operations. See "*Business of the Bank—Employees*".

***The Group is subject to operational risk***

Similar to other financial institutions, the Group is susceptible to, among other things, fraud by employees or outsiders, unauthorised transactions by employees and other operational errors

(including clerical or record keeping errors and errors resulting from faulty computer or telecommunications systems). The Group is also subject, from time to time, to service interruptions to third party services such as telecommunications, 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, 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 any bank to detect quickly or at all. While the Group maintains a system of controls designed to monitor and control operational risk, there can be no assurance that the Group will not suffer losses from such risks. Losses from the failure of the Group's system of internal controls to discover and rectify such matters could have a material adverse effect on the Bank'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 either the Bank or the Group will be unable to comply with its obligations as a company with securities admitted to listing on the Official List and admitted to trading on the Regulated Market.

***The Group is dependent on its senior management and other personnel***

The Bank is dependent upon its senior management to implement its strategy and the operation of its day-to-day business. In addition, retail, corporate and other business relationships of members of senior management are important to the conduct of the Bank's business. If members of the Group's senior management were to leave, then the relationships that those employees have and which have benefited the Group may end.

In addition, the Bank's continuing success depends, in part, upon its ability to attract, retain and motivate qualified and experienced banking and management personnel. Any failure to recruit and retain necessary personnel or manage its personnel successfully could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

***The Group's consolidated financial statements under BRSA may not provide investors with the same information as financial statements prepared under IFRS***

The Group has prepared its financial statements in Turkish Lira and in accordance with BRSA Principles (as defined in "*Presentation of Financial and Other Information—Presentation of Financial Information*"). The Group's BRSA financial statements may not provide investors with the information they would have received if the financial statements were prepared under IFRS. BRSA Principles differ in certain significant respects from IFRS. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and BRSA Principles and how these differences might affect the financial information in and incorporated by reference into this Base Prospectus. For more information, see "*Appendix A—Overview of Significant Differences between IFRS and BRSA Accounting Principles*".

**Risks Related to Turkey**

As of 30 September 2019, 96.56% of the Group's total assets and the majority of the Group's operations were in Turkey. Therefore, the Group's business and results of operations are primarily affected by economic conditions in Turkey.

***Political developments in Turkey may have a material adverse effect on the Group's business, financial condition, results of operations and prospects***

Turkey has from time to time experienced volatile political social conditions, including a failed coup d'état attempt in July 2016. The Justice and Development Party (*Adalet ve Kalkınma Partisi*) (the "AKP") has been in power since 2002 and has been able to govern without reliance upon a coalition partner. As a result of the elections held on 7 June 2015, the AKP's position declined, receiving approximately 41% of the votes. With these elections, the People's Democratic Party (*Halkların Demokratik Partisi*) (the "HDP") entered Parliament for the first time. A new election



was held on 2 November 2015. With this election, the AKP's position was strengthened with approximately 49.9% of the votes, which was once again sufficient to establish a council of ministers without a coalition.

Following the November 2015 elections, the AKP announced its intention to replace the existing constitution with a new constitution and to create an executive presidency and Mr. Recep Tayyip Erdoğan was elected President. Following the constitutional amendments enacted with the referendum held on 16 April 2017, the president became entitled to be the head of a political party, and on 21 May 2017, Mr. Recep Tayyip Erdoğan was re-elected as the chairman of the AKP. Mr. Recep Tayyip Erdoğan was re-elected in snap elections held on 24 June 2018. On 9 July 2018, Mr. Recep Tayyip Erdoğan announced the new cabinet, including non-AKP members and Mr. Berat Albayrak, his son-in-law, as the new treasury and finance minister. Significant uncertainty remains regarding the economic agenda of the new government, the independence of the Central Bank, and whether orthodox reform plans will be accomplished. Such uncertainty was aggravated by the dismissal of the Central Bank governor on 6 July 2019 by the President, followed by dismissal of additional senior Central Bank officials, which heightened doubts over the Turkish authorities' tolerance for a period of sustained below-trend growth and disinflation. Local elections took place on 31 March 2019. However, the Supreme Election Board of Turkey (*T.C. Yüksek Seçim Kurulu*) has cancelled the results of the elections in İstanbul (which showed a narrow lead for the opposition party). The repeat local elections were held on 23 June 2019 and resulted in the transition of the control of the İstanbul municipality from AKP to the main opposition party the Republican People's Party (*Cumhuriyet Halk Partisi*). All these factors could significantly impact investors' perceptions of Turkey and its future growth.

Changes in the governance and operation of Turkey's institutions, could contribute to the volatility of Turkish financial markets and/or have an adverse effect on investors' perception of Turkey, including with respect to the actual or perceived independence of such institutions.

In May and June of 2013, Turkey experienced widespread internal unrest including protests and demonstrations against the then-current Government's policies. Since late 2013, Turkish politics has been particularly volatile, commencing with a series of arrests of prominent businessmen and family members of some cabinet ministers (who have since resigned) on suspicion of corruption. While the causes of these events are uncertain, there is speculation that it reflects a division among important elements of the Government, police and judiciary. The Government's responses to these events have included the removal of certain prosecutors and police from their offices and proposals to change the manner in which the police and judicial authorities are supervised by the national Government, which has led to concerns about the separation of powers.

Recently, the BRSA's regulatory actions regarding Bank Asya (which resulted in the SDIF taking control of Bank Asya on 3 February 2015) have incurred criticism from a number of Turkish politicians. The BRSA announced it was taking such action due to Bank Asya's violation of a provision of the Banking Law that requires banks to have a transparent and open shareholding and organisational structure that does not obstruct the efficient auditing of the bank by the BRSA. On 29 May 2015, the management of Bank Asya was transferred to SDIF through the BRSA's decision and the activity licence of Bank Asya was revoked by the BRSA's decision dated 22 July 2016. On 16 November 2017, the İstanbul First Commercial Court of First Instance ruled on the bankruptcy of Bank Asya.

The uncertainty after the election on 7 June 2015 pertaining to government prospects also led to a pick-up in Kurdish insurgence as of mid-July, despite the historical election success of the predominantly Kurdish Party HDP. On 4 November 2016, two joint leaders of the HDP along with some prominent MPs from the HDP were detained (and later convicted), which was followed by widespread difficulty in reaching social media websites. Political analysts point out that detention or conviction of high-profile members of the HDP may lead to a higher risk of instability arising from insurgent activities.

In the referendum held on 16 April 2017, the majority of the votes cast approved proposed amendments to certain articles of the Turkish constitution. Such amendments include articles to extend the powers of the president. As a result (*inter alia*) (a) the then-current parliamentary system has been transformed into a presidential one, (b) the president has been entitled to be the head of a political party and to appoint the cabinet, (c) the office of the prime minister has been abolished, (d) the parliament's right to interpellate (i.e., the right to submit questions requesting explanation regarding an act or a policy) the cabinet members has been annulled and (e) the president has increased powers over the selection of members of the Board of Judges and Prosecutors (currently the Supreme Board of Judges and Prosecutors (Hakimler ve Savcılar Yüksek Kurulu)). Most of the amendments brought by the referendum entered into force through the early elections that were held on 24 June 2018. It remains unclear, as of the date of this Base Prospectus, what impact such structure might have in the future on Turkish government institutions. As such, political uncertainty is likely to continue.

The political instability in Turkey may continue and the political situation in Turkey may further deteriorate. Actual or perceived political instability in Turkey or any negative changes in the political environment, including further conflicts between senior politicians in Turkey or the failure of the Government to devise or implement appropriate economic programmes, may individually or in the aggregate adversely affect the Turkish economy and, in turn, the Group's business, financial condition, results of operations and prospects and the value of the Covered Bondholders. In particular, any perception that the constitutional change to an executive presidency may restrict parliamentary and judicial supervision of executive decisions may also increase political instability or otherwise negatively impact investors' perceptions of the Turkish political climate, which could result in a number of negative impacts, including deteriorating asset prices and weaker economic activity.

#### ***Increased political risks following the coup attempt of July 2016***

Turkey has also experienced controversies between the Government and the military. On 15 July 2016, the Turkish government was subject to an attempted coup by a group within the Turkish army. The Turkish government and the Turkish security forces (including the Turkish army) took control of the situation in a short period of time and the ruling government remained in control. On 20 July 2016, after the failed coup attempt, the Turkish president announced, pursuant to Article 120 of the Turkish constitution, a nationwide state of emergency, which was extended ultimately until July 2018, entitling the government to exercise additional powers. Under Article 120 of the Turkish constitution, in the event of serious indications of widespread acts of violence aimed at the destruction of the free democratic order, a state of emergency may be declared in one or more regions of, or throughout, the country for a period not exceeding six months. The state of emergency, however, ended in July 2018.

The government has arrested, discharged or otherwise limited thousands of members of the military, the judiciary and the civil service, restricted media outlets and otherwise taken actions in response to the coup attempt, including to the business community. There may be disruptions in the operations of public institutions (such as the BRSA and the CMB) as teams are reorganised, which may impact operations in the Bank that are dependent on such public institutions. As of the date of this Base Prospectus and to the best of the Bank's knowledge, investigations and trials with respect to the attempted coup are ongoing. There might be further arrests and actions taken by the government in relation to these investigations, including changes in policies and laws. Any future investigations may include customers of the Bank, which could impact such customers' ability to meet their obligations and may in turn result in an adverse impact on the Bank's loan portfolio. The ongoing investigations following the failed coup attempt have contributed to uncertainty surrounding the Turkish political environment. Despite signs of political unity in the immediate aftermath of the coup attempt, tensions between political parties have increased, especially during the parliamentary approval process for constitutional changes, in the aftermath of the referendum and prior to the snap general and presidential elections. Any further consolidation of political power due to the executive

presidency and the restructuring of government institutions may have a detrimental effect on political checks and balances.

During July 2016, Moody's placed Turkey's sovereign credit rating and the ratings of 17 Turkish banks on review for potential downgrade; S&P downgraded Turkey's sovereign rating and those of five Turkish banks; and Fitch changed Turkey's sovereign rating outlook from "stable" to "negative." Moody's then downgraded Turkey's sovereign rating in September 2016. On 4 November 2016, although S&P affirmed the country's long-term foreign credit rating at BB, it upgraded its outlook for Turkey's sovereign credit rating to "stable" from "negative" on 4 November 2016. On 27 January 2017 it downgraded its outlook for Turkey to "negative" from "stable", citing mainly the sharp depreciation of the Turkish Lira against the U.S. dollar and insufficient monetary policy response, which together pose a serious inflationary risk. In addition, on the same day, Fitch downgraded Turkey's sovereign credit rating to "BB+" from "BBB-", based on the potential adverse effects of the constitutional referendum on checks and balances, the renewal of the state of emergency related to the coup attempt and damaged consumer confidence and tourism sector due to recent terrorist attacks. On 17 March 2017, Moody's changed Turkey's rating outlook to "negative" from "stable", citing as the driver the increased risk of a credit shock due to (i) the continuing erosion of Turkey's institutional strength, (ii) its weaker growth outlook and (iii) heightened pressures on Turkey's public and external accounts. However on the same day, Moody's affirmed Turkey's government debt and issuer ratings at "Ba1". On 5 May 2017, S&P affirmed Turkey's rating and outlook as BB and negative. On 14 June 2019, Moody's downgraded the Turkey's long-term issuer and senior unsecured bond ratings to "B1" from "Ba3" and maintained the negative outlook, on the back of its view that the risk of a balance of payments crisis continues to rise, and with it the risk of a government default, which Moody's mainly attributes to the Turkey's high reliance on external capital across all sectors of the economy. On 12 July 2019, Fitch downgraded Turkey's sovereign rating to "BB-" from "BB", mainly based on (i) the dismissal of the central bank governor on 6 July 2019, which heightened doubts over the Turkish authorities' tolerance for a period of sustained below-trend growth and disinflation according to Fitch, and (ii) the risk of U.S. sanctions triggered by delivery of S-400 missile components from Russia, which Fitch expects to be of a "relatively mild form with minimal direct economic effect" but which might have a significant impact on the sentiment according to Fitch. On 17 August 2018, S&P downgraded Turkey's rating to "B+" from "BB-" and maintained the stable outlook. On 1 November 2019, Fitch revised the outlook on Turkey's sovereign rating to stable from negative, and affirmed at "BB-", citing continued progress in rebalancing and stabilisation of the Turkish economy with an improved current account balance, however noting Turkey's gross external financing requirement as a source of vulnerability. On 12 November 2019, following its revision of Turkey's long-term foreign currency issuer default rating, Fitch revised the rating outlooks for 20 Turkish banks to "stable", including that of the Bank. On 13 December 2019, following the announcement of an agreement to change the Bank's ownership structure, Fitch revised the Group's outlook from "stable" to "negative". For further discussion of the risks associated with the credit ratings of Turkey and the Bank see "*Risks Related to the Group's Business—The Group's capital adequacy ratio and its ability to obtain funding may be affected by changes to its credit ratings and the credit ratings of Turkey*".

The political and social circumstances surrounding the attempted coup and its aftermath (including rating downgrades of Turkey and the Bank) or other political developments could have a negative impact on the Turkish economy and institutions (including the value of the Turkish Lira, international investors' willingness to invest in Turkey and domestic demand), the institutional and regulatory framework, the Bank's liquidity and/or conditions (financial or otherwise) and/or the value and/or market price of an investment in Covered Bonds issued under the Programme.

***Conflict and uncertainty within Turkey or in neighbouring and nearby countries may have a material adverse effect on the Group's business, financial condition, results of operations or prospects***

Turkey is located in a region that has been subject to on-going political and security concerns, especially in recent years. Political uncertainty within Turkey and in certain neighbouring and nearby countries, such as Iraq, Syria, Iran, Georgia, Cyprus, Egypt, Ukraine and Armenia has historically been one of the potential risks associated with an investment in Turkish securities.

Since December 2010, political instability has increased markedly in a number of countries in the Middle East and North Africa, such as Syria, Iraq, Egypt, Libya, Tunisia, Jordan, Bahrain and Yemen. Tensions have also increased between a number of Middle Eastern states, notably Iran and Saudi Arabia. Unrest in these countries (as well as global tensions with Iran and between Russia and Ukraine) may have political implications in Turkey or otherwise have a negative impact on the Turkish economy, including through both financial markets and the real economy.

***Risks associated with the conflicts in Syria and Iraq***

Political instability in the Middle East was recently exemplified by the internal conflict in Syria and Iraq and tension between Iran and Israel. Recent developments in Iraq raise concerns as Iraq is one of Turkey's largest export markets, ranking fourth in 2018 according to TurkStat and the Energy Market Regulatory Board (*Enerji Piyasası Düzenleme Kurumu*).

In 2014, ISIL and aligned forces began a major offensive in northern Iraq against the Iraqi government, capturing several cities and other territory in this region and oil fields in eastern Syria. In August and September 2014, a U.S. led coalition began an anti-ISIL aerial campaign in northern Iraq and Syria. At the end of July 2015, Turkey joined the U.S.-led coalition and initiated air strikes against ISIL in Syria and against the People's Congress of Kurdistan, formerly known as PKK in northern Iraq. Although the Bank does not have significant direct exposure with respect to Iraq, many Turkish companies, including many of the Bank's clients, do have such exposure. Therefore, the unrest in Syria and Iraq could have a material negative impact on the Turkish economy, the business of the Bank's clients and consequently also the Group.

Moreover, unrest and protests broke out among Kurdish groups within Turkey as a result of the events in Syria. For example, in early October 2014, ISIL besieged the Syrian Kurdish town of Kobani and the Government did not authorise the deployment of military forces to the Syrian-Turkish border to prevent the city from falling under the control of ISIL, resulting in demonstrations that resulted in 52 deaths. Tensions continued to rise after a series of bombings, including the suicide bombing of a "help-Kobani" event that resulted in the death of 31 people excluding the suicide bomber and almost concurrent alleged PKK attacks against the Turkish Army and security forces.

On 25 September 2017, the Kurdish Regional Government in Northern Iraq held a referendum for the independence of the region administered by the Kurdish Regional Government in Northern Iraq. Turkish government officials announced that Turkey will not recognise the outcome of the referendum and might take punitive measures, including economic sanctions (e.g. cutting off the pipeline that allows the transport of oil from Northern Iraq to third countries) and closing its airspace and border crossing to Northern Iraq. On 16 October 2017, Turkey closed its airspace to the Northern Iraqi Kurdish region and, in 2018, the Turkish military began a cross-border operation in Northern Iraq to prevent terrorist activities against Turkey. As of the date of this Base Prospectus, the possible political and economic impact of such referendum remains unknown.

On 20 January 2018, Turkish officials announced that the Turkish military had started an operation in the Afrin area of Syria targeting organisations that Turkey deems to be terrorist organisations. On 13 April 2018, the United States, the United Kingdom and France launched airstrikes against targets in Syria following a suspected chemical attack on civilians by the Syrian forces in Damascus, Syria, escalating tensions between Russia and the United States. Turkish

government officials announced that they consider the United States-led operation to be an appropriate response to the suspected chemical attack. Any impact of such operations, including on Turkey's relationship with the United States and Russia, is unknown. In the meantime, the Turkish military's operations against organisations that Turkey deems to be terrorist organisations continue in Syria. Given the continuing hostilities in Syria and the number of parties involved, it is very difficult to predict the impact of the continuing tensions on the geopolitical stability in the broader region, including Turkey, and any potential resulting adverse effect on the Turkish economy, as well as on the Bank's business, financial condition, results of operations and prospects.

Elevated levels of conflict in Iraq and Syria have also caused a significant displacement of people. The high number of refugees within Turkey's borders and foreign intelligence agents infiltrating both refugee camps and local communities remain current threats. Turkey is among the countries that have taken a significant number of Syrian refugees with a negative economic, political and social impact on Turkey.

The ongoing conflict in Syria has been the subject of significant international attention and its impact and resolution is difficult to predict. Given Turkey's proximity to the conflict zone, Turkey has deployed additional troops near the Syrian border since the beginning of the conflict to strengthen its military position. In August 2016, Turkey's military began direct operations in Syria to combat ISIL and the People's Protection Units, a Kurdish separatist group in northern Syria. The Presidency made a statement after the Turkish Security Council meeting of 30 July 2019 chaired by the President Recep Tayyip Erdoğan, that Turkey will continue its operations against the PKK in northern Iraq and is determined to make efforts to create a "peace corridor" along the Turkish border with Syria. On 9 October 2019, the Turkish Air Force launched "Operation Peace Spring" with airstrikes in northern Syria intended to expel armed groups which the Turkish Government views as terrorist organisations, including the Syrian Democratic Forces ("SDF") which Turkey views as linked to the PKK, from the border area and create a "peace corridor". On 14 October 2019, the President of the United States issued an executive order and the OFAC added the Turkish Ministry of Energy and Natural Resources and the Turkish Ministry of National Defence, as well as the relevant ministers, to its list of specially designated nationals and blocked persons. Several European countries imposed an arms embargo on Turkey. On 17 October 2019, the U.S. and Turkey agreed on a deal in which Turkey agreed to suspend its operations in Syria for five days in return for a complete withdrawal by the SDF from a safe zone south of the Syria-Turkey border. On 22 October 2019, the President of Turkey Recep Tayyip Erdoğan and the President of the Russian Federation Vladimir Putin agreed to maintain the status quo in northern Syria reached as a result of "Operation Peace Spring". On 23 October 2019, the President of the United States announced that there was a "permanent" ceasefire in the region and sanctions on Turkey would therefore be lifted. On 29 October 2019, in response to the recent operations in northern Syria, the U.S. House of Representatives passed a bill with a majority of 403 votes to 16, envisaging potential sanctions on Turkey, Türkiye Halk Bankası A.Ş. and on any foreign financial institution that the U.S. State Department determines to have knowingly facilitated significant transactions for the Turkish Armed Forces or Turkey's defence industry related to "Operation Peace Spring"; however, such bill has not been introduced to the Senate yet and does not have legal power as of the date of this Base Prospectus. As a result of any further events in northern Syria (including continued operations of Turkey), tensions with international stakeholders could further increase, and Turkey may face increased economic and/or security risks, if terrorists seek to retaliate for increased military actions, or if the U.S. or European countries take restrictive or punitive actions against Turkey, Turkish economy or Turkish institutions. Such restrictive or punitive actions, escalating diplomatic and political tensions with the U.S. or other countries, and/or other political circumstances (and related actions, rumours and/or uncertainties) might have a material adverse effect on the Group's business, financial condition and/or results of operations and/or on the market price of the Covered Bonds. In addition, any escalation of political instability or international military intervention in Syria and/or a more aggressive stance by Assad's allies, Russia, Iran, and China against Turkey and opposition supporters may act as a destabilising factor for Turkey.

### ***Risks from events affecting Turkey's relationship with Russia***

Heightened tensions between Turkey and Russia over Syria or events in Ukraine could materially negatively affect the Turkish economy, including through any negative impact on Turkey's tourism revenues or its access to Russian energy supplies. Russia has become Turkey's second largest trading partner and the largest supplier of natural gas to Turkey. Any disruption to the relationship with Russia might have a material adverse effect on the Group's business, financial condition and/or results of operations and on the market price of the Covered Bonds.

In late 2015, Russian war planes started air strikes in Syria in support of the Syrian government. On 24 November 2015, Turkey shot down a Russian military aircraft near the Syrian border claiming a violation of Turkey's airspace, which has resulted in a deterioration in the relationship between Turkey and Russia and led to Russia implementing certain sanctions against Turkey. The impact on Turkey's economic relationship with Russia and geopolitical implications remain uncertain.

In addition, in early 2014, political unrest and demonstrations in Ukraine led to a change in the national government. While the United States and the EU recognised the new government, Russia claimed that the new government was illegitimate and was violating the rights of ethnic Russians living in the Crimean peninsula and elsewhere in Ukraine. Escalating military activities in Ukraine and on its borders, including Russia effectively taking control of Crimea (followed by Crimea's independence vote and absorption by Russia) have combined with Ukraine's very weak economic conditions to create great uncertainty in Ukraine and the global markets. In addition, the United States and the EU have implemented increasingly impactful sanctions against certain Russian entities, persons and sectors, including Russian financial, oil and defence companies, as a result of the conflict. While not directly impacting Turkey's territory, the dispute could negatively affect Turkey's economy, including through its impact on the global economy and the impact it might have on Turkey's access to Russian energy supplies. This, in turn, may have an adverse effect on the Group's business, financial condition, results of operations and prospects.

### ***Risks from events affecting Turkey's relationship with the United States***

On 8 October 2017, the United States suspended all non-immigrant visa services for Turkish citizens in Turkey following the arrest of an employee of the United States consulate in İstanbul. On the same date, Turkey retaliated by issuing a statement that restricts the visa application process for United States citizens. While visa services have since returned to normal, relations between the two countries remained strained on various topics, including the conviction of an executive of a state-controlled bank, Türkiye Halk Bankası A.Ş. (who was released in July 2019 after serving his sentence), for bank fraud and conspiracy to violate U.S. sanctions laws in assisting Iran to evade U.S. sanctions and the related judicial process against Türkiye Halk Bankası A.Ş. Furthermore, in August 2018 the United States had imposed sanctions on two Turkish ministers and increased import taxes on Turkish steel and aluminium. Nonetheless, on 12 October 2018, a Turkish court released a detained American pastor who had been arrested in October 2016, and the United States removed the sanctions imposed on Turkish ministers. In addition, on the week of 2 November 2018, certain U.S. sanctions on Iranian financial and energy sectors and on certain other imports from Iran, were re-imposed. Nevertheless, the United States granted Turkey a partial exemption allowing it to import limited amounts of oil from Iran for six months. However, such exemption was not renewed at the end of the six-month period and it remains uncertain whether Turkey will, or will be able to, comply with such U.S. sanctions against Iran. Any similar events in the future, including any operations of the Turkish armed forces in Syria targeting organisations that Turkey deems to be terrorist organisations related to People's Congress of Kurdistan (formerly known as the PKK), in connection with the potential U.S. withdrawal from Syria, including any restrictive or punitive actions adopted by the U.S. and/or EU institutions in connection with operations and/or actions of Turkey in the northern Syria and/or Turkey's compliance with any further prospective U.S. sanctions against Iran might result in (or contribute to) a deterioration of the relationship between Turkey and the EU and/or the United States and might have a negative impact on the Turkish economy. The relationship with the United States

was also impacted by Turkey's agreement to acquire a U.S.\$2.5 billion S-400 air and missile defence system from Russia in December 2017. In response, the United States announced that Turkey will be removed from the F-35 programme under which Turkey acquires fighter jets from the United States and the United States has threatened further sanctions. As of the date of this Base Prospectus a bill to impose new sanctions as result of Turkey's acquisition of the S-400 defence system and for Turkey's military involvement in Syria is under consideration in the U.S. Senate. As such, political uncertainty might continue. Furthermore, certain regulatory actions, investigations, allegations of past or current wrongdoing and similar actions (including the judicial process against Türkiye Halk Bankası A.Ş.) might lead to related actions, rumours and/or uncertainties surrounding breaches by Turkish banks of international sanctions laws or other financial markets misconduct. As of the date of this Base Prospectus, the final outcome in relation to the judicial process, including any appeal and whether any sanction, fine or penalty will be imposed by the Office of Foreign Assets Control ("OFAC") or any other U.S. regulatory body on Türkiye Halk Bankası A.Ş. or any other Turkish bank or person in connection with those matters, as well as the possible reaction of the financial markets to any such events or speculation regarding such events, is unknown. Actual or perceived political instability in Turkey, escalating diplomatic and political tensions with the United States or other countries, and/or other political circumstances (and related actions, rumours and/or uncertainties) might have a material adverse effect on the Group's business, financial condition and/or results of operations and/or on the market price of the Covered Bonds.

### ***Risks from events affecting Turkey's relationship with the EU***

In March 2016, Turkey signed an agreement with the EU in an effort to control the irregular flow from Turkey to the EU of refugees, mainly displaced due to the conflict in Syria. However, such agreement has not been fully implemented in accordance with its terms as of the date of this Base Prospectus, and Turkish officials stated in 2019 that the EU has not yet fulfilled its undertakings made under such agreement.

On 25 April 2017, the Parliamentary Assembly of the Council of Europe voted to restart monitoring Turkey in connection with human rights, the rule of law and the state of democracy. Diplomatic or political tensions between Turkey and member states of the EU or other countries might impact trade or demand for imports and exports.

In the recent years, several important natural gas reserves have been discovered in the eastern Mediterranean, in the territorial waters and exclusive economic zone of the island of Cyprus. Both the Republic of Southern Cyprus, an EU member but not legally recognised by Turkey, supported by Greece, and the Turkish Republic of Northern Cyprus, not legally recognised by the EU and supported by Turkey, lay claim to gas in these waters and launched drilling activities. In its conclusions of 15 July 2019, the Council of the EU recalled its previous conclusions, and stated that (i) such drilling activities of Turkey, which the Council deems illegal, have a serious immediate negative impact across the range of EU-Turkey relations, (ii) it has decided not to hold further meetings of the EU-Turkey high-level dialogues for the time being, (iii) it endorses the European Commission's proposal to reduce the pre-accession assistance to Turkey for 2020, and (iv) it invites the European Investment Bank to review its lending activities in Turkey, notably with regard to sovereign-backed lending. On 11 November 2019, the EU adopted a framework for imposing sanctions on individuals or entities responsible for, or involved in, these drilling activities.

The events described above and any similar events in the future, including deterioration of the relations between Turkey and Greece due to the matter of eastern Mediterranean natural gas reserves and any prospective actions which might be taken by the EU in response to Turkey's aforementioned activities in the eastern Mediterranean or northern Syria, might result in (or contribute to) a deterioration of the relationship between Turkey and the EU and might have a negative impact on investors' perceptions of Turkey and the broader Turkish economy, for reasons including the lack of Turkey's access to EU funding, which may consequently have an adverse effect on the Group's business, financial condition, results of operations and prospects.

### ***Risks relating to domestic terrorism***

Terrorist attacks and the threat of future terrorism have had and could continue to have a material adverse effect on Turkey's capital markets, the level of tourism, foreign investment and other elements of the Turkish economy and ultimately on the Bank's financial condition and results of operations. Turkey experienced increasing incidents of terrorist attacks in 2016, both from ISIL and the People's Congress of Kurdistan, formerly known as PKK. On 29 June 2016, a terror attack struck Istanbul's Atatürk International Airport, which resulted in at least 42 deaths and more than 230 injuries. On 10 December 2016, 44 people were killed and more than 160 were injured as a result of twin bombings in central Istanbul, and the attack was claimed by TAK, a PKK splinter group. On 1 January 2017, 39 people were killed and 69 were injured following a shooting in a nightclub in Istanbul. The attack was linked to ISIL. On 5 January 2017, two people were killed and 11 others were wounded in a terrorist attack in Izmir which was again claimed by TAK. While the Bank's property and business interruption insurance covers damage to insured property directly caused by terrorism, such amounts may be insufficient to cover any losses that it may incur.

### ***Other risks from events affecting Turkey's international relations***

On 2 October 2018, a Saudi journalist went missing after entering the Saudi consulate in Istanbul. The Istanbul prosecutors started a criminal investigation about the incident, and on 31 October 2018, the chief prosecutor of Istanbul issued a written statement about the investigation. According to such statement, evidence was found that the Saudi journalist was killed intentionally in the Saudi consulate and investigations are continuing. As of the date of this Base Prospectus and to the best of the Bank's knowledge, judicial process in Turkey and Saudi Arabia is continuing, and the outcome of such process and their implications on the relationship between Turkey and Saudi Arabia are not clear or predictable. A deterioration of the relationship between Turkey and Saudi Arabia could negatively affect Turkey's economy, including through its impact on the global economy and the impact it might have on Turkey's access to Saudi energy supplies. This, in turn, may have an adverse effect on the Group's business, financial condition, results of operations and prospects..

### ***The Turkish government may default on its debts***

Turkish banks have traditionally invested a large portion of their assets in securities issued by the Government. As of 30 September 2019, 93.4% of the Group's securities portfolio was invested in securities issued by the Government (representing 13% of its total assets), compared to 94% as of 31 December 2018 (representing 13% of its total assets). The Group's securities to assets ratio was 13.7% as of 30 September 2019, in comparison with the 15.0% average for private banks (as of 31 December 2018, the Group's ratio was 13.4%, with the average for private banks 13.4%). In addition to any direct losses that the Group might incur, a default, or the perception of an increased risk of default by the Government in making payments on its securities or the downgrade in Turkey's credit rating would likely have a significant negative impact on the Turkish banking system generally and thus may affect the Bank's business, financial condition and/or results of operations.

### ***Turkey's economy is subject to inflation and risks relating to its current account deficit***

In the past, Turkey has experienced high annual rates of inflation. This has historically been considered one of the most significant problems faced by the Turkish economy. Over the five-year period ended 31 December 2002, the Turkish economy experienced annual inflation averaging approximately 54.4% per year as measured by the CPI. Turkey adopted an open inflation targeting framework in 2006 with binding inflation targets. Inflation was reduced, but consistently remained above the Central Bank's medium range target of 5%, and was driven by a succession of inflationary shocks such as the depreciation of the Turkish Lira, a surge in commodity prices in 2007 and 2008, temporary increases in government expenditure and increased taxes, etc.

Although prior policies have had some success in reducing inflation from its formerly high levels, inflation has increased again in recent years and such policies may not be successful in the



future, especially given Turkey's substantial current account deficit and global liquidity conditions. The yearly CPI for 2016 was 8.53%. As of June 2017, the CPI stood at 10.9%, mainly driven by the increase in the price of alcoholic beverages and tobacco, transport and healthcare services. As at 31 December 2017, the CPI stood at 11.9%, mainly driven by the pass-through effects of the depreciation of the Turkish Lira and rising food prices. As at 31 December 2018, CPI stood at 20.30%, mainly driven by the increase in the prices of home appliances and food and non-alcoholic beverages. As of June 2019, the CPI stood at 15.72% on a yearly basis and 0.03% on a monthly basis, driven upwards mainly by the increase in restaurant and hotel price and downwards primarily by the decrease in the price of food and non-alcoholic beverages. As of October 2019, the CPI stood at 8.55% on a yearly basis, which is a lower rate of increase compared to the rates experienced in the first half of 2019, such lower rate being primarily attributed to the positive base effect created by the CPI of October 2018 which had stood at 25.24% on a yearly basis.

If the level of inflation in Turkey fluctuates or increases significantly (for any reason), then the Bank's costs may increase, and, if not accompanied by an increase in interest rates, then its operating and net margins may decrease. Inflationary pressures may also curtail the Bank's ability to access foreign financial markets and may lead to further Government intervention in the economy, including the introduction of Government policies that may adversely affect the overall performance of the Turkish economy. The various impacts of inflation thus may have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The Central Bank closely monitors the U.S. Federal Reserve's actions and takes action to maintain price and financial stability. Between December 2015 and December 2018, the U.S. Federal Reserve raised the U.S. federal funds rate by 0.25% nine times. However, in July 2019, the U.S. Federal Reserve halted its rate-increasing cycle, cut the U.S. federal funds rate by 0.25% and announced its decision to halt the reduction in its balance sheet on 1 August 2019, two months earlier than planned. The U.S. Federal Reserve further cut the U.S. federal funds rate by 0.25% in each of September and October 2019. Whether the U.S. Federal Reserve will further cut or increase the U.S. federal funds rate and the impact of such changes is uncertain. The Turkish Lira and certain other emerging market currencies may depreciate against the U.S. dollar if the U.S. Federal Reserve does not ease monetary policy to the degree expected by the financial markets. Primarily due to changes in macroeconomic conditions and the political uncertainty, the Turkish Lira depreciated against the U.S. dollar by 30% from the second quarter of 2017 to the second quarter of 2018, and from TL 4.56 to 1 U.S. dollar at the end of June 2018 to TL 6.88 to 1 U.S. dollar on 13 August 2018, as a result of heightened tensions in relations between Turkey and the United States. Nevertheless, due to, among other factors, a tight monetary stance of the Turkish Central Bank and favourable monetary stance of the developed-country central banks for Turkish Lira and certain other emerging market currencies, the Turkish Lira appreciated from TL 6.55 to 1 U.S. dollar at the end of August 2018 to as low as TL 5.47 to 1 U.S. dollar in August 2019 and stands at TL 5.75 to 1 U.S. dollar as of 28 November 2019.

The size of Turkey's current account deficit or adverse changes in its balance of payments position (including the availability of external financing for Turkey) could lead to exchange rate adjustments and higher inflation, which could have a material adverse effect on the Bank's business, financial condition and/or results of operations. On a 12-month basis, Turkey's current account deficit declined to U.S.\$29.4 billion as of June 2016. However, the trend of decline reversed in the third quarter of 2016 due to the depreciation of the Turkish Lira against the U.S. dollar. Turkey had current account deficits of U.S.\$32.6 billion (3.8% of GDP) in 2016, U.S.\$47.2 billion (5.5% of GDP) in 2017. However, Turkey's current account deficit significantly decreased to U.S.\$27.0 billion (3.4% of GDP) in 2018, on a 12-month basis, and the current account reached a surplus of U.S.\$1.2 billion (0.2% of GDP) and U.S.\$5.9 billion (0.8% of GDP) as at 30 June 2019 and at 30 September 2019, respectively, on a 12-month rolling basis, primarily because of the decrease in the external trade deficit. Various events including any deterioration in economic conditions in Turkey's primary export customers and geopolitical risks (such as tariffs imposed by the United States on imports from Turkey), as well as an increase in energy prices, might result in an increase in the current account deficit, including due to the possible impact on Turkey's foreign trade and tourism revenues.

Turkey is an energy-dependent country and any geopolitical development concerning energy security could have a material impact on Turkey's current account balance. Turkey recorded U.S.\$24.0 billion of net energy imports in 2016. In 2016 Turkey's current account deficit reached U.S.\$32.6 billion and energy imports represented 15.1% of Turkey's total imports during 2016. In 2017, Turkey's current account deficit and net energy imports stood at U.S.\$47.2 billion and U.S.\$32.9 billion, respectively. In 2018, Turkey's current account deficit and energy imports were U.S.\$27.0 billion and U.S.\$38.6 billion, respectively. As of September 2019, Turkey's 12-month rolling current account balance and net energy imports were U.S.\$5.9 billion and U.S.\$35.6 billion, respectively. Recovering oil prices since 2016 have had an adverse impact on Turkey's current account balance and may face further adverse impacts if oil prices continue to increase. If geopolitical tensions escalate in the Middle East and lead to further concerns around global energy supply, such as any events prejudicing the oil trade in the Strait of Hormuz or any country that is a major global oil supplier (such as Saudi Arabia) or any prospective sanctions imposed by the United States and/or the EU on Iran; oil prices may increase and this may entail a higher current account deficit for Turkey. A higher current account deficit may have an adverse effect on the overall performance of the Turkish economy and thus may have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The current account deficit still remains a significant concern for policy makers and may be subject to further intervention. Should the Central Bank adopt any additional measures to limit any increase in the current account deficit, such measures would likely reduce economic growth and, in turn, have a material adverse effect on the Bank's business, financial condition and/or results of operations. However, given Turkey's savings and investments structure, it is not possible for Turkey to achieve its targeted growth figures without current account imbalances. Should the current account deficit widen persistently, this may lead to a sudden adjustment in the Turkish Lira with inflationary consequences, similar to the depreciation in the value of Turkish Lira against foreign currencies and the subsequent rise in inflation in the second half of 2018.

### ***The value of the Turkish Lira fluctuates against other currencies***

Macroeconomic uncertainties may result in volatility in the value of the Turkish Lira, which could in turn adversely impact the Bank's capital adequacy and, if there is any downturn in the global financial markets, this could have an adverse effect on Turkey's debt servicing ability. In particular, the value of the Turkish Lira depreciated against major currencies in recent years largely due to the increased risk perception in global markets regarding Turkey, the market's expectation of the U.S. Federal Reserve's increase of the U.S. federal funds rate and the uncertainty resulting from the general elections in Turkey and other political events. See "*—Political developments in Turkey may have a material adverse effect on the Group's business, financial condition, results of operations and prospects*". In nominal terms, the Turkish Lira depreciated against the U.S. dollar by 7.2% between 31 December 2016 and 31 December 2017 and by 39.5% between 31 December 2017 and 31 December 2018. The Turkish Lira depreciated from TL 4.56 to 1 U.S. dollar at the end of June 2018 to TL 6.88 to 1 U.S. dollar on 13 August 2018, as a result of heightened tensions in relations between Turkey and the United States, causing the Central Bank and the BRSA to announce measures to support the financial markets and prevent volatility in the currency market. In the two days following these announcements, the Turkish Lira appreciated to TL 6.14 to 1 U.S. dollar, but has continued to exhibit substantial volatility with continuing pressure. In the third quarter of 2019, the Turkish Lira depreciated against the U.S. dollar by 7.6%, from TL 5.26 to 1 U.S. dollar as at 31 December 2018, to TL 5.66 to 1 U.S. dollar as at 30 September 2019.

Between December 2015 and December 2018, the U.S. Federal Reserve raised the U.S. federal funds rate by 0.25% nine times. Primarily due to changes in macroeconomic conditions and the political uncertainty, the Turkish Lira depreciated against the U.S. dollar by 30% from the second quarter of 2017 to the second quarter of 2018. In this context, the Central Bank has taken certain actions against the Turkish Lira's depreciation (i) in April 2018, the Central Bank increased its highest interest band, the late-liquidity window lending rate, by 75 bps to 13.5%, (ii) on 23 May 2018,

it increased the same rate to 16.5%, (iii) on 28 May 2018, it announced that the decision to set the one-week repo rate as the policy rate effective as of 1 June 2018, at a level equal to the then-current late-liquidity window lending rate, 16.5%, as part of its efforts of simplifying the monetary policy, and (iv) on 7 June 2018, it raised that policy rate by 125 bps to 17.75%. However, in its monetary meeting on 24 July 2018, the first since the snap general and presidential elections held on 24 June 2018, the Central Bank did not raise the policy rate, leading to an appreciation of the U.S. dollar against the Turkish Lira of 1.6% from 24 July 2018 to 25 July 2018. Furthermore, from 29 June 2018 to 13 August 2018, the Turkish Lira depreciated from TL 4.56 to 1 U.S. dollar, to TL 6.88 to 1 U.S. dollar, based on various factors, including (i) the imposition of sanctions by OFAC over the detention of an American pastor, which included the freezing of assets of the Turkish Minister of Justice and Interior Minister and the doubling of U.S. tariffs on steel and aluminium imports from Turkey, and the possibility of further increases in political tension between the United States and Turkey, (ii) the tightening, and the potential of further tightening, of the monetary policy in the United States and Europe, (iii) concerns over the external financing requirements of the Turkish Treasury's and certain Turkish companies' foreign currency denominated debt, (iv) concerns around the Central Bank's interest rate policy, particularly in relation to real interest rates, and (v) investors' perceptions of the Turkish political and economic environment, especially with respect to the independence of Turkey's financial institutions, including the Central Bank. On 13 August 2018, the Central Bank announced certain Turkish Lira and foreign currency liquidity management measures, including increasing the foreign exchange deposit limits of Turkish banks, in order to ensure the financial stability and the efficiency of the financial markets. Furthermore, on 14 August 2018, the Central Bank introduced amendments to the Communiqué Regarding Reserve Requirements and (i) lowered Turkish banks' Turkish Lira reserve requirement ratios by 250 bps for all maturity brackets and all liabilities and (ii) lowered the reserve requirement ratios by 400 bps for up to three-year maturities, and all foreign exchange liabilities other than deposits. In addition, in the week commencing 13 August 2018, the Central Bank ceased funding at the one-week repo rate, instead adopting the overnight borrowing rate, at 150 bps above the one-week repo rate, as the main lending rate. The BRSA has also taken certain measures against the depreciation in the Turkish Lira, including the prevention of Turkish banks from using foreign exchange currency swaps, forwards and similar transactions with residents abroad under which the Turkish banks provide Turkish Lira at the start of the transaction, to the extent that such transactions exceed 25% of the banks' regulatory capital, calculated daily on a standalone and consolidated basis. Following the announcement of these measures, the Turkish Lira appreciated from TL 6.88 to 1 U.S. dollar as at 13 August 2018, to TL 6.14 to 1 U.S. dollar as at 15 August 2018. Further, on 13 September 2018, the Central Bank increased the policy interest rate (one-week repo rate) from 17.75% to 24%, which led to an appreciation in Turkish Lira by 19.7% against the U.S. dollar, from TL 6.55 to 1 U.S. dollar at the end of August 2018, to TL 5.26 to 1 U.S. dollar as at the end of December 2018, along with other factors including the release by a Turkish court of a detained American pastor in October 2018, and the subsequent removal by the United States of the sanctions imposed on Turkish ministers.

In July 2019, the Central Bank cut the one-week repo rate by 425 bps to 19.75%, whereas the U.S. Federal Reserve halted its rate-increasing cycle and cut the U.S. federal funds rate by 0.25% and announced its decision to halt the reduction in its balance sheet on 1 August, two months earlier than planned. In this context, due to, among other factors, a tight monetary stance of the Turkish Central Bank and favourable monetary stance of the developed-country central banks for Turkish Lira and certain other emerging market currencies, the Turkish Lira appreciated by 4.0% from TL 5.76 to 1 U.S. dollar as at 28 June 2019, to TL 5.52 to 1 U.S. dollar, as at 1 August 2019. Further, the Central Bank continued its rate-cutting cycle and cut the one-week repo rate by 325 bps to 16.50% in September 2019, by 250 bps to 14.00% in October 2019 and by 200 bps to 12.00% in December 2019. In the same period, the U.S. Federal Reserve cut the U.S. federal funds rate further by 0.25% in each of its Federal Open Market Committee meetings of September 2019 and October 2019, lowering the target range for the federal funds rate to 1.50% to 1.75%. If the Central Bank lowers the one-week repo rate faster than expected and/or the U.S. Federal Reserve does not further lower the U.S. federal funds rate, while at the same time, the Central Bank further cuts the one-week repo rate; the Turkish Lira may depreciate against the U.S. dollar, which may adversely affect the financial condition of the

clients of the Group, their ability to service debts owed to the Group, the Group's ability to service its foreign currency denominated liabilities (including any liabilities under the Covered Bonds) and/or Turkey as a whole.

For a discussion of risks related to current account imbalances and the impact of the Central Bank's intervention, see "*—Turkey's economy is subject to inflation and risks relating to its current account deficit*".

The exchange rate remains volatile. Any significant further depreciation of the Turkish Lira against the U.S. dollar or other major currencies may adversely affect the financial condition of Turkey as a whole and may have a material adverse effect on the Bank's business, financial condition and/or results of operations.

***Turkey's economy may be impacted by adverse events in other emerging markets***

Emerging markets such as Turkey are subject to a greater risk of being perceived negatively by investors based upon external events (for example, volatility in the emerging markets, monetary policies in the United States and the Eurozone, continued violence in Syria and Iraq or a slowdown in China's growth) than more developed markets are, and financial turmoil in any emerging market (or global markets generally) could have a "contagion" effect and 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 Covered Bonds (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.

While the impact of the global financial crisis of 2008 on Turkey was relatively limited, Turkey has been adversely affected by such contagion effects on a number of occasions in the past, including following the financial crises in 1994 and 2000 to 2001. Similar developments can be expected to affect the Turkish economy in the future, which might, in turn, have an adverse impact on the prices of obligations of Turkish capital markets issuances, including the Covered Bonds.

***Turkey's economy has been undergoing a significant transformation and remains subject to ongoing structural and macroeconomic risks***

Since the mid-1980s the Turkish economy has moved from a highly protected state directed system to a market-oriented free enterprise system. Reforms have, among other things, largely removed price controls and reduced subsidies, reduced the role of the public sector in the economy, emphasised growth in the industrial and service sectors, liberalised foreign trade, reduced tariffs, promoted export growth, eased capital transfer and exchange controls, encouraged foreign investment, strengthened the independence of the Central Bank, led to full convertibility of the Turkish Lira by accepting Article VIII of the International Monetary Fund's (the "IMF") Articles of Agreement and overhauled the tax system.

However, the Turkish economy has also experienced a succession of financial crises and severe macroeconomic imbalances. These include substantial budget deficits, significant current account deficits, high rates of inflation and high real rates of interest. These factors have resulted in a substantial depreciation of the Turkish Lira against major foreign currencies, particularly between 1994 and 2001. As of 30 September 2019, general government nominal debt to GDP ratio was 30.2%. This ratio has remained relatively stable and was 29.1%, 28.2% and 28.8% as of 31 December 2016, 31 December 2017 and 31 December 2018, respectively.

In 2001, Turkey implemented a macroeconomic programme, backed by a U.S.\$19.0 billion standby agreement with the IMF. The Government signed a further three year standby agreement with the IMF in 2005. After having successfully completed the two stand by arrangements with the

IMF, Turkey paid the last instalment to the IMF in May 2013 and is currently not liable for further payments. Although there were negotiations on the conditions of a new standby agreement between Turkey and the IMF in 2009, these negotiations were unsuccessful and the Government has refrained from signing a new agreement with the IMF, citing disagreement over issues such as funding for local government.

In March 2019, the United States announced that imports from Turkey and India would no longer be eligible for tariff relief under the “Generalized System of Preferences” programme, which programme seeks to promote economic growth in countries identified as developing countries. In Turkey’s case, the United States cited Turkey’s rapid economic development since its entry into the programme and that it thus no longer qualified to benefit from these tariff preferences. Regulatory changes such as these reflect increasing challenges faced by some exporters, which might have a material adverse effect on Turkey’s economy and/or the financial condition or one or more industries within Turkey.

Furthermore, Turkey may not be able to remain economically stable during any periods of renewed global economic weakness due to its reliance on external demand and external financing. GDP growth was 3.2% in 2016 primarily supported by government consumption with all other sub segments performing worse than the prior year. In 2017, with the contribution from government incentives targeting recovery of the economic activity, GDP growth increased to 7.5%. In 2018, even with the contribution of government spending, GDP growth decreased to 2.8%. GDP decreased by 0.9% in the nine months ended 30 September 2019 compared to the same period in 2018 according to data from TurkStat, primarily as a result of the negative impact of reduced domestic demand mostly driven by contraction in private consumption and investments. On the other hand, external demand supported GDP in the first nine months of 2019, as a result of increase in exports and weakening imports mostly due to depressed consumption and investments. Future negative developments in the Turkish economy and failure to achieve growth targets could impair the Bank’s business strategies and have a material adverse effect on the Bank’s business, financial condition and results of operations.

In October 2016, the government announced a three year medium-term economic programme from 2017 to 2019. Under this programme, the government set growth targets of 4.4% for 2017 and 5.0% for each of 2018 and 2019, as well as a gradual decrease in the current account deficit-to-GDP ratio, according to the Ministry of Development. In October 2017, the Ministry of Development announced a new medium-term economic programme, covering the years from 2018 to 2020, setting growth targets of 5.5% for each of 2018, 2019 and 2020, and inflation rates of 7.0%, 6.0% and 5.0% for 2018, 2019 and 2020, respectively. This medium-term economic programme was replaced in September 2018 by a new medium-term economic programme (the “**New Economic Programme**”) announced by the Turkish Treasury, which includes projections for 2018 to 2021. According to the New Economic Programme, GDP growth estimates were revised to be 3.8%, 2.3%, 3.5% and 5.0% for 2018, 2019, 2020 and 2021, respectively (the actual 2018 figure has since been announced as only 2.8%) and the inflation rate was estimated to be 20.8%, 15.9%, 9.8% and 6.0% for 2018, 2019, 2020 and 2021, respectively (the actual 2018 figure has since been announced as 20.3%). The New Economic Programme was updated in October 2019. The updated New Economic Programme set the GDP growth estimates as 0.5% for 2019 and 5.0% for each of 2020, 2021 and 2022. Further, it has estimated the inflation rate as 12.0%, 8.5%, 6.0% and 4.9% for 2019, 2020, 2021 and 2022, respectively. There can be no assurance that these targets will be reached, that the Turkish government will continue to implement its current and proposed economic and fiscal policies successfully or that the economic growth achieved in recent years will continue considering external and internal circumstances, including the Central Bank’s efforts to curtail inflation and simplify monetary policy while maintaining a lower funding rate, the current account deficit and macroeconomic and political factors, such as changes in oil prices and uncertainty related with conflicts in Iraq and Syria (See “—*Conflict and uncertainty within Turkey or in neighbouring and nearby countries may have a material adverse effect on the Group’s business, financial condition, results of operations or prospects*”) and the political developments in Turkey, including the

uncertainty resulting from the structural changes to implement the new constitutional presidential system entered into force with the snap general and presidential elections held on 24 June 2018. (See “—*Political developments in Turkey may have a material adverse effect on the Group’s business, financial condition, results of operations and prospects*”).

Any of these developments might cause Turkey’s economy to experience macro-economic imbalances, which might impair the Group’s business strategies and/or have a material adverse effect on the Group’s business, financial condition and/or results of operations. See “—*Risks Related to the Turkish Banking Industry—The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector*”.

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

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

***Turkey’s economy may be impacted by uncertainty in the EU***

The EU is Turkey’s principal export market. If the EU economies suffer any growth setback or if other factors have an adverse impact on Turkey’s exports to the EU, the country’s growth performance would suffer, exposing the Bank and its customers to macroeconomic and operational risks.

On 23 June 2016, the United Kingdom (the “UK”) voted in favour of leaving the EU. The negotiation of the terms of the UK’s exit may take a number of years, has already been delayed, and is likely to increase volatility in global financial markets as well as in the EU. As of the date of this Base Prospectus, the situation and consequences of the leave vote in the UK (and the UK’s decision in March 2017 to trigger Article 50 and commence the process of leaving the EU, and with the new deadline set for 31 January 2020) remain highly uncertain, including the possible impact on European and global economic and market conditions and the possible impact on Sterling, euro and other European currencies. In addition, any future withdrawal by another member state from the EU and/or European Monetary Union, any significant changes to the structure of the EU and/or European Monetary Union or any uncertainty as to whether such a withdrawal or change might occur could have a material adverse effect on the Group’s business, financial condition, results of operations and prospects.

**Risks Related to the Turkish Banking Industry**

***The Turkish banking system is subject to systemic risks***

The Turkish financial sector has gone through major changes as a result of the financial liberalisation programme that started in the early 1980s. The abolition of directed credit policies, the liberalisation of deposit and credit interest rates and liberal exchange rate policies, as well as the adoption of international banking regulations have accelerated the structural transformation of the Turkish banking sector. Since the 1980s, the Turkish banking sector has experienced significant expansion and development in the number of banks, employment in the sector, diversification of

services and technological infrastructure. The significant volatility of the Turkish Lira and foreign exchange markets experienced in 1994, 1998 and in 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 banks.

Following this crisis, the Government made structural changes to the Turkish banking system to strengthen the private (i.e., non-governmental) banking sector and to allow it to compete more effectively against the state-controlled banks (Türkiye Halk Bankası A.Ş. (“**Halkbank**”), Türkiye Vakıflar Bankası T.A.O. (“**Vakıfbank**”) and T.C. Ziraat Bankası A.Ş. (“**Ziraat**”). In 2017, the state shares in Ziraat and Halkbank were transferred to the Turkish Sovereign Wealth Fund (*Türkiye Varlık Fonu*) (the “**TWF**”). However, there has been no change in the legal status of any of the banks transferred to the TWF, and the TWF is expected to be managed by the Turkey Wealth Fund Management Joint Stock Corporation (*Türkiye Varlık Fonu Yönetimi A.Ş.*), the sole shareholder of which is the Privatisation Administration (*Özelleştirme İdaresi Başkanlığı*) of the Ministry of Treasury and Finance of the Republic of Turkey. Notwithstanding these changes, the Turkish banking sector remains subject to volatility.

If the general macroeconomic conditions in Turkey and the Turkish banking sector in particular were to suffer another crisis, this could result in further bank failures, reduced liquidity and weaker public confidence in the Turkish banking system which could, in turn, have an adverse effect on the Group’s business, financial condition, results of operations and prospects. See “*Turkish Regulatory Environment*” in this Base Prospectus for a further discussion of the Turkish banking regulatory environment.

***Increased competition in the Turkish banking sector could have a material adverse effect on the Group***

The level of competition in the Turkish banking sector has remained intense in the past several years as a result of the increased presence of public banks in the private sector and foreign bank interest in Turkey. According to the BRSA, as of 30 September 2019, the top seven banking groups in Turkey (including the Bank), three of which are state controlled, held in aggregate, approximately 76% of the Turkish banking sector’s total loan portfolio, approximately 74% of total banking assets in Turkey and approximately 80% of total deposits in Turkey. Loan growth in the banking sector in Turkey was 17% during 2016, 21% during 2017, 14% during 2018 and 6% during the third quarter of 2019, while deposit growth was 17%, 16%, 19% and 14%, respectively, according to BRSA weekly data.

In addition to private banks, the Bank also faces competition from state owned financial institutions, such as Halkbank, Vakıfbank and Ziraat. These government-owned financial institutions historically focused on government and government related projects but are increasingly focusing on the private sector (including retail and SMEs), thereby increasing competition and pressure on margins. In particular, such government owned institutions may have access to payroll accounts of state employees, low cost deposits (on which such institutions pay low or no interest) through state economic enterprises owned or administered by the Government, which could result in a lower cost of funds that cannot be duplicated by private banks. Such actions by government owned financial institutions, in addition to ongoing competitive pressures from private financial institutions, have caused net interest margins to decline across the Turkish banking market.

During recent years, foreign banks have shown an increased interest in the banking sector in Turkey. Foreign banks such as BNP Paribas, Banco Bilbao Vizcaya Argentaria S.A., Industrial and Commercial Bank of China, Burgan Bank, ING, Qatar National Bank, Commercial Bank of Qatar, UniCredit and Emirates NBD have acquired interests in Turkish banks. In addition, various banks, such as Odeabank and Bank of China, have also established their own franchises. The Bank believes that further entries into the Turkish banking sector by foreign competitors, either directly or in collaboration with existing Turkish banks, could further increase competition in the market. In addition to direct investment, foreign banks are expanding their business presence in Turkey, further

increasing competitive pressures. Most recently, the transfer of 99.85% shares of Denizbank to Emirates NBD was completed as of 31 July 2019. There can be no assurance that further competitive pressures will not result in continued margin compression, which may have a material adverse effect on the Bank's business, financial condition and/or results of operations.

***The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector***

The activities of the Group are highly regulated and changes to other applicable regulations might have a material adverse effect on the Group's profitability, especially as competition or regulation limit the ability of the Bank to control interest rates or loan rates.

For example, the Central Bank has adjusted reserve requirements for various banking products for different purposes, including both supporting and limiting credit growth and as a result of foreign currency fluctuations. Further revisions to such reserve requirements, particularly any increased requirements, could have a negative impact on the profitability of the banking sector (including the Group), especially if competition or other factors limit banks' ability to increase loan pricing or loan growth (see also "*Turkish Regulatory Environment—Liquidity Reserve Requirement*" for a summary of the current reserve requirements).

In addition, the Equity Regulation and the 2016 Capital Adequacy Regulation, which regulate, among other things, stress testing for liquidity and the calculation of internal capital adequacy, have been subject to frequent amendment in recent years in order to, among other aims, accomplish BRSA's target of promulgating Basel III (as defined below in "*Turkish Regulatory Environment—Basel III*") requirements by April 2014, introduce changes to BRSA's authority to write off Tier 1 and Tier 2 debt instruments and change the items included in equity calculation, introduce changes to the calculation of risk-weighted assets and the risk-weighting of mortgages. If further amendments prove adverse to the Group they could have a material impact on its profitability and results.

The Central Bank adjusts from time to time the monthly cap on individual credit card interest rates, which was reduced most recently on 6 April 2019 from 2.25% to 2.15%, to 2.0% on 29 June 2019 and to 1.60% on 28 September 2019. Further, on 16 October 2019, the Central Bank introduced an amendment to cap the commission rates applied by the banks in their point of sale ("**POS**") business at 1.60%. See "*Turkish Regulatory Environment—Caps on Credit Card Interest Rates and POS Commission Rates*".

Still, other regulations limit the expansion of individual loans (especially credit card instalments), set the fees and commissions that banks may charge customers and limit their levels. BRSA approval is required for any Turkish bank to charge any fees and commissions other than as cited in the regulation.

See "*Turkish Regulatory Environment*" for details on these amendments and other regulations impacting the Group.

Non-compliance with regulations may expose the Group to fines and other repercussions. In 2013, the Group's profitability was negatively impacted by an administrative fine amounting to TL 149,962 thousand (the Bank benefitted from the early payment option and paid a reduced fine of TL 112,471 thousand to the relevant directorate of revenues on 14 August 2013). The fine was imposed against most Turkish banks as a result of the investigation of the Turkish Competition Board regarding the violation of the fourth article of the Protection of Competition Law No. 4054. In September 2013, the Bank also filed a lawsuit against the Turkish Competition Board's decision to the Ankara 2nd Administrative Court, requesting it be annulled and for its advance payment to be returned. Following the rejection of this lawsuit in April 2015, the Bank submitted an appeal in August 2016, with the Council of State against the decision of the Administrative Court. Upon the



rejection of the appeal request, an application for rectification was filed with the Council of State. The Council of State held that the decision of the Ankara 2nd Administrative Court concerning the dismissal of the case shall be dismissed in favour of the Bank and the file shall be sent to the court to be re-decided. The Ankara 2nd Administrative Court did not abide by the decision of reversal of the Council of State and the Bank has appealed the decision before the Council of State Plenary Session of the Chambers for Administrative Cases. The legal process remains ongoing as at the date of this Base Prospectus.

The Group's profitability may be materially and negatively affected in the short term and possibly in the long term as a result of a number of such regulatory factors that are generally impacting the Turkish banking sector. If the pressure on net reversals on loans, investment securities and credit related commitments continues, this may have a material adverse effect on the Bank's financial condition and results of operations as well as the Bank's ability to make payments under the Covered Bonds. Such factors include increased competition, particularly as it impacts net interest margins (see "*Increased competition in the Turkish banking sector could have a material adverse effect on the Group*") and the Central Bank and BRSA regulatory actions that seek to limit the growth of Turkish banks through various conventional and unconventional policy measures, including increased interest rates, increased reserve requirements, increased general provisioning requirements, changes in the foreign exchange legislation and higher risk weighting for general purpose loans.

***The Group is subject to changes in international and domestic banking regulation, which have in the past and may in the future change rapidly***

The Group is subject to a number of banking and other regulations designed to maintain the safety and financial soundness of banks, ensure their compliance with economic and other obligations, and limit their exposure to risk. These regulations include the implementation of international standards (particularly in regards to Basel Committee on Banking Supervision requirements) as well as Turkish laws and regulations (and in particular those of the BRSA and the Central Bank), as well as laws and regulations of certain other countries where the Group operates. Banking laws and regulations in Turkey and the manner in which those laws and regulations are applied to the operations of financial institutions are still evolving. New regulations may be implemented rapidly, without substantial consultation with the industry, which may not allow sufficient time for the Group to adjust its strategy to deal with such changes. New regulations may increase the Group's cost of doing business or limit its activities. Turkish banking regulations rapidly changed in the second half of 2011 and 2012 in response to Turkey's robust domestic growth, driven by higher local demand, which widened the current account deficit and strengthened capital inflows. In 2015 and 2016, the BRSA implemented numerous measures as part of its efforts of implementing Basel III which have come into force in recent years. See "*Turkish Regulatory Environment—Basel III*". The BRSA from time to time promulgates new regulations and guidelines as part of its attempt to adjust the Turkish banking system to Basel requirements. See "*The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector*".

In the future, new laws or regulations might be adopted, enforced or interpreted in a manner that could increase the Group's cost of compliance and have an adverse effect on the Group's business, financial condition, cash flows and/or results of operations. In addition, a breach of regulatory guidelines could expose it to potential liabilities or sanctions. Changes in these regulations may have a material effect on the Group's business and operations. Moreover, any failure to adopt adequate responses to such changes in the regulatory framework may have an adverse effect on the Bank's business, financial condition, cash flows and/or results of operations.

***The Group is dependent on its banking and other licences***

The banking and other operations performed by the Bank and its subsidiaries require licences by the relevant authorities in each jurisdiction in which they operate. A large majority of the Group's business depends on the Bank's Turkish banking licence from the BRSA. If the Bank loses its

general banking licence, then it will be unable to perform any banking operations in Turkey. Although the Bank believes that it and its subsidiaries have the necessary licences for their banking and other operations and that each of the Bank and its subsidiaries are currently in compliance with their existing material licences and reporting obligations, there is no assurance that they will be able to maintain the necessary licences in the future. The loss of a licence, a breach of the terms of any licence or the failure to obtain any further required licences in the future could have a material adverse effect on the Bank's financial condition and/or results of operations. A further description of the applicable regulatory requirements is set out in "*Turkish Regulatory Environment—Audit of Banks*" and "*Turkish Regulatory Environment—Cancellation of Banking Licence*" in this Base Prospectus.

***The Group is subject to risks associated with money laundering and terrorist financing***

The Group has implemented internal measures aimed at preventing it from being used as a conduit for money laundering (including illegal cash operations) or terrorist financing. However, such measures, procedures and compliance may not be completely effective. If the Group is associated with money laundering (including illegal cash operations) or terrorist financing, the Bank could suffer serious damage to its reputation, including among its network of correspondent banks in foreign countries, which could affect its ability to maintain existing relationships, attract new business and provide services to its customers. The Group could also become subject to fines, sanctions and/or legal enforcement (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with the Group), which could materially adversely affect the Bank's business, financial condition and/or results of operations.

**Risks relating to the Cover Pool**

The Covered Bonds will constitute direct, unconditional and unsubordinated obligations of the Issuer, backed by the Transaction Security. As such, an investment in the Covered Bonds represents exposure to both the creditworthiness of the Issuer and the Cover Pool. The following discusses certain risks relating to the value of the Cover Pool.

***Insufficient Cover Pool – The value of the Cover Pool might be insufficient to ensure payment of all of the Issuer's obligations under the Covered Bonds***

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

As part of the Statutory Tests, the Covered Bonds Communiqué requires that the Issuer ensure that the net present value of the Cover Pool exceeds at all times, by at least 2%, the net present value of the Total Liabilities<sup>1</sup>. See "*Summary of the Turkish Covered Bonds Legislation*". Furthermore, the Issuer has covenanted in the Security Agency Agreement to ensure that the Nominal Value of the Cover Pool is not less than the product of: (a) the Turkish Lira Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds outstanding; and (b) the sum of one plus the decimal equivalent of the Programme Overcollateralisation Percentage (being the percentage figure as selected by the Issuer from time to time and notified to the Relevant Rating Agencies and the Fiscal Agent equal to the highest Series Overcollateralisation Percentage for all Series of Covered Bonds at such time outstanding).

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

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<sup>1</sup> "**Total Liabilities**" has the meaning given to such term in the Covered Bonds Communiqué (as of the date hereof, the aggregate of all liabilities owed by the Issuer in respect of the Covered Bonds (including Coupons) and the Hedging Agreements).

The Covered Bondholders and the Hedging Counterparties, by virtue of the statutory pledge under the Covered Bond Communiqué, have a *pari passu* claim against the Cover Pool. To the extent that the claims of the Covered Bondholders and the Hedging Counterparties are not met out of the Cover Pool, the Covered Bondholders and the Hedging Counterparties will have a residual claim against the Issuer in respect of its remaining assets, which will rank *pari passu* with the other unsecured creditors of the Issuer, subject to certain exceptions as to which see “—*Effective Subordination – Residual claims of the Covered Bondholders under the Covered Bonds will be subordinated to those of certain other creditors*”.

If an Event of Default occurs and a Notice of Default is served on the Issuer, then the Security Agent will (upon instructions from the Covered Bondholder Representative) be entitled to enforce the security interests over the Security Assignment Security granted by the Issuer in favour of the Security Agent under and pursuant to the terms of the Security Assignment and the other Non-Statutory Security, and the proceeds from the realisation of the Transaction Security will be applied towards payment of the Issuer’s obligations under the Transaction Documents in the manner provided in the Transaction Documents and the Covered Bonds Communiqué; *it being understood* that the Security Agent does not have a security interest over the portion of the Transaction Security that is included in the Cover Pool, which is subject to liquidation pursuant to the provisions of the Covered Bonds Communiqué (see “—*Risks relating to the Covered Bonds Communiqué—No Direct Security Interest in Favour of Covered Bondholders in the Cover Pool – Covered Bondholders will not have direct remedies against the Cover Pool*”).

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

***Effective Subordination – Residual claims of the Covered Bondholders under the Covered Bonds will be subordinated to those of certain other creditors***

In the event that the Cover Pool is insufficient to meet the claims of the Covered Bondholders, under Turkish law, certain obligations of the Issuer will rank in preference to the Covered Bonds (including, without limitation, liabilities that are preferred by reason of reserve and/or liquidity requirements required by law to be maintained by the Issuer with the Central Bank, claims of individual depositors of the Issuer to the extent of any amount that such depositors are not able to recover from the Savings Deposit Insurance Fund of Turkey (the “SDIF”), claims that the SDIF may have against the Issuer and claims that the Central Bank may have against the Issuer with respect to certain loans made by the Issuer). Any such preferential claims may reduce the amount recoverable by the Covered Bondholders on any dissolution, winding-up or liquidation of the Issuer and may result in an investor in the Covered Bonds losing all or some of its investment.

***Changes in Value of Mortgage Assets – The collateral securing the Mortgage Assets might decline in value, which might result in the Cover Pool being insufficient to ensure payment of all of the Issuer’s obligations under the Covered Bonds***

Under the Covered Bonds Communiqué, there is a loan-to-value ratio limit of 80% of the value of the security in the Mortgage Assets. In addition, the Issuer covenants pursuant to the Security Agency Agreement to comply with the Overcollateralisation Ratio Covenant. As loan-to-value ratio limits are imposed by the Issuer when a Mortgage Asset is originated, the value of the individual loan obligation is initially overcollateralised by the mortgage held by the Issuer in

respect of such loan; however, the value of the collateral security might reduce over time as a result of various reasons, including falling property values and inadequate maintenance.

The Covered Bonds Communiqué requires the Issuer to monitor the general changes in the property prices securing its mortgage loans and determine the ratio of such change (the “**Property Price Change Ratio**”) annually at the end of each calendar year based upon a generally accepted index, if available. As of the date of this Base Prospectus, the index used by the Issuer is the Property Price Index (*Konut Fiyat Endeksi*) (the “**KFE**”) released by the Central Bank on a monthly basis. The calculation of the KFE is based upon the price data of all the properties sold in Turkey irrespective of the construction year of the properties. The price data is obtained from valuation reports prepared for the purpose of evaluating mortgage loan applications made to ten Turkish banks (which might include the Issuer). If the Issuer identifies a decline in the property prices within a specific geographical region or in Turkey in general, then it must decrease the value of the relevant property for calculating collateral value by applying the Property Price Change Ratio and re-calculating whether the Cover Pool Assets comply with the requirements of the Covered Bonds Communiqué. The Covered Bond Communiqué is silent as to the impact on the valuations should the relevant price data increase at a future date. Accordingly, to the extent the CMB confirms that the Issuer may do so, the Issuer might apply a higher valuation at a future date if the selected index demonstrates an increase in property prices. The application of such an increase in value would allow the Issuer to include fewer assets in the Cover Pool than were previously included, or issue more Covered Bonds against the value of such Cover Pool Assets. On the other hand, any decline in the value of the mortgage collateral over time as a result of falling property prices might result in the Cover Pool being insufficient to ensure payment of all of the Issuer’s obligations under the Covered Bonds (if the Issuer is not able to add new eligible replacement assets).

The Cover Pool consists of: (a) Mortgage Assets that are secured by eligible security interests in favour of the Issuer over the relevant property; (b) claims that the Issuer holds, or may acquire, against covered bond swap providers; and (c) certain substitute assets. All assets in the Cover Pool must comply with the terms of the Covered Bond Communiqué. All of the properties securing Mortgage Assets in the Cover Pool should be in Turkey by law. The value of the Cover Pool may therefore decline in the event of a general downturn in the value of property in Turkey or could be adversely affected by any impact on the value of property in a specific area or region in Turkey, which could adversely affect the Issuer’s ability to perform its obligations under the Covered Bonds.

***The Programme Overcollateralisation Percentage may be varied by the Issuer and the Issuer is not required to provide additional overcollateralisation to maintain the ratings of the Covered Bonds***

The Issuer has, pursuant to the Security Agency Agreement, agreed to provide a certain amount of additional overcollateralisation (in excess of that required by the Turkish Covered Bonds Legislation) in an amount determined by reference to the Programme Overcollateralisation Percentage.

While the Issuer has the ability to nominate a different Programme Overcollateralisation Percentage from time to time, subject to notification to the Relevant Rating Agencies, the proposed change in the Programme Overcollateralisation Percentage cannot result in a downgrade of the then current ratings of the Covered Bonds. However, it is possible for the Issuer to nominate a lower Programme Overcollateralisation Percentage where this would not reduce the then current rating of the Covered Bonds. Covered Bondholders should be aware that any downward movement in the Programme Overcollateralisation Percentage would reduce the amount of credit enhancement provided by the Cover Pool and Cover Pool Assets, even where this does not result in a reduction in the then current rating, which could have an adverse effect on the Cover Pool and the Issuer’s ability to pay amounts due on the Covered Bonds in the future.

In addition, the Issuer is under no obligation to increase the Programme Overcollateralisation Percentage to provide additional overcollateralisation where this would be required to maintain the

then current rating of the Covered Bonds. Covered Bondholders should be aware that any decision by the Issuer not to increase the Programme Overcollateralisation Percentage to reflect the additional overcollateralisation requirements of the Relevant Rating Agency could have an adverse effect on the rating of the Covered Bonds, which could have an impact on the market value of the Covered Bonds.

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

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

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

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

***Default by Borrowers – Default by Borrowers in paying amounts due on their Mortgage Assets might result in the value of the Cover Pool being insufficient to ensure payment of all of the Issuer’s obligations under the Covered Bonds***

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

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

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

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

The Cover Pool (including the Mortgage Assets included therein) is subject to a number of requirements under Turkish law, including those set out in the Covered Bonds Communiqué. These requirements include (without limitation) consumer protection laws, lending criteria requirements and bankruptcy rules and (under the Covered Bonds Communiqué) the Statutory Tests, cover asset eligibility criteria and other measures for the treatment of the Cover Pool. In the event that there are any regulatory changes in any of these requirements, including any changes in the Covered Bonds Communiqué that provide for a more lenient monitoring of the Cover Pool, or any new applicable regulations, then the value of the Cover Pool might be insufficient to ensure repayment of the Issuer's obligations under the Covered Bonds.

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

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

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

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

While the Security Agency Agreement provides that investors in the Covered Bonds will have access to the Investor Reports, and the Cover Monitor Agreement provides that Covered Bondholders may obtain copies of the Cover Monitor Reports from the Security Agent in the manner as shall be permitted in the Cover Monitor Agreement, they will not receive detailed statistics or information in relation to the Mortgage Assets, other assets in the Cover Pool or other Transaction Security. It is

expected that the constitution of the Cover Pool will frequently change, including where the Issuer: (a) assigns Additional Cover Pool Assets to the Cover Pool; (b) removes Cover Pool Assets from the Cover Pool; or (c) substitutes existing Cover Pool Assets in the Cover Pool with new Cover Pool Assets.

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

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

The ability of the Cover Pool to cover repayment of the Issuer's obligations under the Covered Bonds might depend upon whether the Mortgage Assets and their related security can be sold, realised or refinanced by the Issuer or the Administrator, as applicable, so as to obtain a sufficient amount to cover such obligations. There is not yet an active and liquid secondary market for mortgage loans in Turkey and there is limited experience in Turkey of selling mortgage loans in distressed scenarios (particularly if, at the time thereof, multiple issuers of mortgage-covered bonds are in distress, which might occur as a result of general macroeconomic or other conditions affecting Turkish lenders generally). Further, no assurance can be given that the CMB or any other regulatory authority will not take action (or that future adverse regulatory developments will not arise) with respect to the enforcement, sale or disposal of the Mortgage Assets. Any such action or developments might have a material adverse effect on the realisable value of the Mortgage Assets and ultimately adversely affect whether the value of the Cover Pool is sufficient to ensure repayment of the Issuer's obligations under the Covered Bonds.

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

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

**Risks relating to the Covered Bonds Communiqué**

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

***Covered Bonds are obligations of the Issuer only***

The Covered Bonds will constitute direct, unconditional and unsubordinated obligations of the Issuer, secured by the statutory pledge provided under the Covered Bond Communiqué in respect of the Cover Pool. An investment in the Covered Bonds involves a reliance on the creditworthiness of the Issuer, as to which, see "*Risks Related to the Group's Business*", a reliance on the credit quality of the Cover Pool and the Issuer's ability to maintain the Cover Pool. The Covered Bonds are not guaranteed by any member of the Issuer's Group or any other person (although the CMB has the discretion to require that the Covered Bonds are guaranteed in the future). In addition, an investment in the Covered Bonds involves the risk that subsequent changes in the actual or perceived

creditworthiness of the Issuer may adversely affect the market value of such Covered Bonds. There can be no assurance that the Issuer will in the future be able to make payments in respect of the Covered Bonds or that the Cover Pool will be sufficient to pay in full the amounts payable under the Covered Bonds.

***The requirement to transfer cash collections to a separate bank account from the Issuer's general account only arises upon breach of the Statutory Tests and/or payment default by the Issuer***

Under the Covered Bond Communiqué, the Issuer is required to comply with certain tests and criteria to, among other things, ensure a minimum level of overcollateralisation of the Cover Pool (calculated by reference to the liabilities of the Issuer in respect of payments of interest and repayments of principal on the Covered Bonds, and payments to Hedging Counterparties in relation to hedges entered into in relation to the Covered Bonds) and that the Cover Pool Assets meet the Statutory Tests. The Statutory Tests are designed to help ensure that the Issuer can meet its payment obligations under the Covered Bonds. If the Issuer fails to comply with any of the Statutory Tests, the Issuer is required to promptly take any necessary measures, including restructuring the Cover Pool, upon becoming aware of such breach or potential breach. In addition, as soon as the cover pool monitor (the “**Cover Monitor**”) becomes aware of any payment default and/or a breach of the Statutory Tests and/or breach of the overcollateralisation ratio covenant (the “**Overcollateralisation Ratio Covenant**”), and until the relevant default and/or breach is cured, cash generated from the Cover Pool Assets must be deposited in a separate bank account separate from the Issuer's general account. Until such time, cash generated by the Cover Pool Assets will be deposited in the Issuer's general account and may be used by the Issuer in its ordinary course of business. Therefore, upon becoming aware of a breach, there may be a delay in identifying the relevant funds to be deposited in the separate bank account, which could result in a delay to payments due to Covered Bondholders.

***In certain circumstances, the CMB may appoint an Administrator to manage the Cover Pool and make payments under the Covered Bonds, and such Administrator has wide powers, including the ability to redeem the Covered Bonds early if it determines, in its discretion, that early redemption is in the best interests of the Covered Bondholders***

Under the Covered Bond Communiqué, if any of the following events occurs, the CMB may appoint an Administrator:

- the management and control of the Issuer is transferred to the SDIF;
- the banking licence of the Issuer is revoked; or
- the Issuer is found bankrupt by a competent authority.

The Administrator's role would be to manage the Cover Pool and make payments under the Covered Bonds to discharge the Total Liabilities to the extent the cash income generated from the Cover Pool is sufficient to do so.

To that end, the Administrator is authorised to sell or purchase assets in the Cover Pool, obtain loans or enter into repo transactions. The Administrator may transfer all or some only of the Cover Pool Assets and the Total Liabilities (as defined above) to a different bank or mortgage finance institution (the “**New Issuer**”) following the consent of the CMB. Upon such transfer, the ownership of the Cover Pool Assets would be deemed to have passed to the New Issuer and the Issuer shall be discharged from the Total Liabilities, which shall also be assumed by the New Issuer. Any such transfer is not subject to the consent of the Security Agent, Covered Bondholders, Hedging Counterparties, Agents or other Secured Creditors and any such transfer will not constitute an Event of Default. There is no assurance as to whether there will be an eligible transferee to take over the Total Liabilities and the corresponding Cover Pool Assets after the appointment of an Administrator.



The Administrator shall continue to manage the Cover Pool if no New Issuer is available and is entitled to sell Cover Pool Assets, purchase new assets, utilise loans or conduct repurchase transactions in order to generate sufficient amounts to meet the payment obligations under the Covered Bonds. This could result in the Covered Bondholders receiving payment according to a schedule that is different from that contemplated by the terms of the Covered Bonds or could result in the Covered Bondholders not being paid in full.

If the amount generated by the Cover Pool Assets is not sufficient to discharge the Total Liabilities, the Administrator may determine that it would be in the best interest of Covered Bondholders to redeem the Covered Bonds early. Following the CMB's approval, the Administrator may implement the early redemption of the Covered Bonds and accordingly dispose of the Cover Pool Assets. The Covered Bondholders and the Hedging Counterparties, by virtue of the statutory pledge under the Covered Bond Communiqué, have a *pari passu* claim against the Cover Pool. Further, to the extent the claims of the Covered Bondholders and the Hedging Counterparties are not met out of the Cover Pool, the Covered Bondholders and the Hedging Counterparties will have a residual claim against the Issuer in respect of its remaining assets, which will rank *pari passu* with the other unsecured creditors of the Issuer.

This could result in the Covered Bondholders (and Couponholders) receiving payment according to a schedule that is different from that contemplated by the terms of the Covered Bonds (with accelerations as well as delays) or could result in the Covered Bondholders (and Couponholders) not being paid in full.

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

The Conditions of the Covered Bonds include a very limited list of Events of Default, the occurrence of which would permit the Covered Bonds to be accelerated. The ability of Covered Bondholders to accelerate the Covered Bonds will thus be very limited. See also “—*Turkish bankruptcy laws stipulate that all debts and liabilities of a bankrupt person shall become due and payable, but Covered Bondholders may not be able to accelerate their Covered Bonds, upon the bankruptcy of the Issuer under the Events of Default*”. For a description of the Events of Default, see “General Description of the Programme—Events of Default”.

***Turkish bankruptcy laws stipulate that all debts and liabilities of a bankrupt person shall become due and payable, but Covered Bondholders may not be able to accelerate their Covered Bonds, upon the bankruptcy of the Issuer under the Events of Default***

Under Turkish law, banks are heavily regulated institutions and subject to a special insolvency regime. In the event of insolvency of a bank, the BRSA may transfer the control and management of the bank to the SDIF or revoke its banking licence. If the BRSA revokes a bank's banking licence, the control and management of the bank is automatically transferred to the SDIF. In such circumstances, all execution and bankruptcy proceedings previously initiated against the bank would cease and the SDIF, at that stage, would be entitled to initiate bankruptcy proceedings against the bank.

The aim of the Covered Bond Communiqué is to ensure continuity of payments to the Covered Bondholders and Hedging Counterparties even in the event of bankruptcy of the Issuer, and therefore bankruptcy of the Issuer does not constitute an Event of Default under the Conditions. There is a potential conflict between the Covered Bond Communiqué and Turkish insolvency law in that Turkish insolvency law stipulates that, in the event of bankruptcy of any person, all debts and liabilities of such person shall become due and payable by operation of law. Therefore, although Turkish insolvency laws state that all debts and liabilities of a bankrupt person shall become due and payable, Covered Bondholders may not be able to accelerate their Covered Bonds upon the bankruptcy of the Issuer, under the Events of Default.

***Remedial regulatory measures may not be sufficient to ensure the Issuer's continual operation***

In addition to the specific measures under the Covered Bond Communiqué, pursuant to Banking Law No. 5411, the BRSA shall require the Issuer to take necessary measures to ensure its continuous operation as a banking institution if: (i) it is likely that the assets of the Issuer will not meet its obligations in terms of maturity; (ii) the Issuer does not comply with the liquidity requirements set out under the Turkish banking legislation; (iii) the profitability of the Issuer becomes insufficient for the safe performance of its activities, as a result of impaired balance between its revenues and obligations; (iv) the Issuer's shareholders equity is inadequate under the capital adequacy regulations, or such case is likely to occur; (v) the quality of assets of the Issuer has deteriorated to adversely impact the financial structure of the Issuer; (vi) the Issuer breaches the Turkish banking legislation or the resolutions of the BRSA; (vii) the Issuer cannot establish its internal audit, internal control and risk management systems, or cannot operate these systems efficiently, or there is any factor that impedes the supervision of the BRSA; or (viii) due to deficiencies in the management of the Issuer, the risks addressed under the Turkish banking legislation have materially increased or have concentrated to adversely impact the financial structure of the Issuer. However, there can be no assurance that such measures would be sufficient to ensure the Issuer's continuous operation, and, to the extent that such measures are insufficient, this may result in a breach of the Statutory Tests which may have an adverse effect on the Covered Bonds.

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

The Cover Pool is a segregated pool of assets ring-fenced for the benefit of, among others, the Covered Bondholders and the Hedging Counterparties. The Cover Pool provides the Covered Bondholders and the Hedging Counterparties with a preferential legal claim in respect of the Cover Pool. The fees of any Administrator shall also rank *pari passu* with the Covered Bondholders and the Hedging Counterparties. Under the Covered Bond Communiqué, the fees of the Cover Monitor, the Security Agent, the Agents and other relevant third parties will only be paid from the income generated from the Cover Pool Assets to the extent that there are Additional Cover Pool Assets included for this purpose in the Cover Pool to meet these payments and where this is not the case, such third parties will rank *pari passu* with the other unsecured creditors of the Issuer. However, the CMB may determine that such third parties have a *pari passu* claim over the portion of the Cover Pool Assets which have been included to comply with the contractual overcollateralisation test (as further described in “General Description of the Programme—Creation and Administration of the Cover Pool—Additional Contractual Overcollateralisation”), in which case, such third parties would be able to claim alongside Covered Bondholders and Hedging Counterparties in respect of such additional contractual overcollateralisation. The Cover Pool Assets for the purpose of covering third parties' fee payments are not taken into account for the purposes of the Statutory Tests. To the extent that the claims of Covered Bondholders, the Hedging Counterparties, any Administrator, the Security Agent, the Agents and other applicable third parties are not met out of the Cover Pool, such parties will have a residual claim in respect of the other assets of the Issuer that will rank *pari passu* with the other unsecured creditors of the Issuer. Therefore, other creditors of the Issuer may also wish to claim against the Issuer, alongside the Covered Bondholders and Hedging Counterparties. See “Summary of the Turkish Covered Bonds Legislation”.

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

While the Security Assignment covers the Offshore Bank Accounts and certain other assets, the Covered Bonds Communiqué does not confer a direct security interest in favour of the Security Agent or Covered Bondholders over the Cover Pool, such as an *in rem* security interest. As a result, the Security Agent and Covered Bondholders are not entitled to any direct remedy against the Cover Pool, such as selling the Cover Pool Assets, if the Issuer defaults (including in its payment obligations) under the Covered Bonds.

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

The Covered Bonds Communiqué is a relatively new regulation in Turkey and has not yet been the subject of any legal proceedings. In addition, the concept of covered bonds issued under the Covered Bonds Communiqué and governed by foreign law was only quite recently introduced to the Turkish market and it is not certain how the Covered Bonds Communiqué and the relevant provisions of the Turkish insolvency law would be interpreted in judicial, administrative or other relevant practice. Furthermore, the Turkish Covered Bonds Legislation might be amended or supplemented in a manner that affects the Covered Bonds.

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

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

See also “—Market Risks associated with Investments in the Covered Bonds—Enforcement of Judgments – Investors may have difficulty enforcing foreign judgments against the Bank or its management”.

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

Under the Covered Bonds Communiqué, the Issuer is required to comply with certain criteria in respect of the assets included in the Cover Pool from time to time. While the Covered Bonds Communiqué requires the Issuer to provide the Cover Monitor with certain information about the assets included in the Cover Pool from time to time and the calculations performed (and source of the information used in such calculations), the Cover Monitor is only required to monitor certain aspects of the Issuer’s compliance with the Covered Bonds Communiqué (see “*Summary of the Turkish Covered Bonds Legislation*”). The Cover Monitor is required to notify the Issuer if it becomes aware of the Issuer’s breach of any such monitored aspects. However, the ability of the Cover Monitor to monitor the Issuer’s compliance with the Covered Bonds Communiqué is dependent upon the Issuer providing such information to the Cover Monitor on a timely basis and the Cover Monitor adequately performing its role. If the Cover Monitor encounters any obstruction in its access to any such information and documents that it has requested, then it shall promptly notify the CMB.

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

## **Risks relating to the Covered Bonds generally**

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

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

The applicable Final Terms may provide that an Extended Maturity Date (as defined below) is applicable to a Series of Covered Bonds.

If the Issuer fails to redeem the relevant Covered Bonds in full on the Final Maturity Date, the maturity of the Principal Amount Outstanding of the Covered Bonds not redeemed will be extended to such other date as specified in the applicable Final Terms (the “**Extended Maturity Date**”). In that event, the Issuer (or the Administrator, as the case may be) may (including with the use of the cash generated by the Cover Pool) redeem all or part of the Principal Amount Outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Final Maturity Date, up to and including the Extended Maturity Date. In that event also, the Covered Bonds will bear interest on the Principal Amount Outstanding of the Covered Bonds in accordance with the applicable Final Terms, save in respect of Zero Coupon Covered Bonds.

The extension of the maturity of the Principal Amount Outstanding of the Covered Bonds from the Final Maturity Date to the Extended Maturity Date will not result in any right of the Covered Bondholders to accelerate payments or take action against the Issuer or the Cover Pool, and no payment will be payable to the Covered Bondholders in that event other than as set out in the Conditions. In addition, the extension of the Final Maturity Date will not result in any enforcement action being taken in respect of any Cover Pool Assets.

The Cover Pool is shared by all Covered Bondholders. This means that if an Extended Maturity Date is specified as applicable in respect of a particular Series of Covered Bonds, there is a risk that, in the event that the Issuer was in financial difficulty, the Covered Bondholders in relation to such Series of Covered Bonds would not be paid as quickly as Covered Bondholders in respect of a similar Series without an Extended Maturity Date as other Series of Covered Bonds might be paid by the Issuer on the Final Maturity Date of the Covered Bonds before any financial difficulty or increased financial difficulty were obvious. After an Event of Default, the Covered Bonds could be accelerated by the Covered Bondholders, in which case, Covered Bondholders would seek to recover payments in respect of principal and interest from the Cover Pool which it shares with all other Covered Bondholders. Under the Capital Markets Law, the Covered Bonds Communiqué and other relevant capital markets legislation of Turkey pursuant to which the Covered Bonds are issued (collectively, the “**Turkish Covered Bonds Legislation**”), the Administrator, if appointed, has wide discretions, including the ability to redeem the Covered Bonds early, upon approval from the CMB, as described above under “—*Risks relating to the Covered Bonds Communiqué—In certain circumstances, the CMB may appoint an Administrator to manage the Cover Pool and make payments under the Covered Bonds, and such Administrator has wide powers, including the ability to redeem the Covered Bonds early if it determines, in its discretion, that early redemption is in the best interests of the Covered Bondholders*”.

### ***Reliance on Hedging Counterparties – The Hedging Counterparties might not make payments under the Hedging Agreements, and/or the Hedging Agreements might be terminated, which might result in the value of the Cover Pool being insufficient to ensure payment of all of the Issuer’s obligations under the Transaction Documents***

To provide a hedge against possible variances in the rates of interest payable on or currency risks associated with the Mortgage Assets and/or the Covered Bonds, the Issuer might enter into one or more interest rate hedge(s) with one or more interest rate hedge provider(s) and/or one or more currency hedge(s) with one or more currency hedge provider(s) under one or more interest rate

hedging agreement(s) and/or currency hedging agreement(s), respectively. The rights of the Issuer in, to and under such Hedging Agreements form part of the Cover Pool.

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

In addition, if any Hedging Agreement is terminated or a new Hedging Agreement is desired, the Issuer might have difficulty finding a new or replacement Hedging Counterparty, particularly one that will permit the maintenance of the credit rating of the Covered Bonds. Any of the Hedging Agreements might have provisions that permit one or both parties to terminate such Hedging Agreement (whether voluntarily, upon the occurrence of certain events or otherwise), or both parties might agree to terminate a Hedging Agreement at any time. Any inability to find a new or replacement Hedging Counterparty might have an adverse effect on the Covered Bonds, including their credit rating.

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

If (to the extent applicable) any short-term or long-term debt rating of a Hedging Counterparty falls below any minimum short-term or long-term rating level (as the case may be) prescribed in the relevant Hedging Agreement, then such Hedging Counterparty might be obligated to take one or more of the following actions: (a) provide collateral in support of its obligations under such Hedging Agreement; (b) procure a guarantee of its obligations under such Hedging Agreement from an appropriately rated entity; (c) procure a replacement counterparty, being another appropriately rated entity who takes a transfer of such Hedging Counterparty's obligations under such Hedging Agreement or enters into a replacement Hedging Agreement (*it being understood* that such replacement Hedging Agreement might not be as favourable to the Issuer as the previous Hedging Agreement); and/or (d) take such other actions as shall be agreed in such Hedging Agreement. The timing, extent and availability of such action required to be taken might vary based upon the individual requirements of the Relevant Rating Agency(ies) applicable at the time such Hedging Agreement was entered into and/or the level to which the rating of the relevant Hedging Counterparty has been downgraded.

The Issuer might be obligated under a Hedging Agreement to make payments to the applicable Hedging Counterparty before such Hedging Counterparty makes its corresponding payment into a Non-TL Hedge Collection Account. As such, and notwithstanding the *pro rata* and *pari passu* nature of the Total Liabilities, a Hedging Counterparty might be paid (including from the Transaction Security) before the Covered Bondholders, which (if such Hedging Counterparty does not then make its corresponding payment into a Non-TL Hedge Collection Account) might result in the Covered Bondholders receiving less than a *pro rata* payment with respect to their share of the Total Liabilities.

Copies of Hedging Agreements are available to investors and potential investors in the Covered Bonds, including to review any termination events described in the third sub-paragraph of "Summary of the Turkish Covered Bonds Legislation—Introduction—Derivative Instruments".

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

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

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

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

***Further Issues – The Bank may issue further Covered Bonds without the consent of Covered Bondholders***

Save where to do so would reduce the credit rating of the then outstanding Covered Bonds or while an Issuer Event is occurring, the Issuer may from time to time without the consent of the Covered Bondholders or the Couponholders, create and issue further covered bonds having terms and conditions the same as the existing Covered Bonds or the same in all respects save for the amount and date of the first payment of interest thereon, the date from which interest starts to accrue, the issue date and the issue price, so that the same shall be consolidated and form a single series with the outstanding Covered Bonds; provided that, (a) there is no Potential Breach of Statutory Test, Issuer Event or Event of Default outstanding and that such issuance would not cause a Potential Breach of Statutory Test, Issuer Event or Event of Default, (b) the Issuer notifies each Relevant Rating Agency of any Series of Covered Bonds of the issuance not less than five Business Days prior to the relevant issuance, (c) if applicable, such issuance has been approved by the CMB in accordance with the Turkish Covered Bonds Legislation and (d) if a Hedging Agreement is in place with respect to such outstanding Covered Bonds, a further Hedging Agreement (or amendment or other modification of such existing Hedging Agreement) is entered into with respect to such further Covered Bonds.

In addition, the Issuer may from time to time without the consent of the Covered Bondholders or any other Secured Creditors create and issue a separate series of Covered Bonds under the Programme subject to satisfaction of sub-paragraphs (a) and (c) referred to in the proviso to the immediately preceding paragraph.

Notwithstanding the preceding two paragraphs, in order to issue any other series of Covered Bonds or any further tranche of an outstanding series of Covered Bonds, a Rating Agency Confirmation from the Relevant Rating Agency(ies) of any outstanding series of Covered Bonds is required to be obtained unless the new issuance is denominated and payable in Turkish Lira.

***Modifications of the Conditions and the Transaction Documents without the consent of Covered Bondholders or Couponholders***

The Security Assignment (which incorporates *mutatis mutandis* Clause 32 (*Modifications/Amendments*) of the Agency Agreement) and Condition 17.2 (*Modification*) of the Conditions, as applicable, provides that the Fiscal Agent and the Issuer may agree (without the consent of the Covered Bondholders or Couponholders) to *inter alia*, any modification of any of the Conditions or any Transaction Document which is, in the opinion of the Issuer: (i) of a formal, minor or technical nature or that is made for the purpose of curing or correcting any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein; (ii) not materially prejudicial to the interests of the Covered Bondholders and/or the

Hedging Counterparties (in each case considered (1) as a whole and not individually and (2) from a contractual perspective); or (iii) to implement changes required as a result of any amendment, restatement, modification or other change to the Turkish Covered Bonds Legislation or any other mandatorily applicable law, provided that each Relevant Rating Agency has been notified in writing in respect of such amendment not less than five London Business Days prior to the proposed amendment. Such amendments might negatively affect one or more of the Covered Bondholders or other Secured Creditors.

### ***Modifications, waivers and substitution***

The Conditions contain provisions for calling meetings of Covered Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Covered Bondholders, including Covered Bondholders who did not attend and vote at the relevant meeting and Covered Bondholders who voted in a manner contrary to the majority. As a result, such binding decisions made by majorities of Covered Bondholders may be adverse to the interests of potential investors.

The terms of certain of the Transaction Documents provide that, in certain circumstances, the Issuer or the Security Agent, as applicable: (a) can (without the consent of any of the Covered Bondholders or Couponholders) make certain revisions to the Transaction Documents so long as a Rating Agency Confirmation is obtained; and (b) must obtain a Rating Agency Confirmation before taking certain actions proposed to be taken. As a result, such revisions or actions might be taken without the consent of any of the Covered Bondholders and might adversely affect one or more of the Covered Bondholders.

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

### ***Appointment of a Covered Bondholder Representative***

In order for the Covered Bondholders to direct or instruct the Security Agent under the Transaction Documents and the Transaction Security Documents to which the Security Agent is a party, the Majority Instructing Creditor shall appoint the Covered Bondholder Representative on such terms as the Majority Instructing Creditor thinks fit, to act as the representative of the Covered Bondholders. The Security Agency Agreement and the Agency Agreement contain provisions for convening meetings of Covered Bondholders to appoint the Covered Bondholder Representative.

In order for the Majority Instructing Creditor to appoint the Covered Bondholder Representative, the Issuer shall, if required by any Covered Bondholder or the Security Agent, as applicable, convene a meeting of the Covered Bondholders for the purposes of appointing a Covered Bondholder Representative (an "**Appointment Meeting**") and, if the Issuer fails for a period of seven days to convene the Appointment Meeting, the Appointment Meeting may be convened by such Covered Bondholder or the Security Agent, as applicable. If the required quorum for appointing the Covered Bondholder Representative is not achieved at the Appointment Meeting, the Appointment Meeting shall be dissolved and it will not be possible for the Covered Bondholders to provide instructions or directions to the Security Agent until such time as an Appointment Meeting with the required quorum present has been held and a Covered Bondholder Representative has been appointed.

The appointment of the Covered Bondholder Representative: (a) by the Majority Instructing Creditor at an Appointment Meeting of the Covered Bondholders duly convened and held; (b) by the Majority Instructing Creditor as a resolution in writing; or (c) by the Majority Instructing Creditor by way of electronic consents given through the relevant Clearing System(s) (in a form acceptable to the Fiscal Agent) shall be binding upon all the Covered Bondholders, whether present or not present at the Appointment Meeting referred to in sub-paragraph (a) above or whether or not they have signed the written resolution referred to in sub-paragraph (b) above or consented electronically as referred to in sub-paragraph (c) above and whether or not voting and binding upon all Couponholders, and each of them shall be bound to give effect to the appointment of the Covered Bondholder Representative accordingly, and the passing of any such resolution shall be conclusive evidence that the circumstances justify the appointment of the Covered Bondholder Representative.

The Security Agent shall be entitled to act in relation to all matters arising under the Transaction Documents and the Transaction Security Documents to which the Security Agent is a party as soon as it has received any instruction, direction and/or request from the Covered Bondholder Representative (subject in all cases to the requirement for the Security Agent to first have been pre-funded and/or secured and/or indemnified to its satisfaction) and if the Covered Bondholders are unable to appoint a Covered Bondholder Representative, then the Security Agent shall not be obliged to take any such action.

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

Pursuant to the Security Assignment, the obligations of the Issuer to the Secured Creditors, including its obligations under the Covered Bonds, are secured by the Security Assignment Security; provided that, notwithstanding such assignment, the Issuer is entitled to exercise its rights in respect of the English Law Transaction Documents, but subject to the provisions of the English Law Transaction Documents and certain provisions of the Security Assignment. In certain circumstances, including the occurrence of certain insolvency events in respect of the Issuer, the ability to realise any such security might be delayed and/or the value of the security impaired.

There can be no assurance that the Issuer will not become insolvent and/or the subject of insolvency proceedings and/or that the Covered Bondholders would not be adversely affected by the application of insolvency laws (including Turkish insolvency laws) with respect to an insolvency of the Issuer.

***Redemption for Taxation Reasons – The Bank will have the right to redeem the Covered Bonds 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 Covered Bonds***

The withholding tax rate on interest payments in respect of bonds issued by Turkish legal entities outside of Turkey varies depending upon the original maturity of such bonds as specified under Decree No. 2009/14592 dated 12 January 2009, which has been amended by Decree No. 2010/1182 dated 20 December 2010, Decree No. 2011/1854 dated 26 April 2011 and Presidential Decree No. 842 dated 20 March 2019 (together, the “**Tax Decrees**”). Pursuant to the Tax Decrees: (a) with respect to bonds with a maturity of less than one year, the withholding tax rate on interest is 7%; (b) with respect to bonds with a maturity of at least one and less than three years, the withholding tax rate on interest is 3%; and (c) with respect to bonds with a maturity of three years and more, the withholding tax rate on interest is 0%. Also, in the case of early redemption, the redemption date might be considered to be the maturity date and (if so) higher withholding tax rates might apply accordingly. The Bank will have the right to redeem the Covered Bonds at any time (including in the case of Floating Rate Covered Bonds) prior to their maturity date if, upon the occurrence: (i) of a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9.1 (*Payment without Withholding*)); or (ii) any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after the date on which agreement is reached to issue the first Tranche of the



relevant Series of Covered Bonds, on the next Interest Payment Date the Bank would be required: (A) to pay additional amounts in respect of such Series of Covered Bonds as provided or referred to in Condition 9 (*Taxation*) on account of any Taxes (as defined in Condition 9.1 (*Payment without Withholding*)); and (B) 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 prevailing applicable rates on the date on which agreement is reached to issue the first Tranche of the relevant Series of Covered Bonds, and such requirement cannot be avoided by the Bank taking reasonable measures available to it. Upon such a redemption, investors in such Series of Covered Bonds might not be able to reinvest the amounts received at a rate that will provide the same rate of return as their investment in the Covered Bonds and, in the case of any Floating Rate Covered Bonds, the redemption could take place on any relevant date during an Interest Period.

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

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

An optional redemption feature is likely to limit the market value of Covered Bonds. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This may similarly be true prior to any redemption period.

The Issuer may be expected to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Covered Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

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

In the case of Turkish Lira-denominated Covered Bonds held other than through DTC, unless an election to receive payments in U.S. dollars, as provided in Condition 7.8 (*U.S. dollar Exchange and Payments on Turkish Lira-Denominated Covered Bonds held other than through DTC*), is made, holders of such Covered Bonds might need to open and maintain a Turkish Lira-denominated bank account, and no assurance can be given that Covered Bondholders will be able to do so either in or outside of Turkey. For so long as such Covered Bonds are in global form, any Covered Bondholder who does not maintain such a bank account will be unable to transfer Turkish Lira funds (whether from payments on, or the proceeds of any sale of, such Covered Bonds) from its account at a clearing system to which any such payment is made.

Under Condition 7.8 (*U.S. dollar Exchange and Payments on Turkish Lira-Denominated Covered Bonds held other than through DTC*), if the Fiscal Agent receives cleared funds from the Bank in respect of Turkish Lira-denominated Covered Bonds held other than through DTC after the relevant time on the Relevant Payment Date, then the Fiscal Agent will use reasonable efforts to pay any U.S. dollar amounts that Covered Bondholders have elected to receive in respect of such funds as soon as reasonably practicable thereafter. If, for illegality or any other reason, it is not possible for the Fiscal Agent to purchase U.S. dollars with any Turkish Lira funds received, then the relevant payments in respect of such Covered Bonds will be made in Turkish Lira.

As any currency election in respect of any payment to be made under such Turkish Lira-denominated Covered Bonds for the purposes of Condition 7.8 (*U.S. dollar Exchange and Payments on Turkish Lira-Denominated Covered Bonds held other than through DTC*) is irrevocable: (a) its exercise may (at least temporarily) affect the liquidity of the applicable Covered Bonds; (b) a Covered Bondholder would not be permitted to change its election notwithstanding changes in exchange rates or other market conditions; and (c) if the Fiscal Agent cannot, for any reason, effect the conversion of the amount paid by the Issuer in Turkish Lira, then Covered Bondholders will receive the relevant amount in Turkish Lira.

For Covered Bonds denominated in a Specified Currency other than U.S. dollars that are held through DTC, if a Covered Bondholder wishes to receive payment in that Specified Currency, then it would need to open and maintain a bank account in the Specified Currency. Any Covered Bondholder who does not maintain such a bank account will be unable to receive payments on such Covered Bonds in the Specified Currency. Absent an affirmative election to receive such payments in the Specified Currency, the Fiscal Agent will convert any such payment made by the Issuer in the Specified Currency into U.S. dollars and the holders of such Covered Bonds will receive payment in U.S. dollars through DTC's normal procedures. See Condition 7.9 (*Payments on Covered Bonds Held through DTC in a Specified Currency other than U.S. dollars*).

Covered Bondholders will have no recourse to the Bank, any Agent or any other person for any reduction in value to the holder of any relevant Covered Bonds or any payment made in respect of such Covered Bonds as a result of such payment being made in the Specified Currency or in accordance with any currency election made by that holder, including as a result of any foreign exchange rate spreads, conversion fees or commissions resulting from any exchange of such payment into any currency other than the Specified Currency. Such exchange and any fees and commissions related thereto, or payment made in the Specified Currency, may result in a Covered Bondholder receiving an amount that is less than the amount that such Covered Bondholder might have obtained had it received the payment in the Specified Currency and converted such payment in an alternative manner or if payment had been made in accordance with the relevant currency election.

***Investors who hold less than the minimum Specified Denomination may be unable to sell their Covered Bonds and may be adversely affected if definitive bearer Covered Bonds are subsequently required to be issued***

In relation to any issue of Covered Bonds in global form that have denominations consisting of a minimum specified denomination plus one or more higher integral multiples of another smaller amount (a "**Specified Denomination**"), it is possible that such Covered Bonds may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Covered Bonds at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a Bearer Covered Bond issued in definitive form (a "**Bearer Definitive Covered Bond**") in respect of such holding (should such Covered Bonds be printed) and would need to purchase a principal amount of Covered Bonds at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If Bearer Definitive Covered Bonds are issued, holders should be aware that Bearer Definitive Covered Bonds which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

***Transfer Restrictions – Transfers of Covered Bonds will be subject to certain restrictions and interests in Global Covered Bonds can only be held through Euroclear or Clearstream, Luxembourg***

Although the Covered Bonds have been authorised by the CMB pursuant to Decree 32 regarding the Protection of the Value of the Turkish Currency and the Capital Markets Law and related legislation as debt securities to be offered outside of Turkey, the Covered Bonds have not been and are not expected to be registered under any applicable state's or other jurisdiction's securities laws, or any applicable state's or other jurisdiction's regulatory authorities. The offering of the Covered Bonds (or beneficial interests therein) will be made outside of the United States pursuant to exemptions from the registration requirements of the Securities Act and from other securities laws. Accordingly, reoffers, resales, pledges and other transfers of investments in the Covered Bonds may be subject to certain transfer restrictions. Each investor is advised to consult its legal advisers in connection with any such reoffer, resale, pledge or other transfer.

Pursuant to the Debt Instruments Communiqué, the Issuer is required to notify the Central Securities Depository of Turkey (*Merkezi Kayıt Kuruluşu*) (the “CSD” or “**Central Securities Depository**”) within three Istanbul business days from the applicable Issue Date of a Tranche of Covered Bonds of the amount, Issue Date, ISIN (if any), interest commencement date, maturity date, interest rate, name of the custodian and currency of such Covered Bonds and the country of issuance.

Because transfers of interests in the Bearer Global Covered Bonds and Registered Global Covered Bonds (each a “**Global Covered Bond**”) can be effected only through book entries at 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 Covered Bonds may be reduced to the extent that some investors are unwilling or unable to invest in Covered Bonds held in book-entry form in the name of a participant in Clearstream, Luxembourg or Euroclear, as applicable. The ability to pledge interests in the Covered Bonds (or beneficial interests therein) may be limited due to the lack of a physical certificate. In the event of the insolvency of Euroclear, Clearstream, Luxembourg or any of their respective participants in whose name interests in the Covered Bonds are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on the Covered Bonds may be impaired.

***The value of the Covered Bonds could be adversely affected by a change in laws of England and Wales, Turkish law or administrative practice***

The Conditions of the Covered Bonds are based on the laws of England and Wales and Turkish law and administrative practice in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to the laws of England and Wales, Turkish law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Covered Bonds affected by it. See also “—*Risks relating to the Covered Bonds Communiqué—Uncertainty of Legal Interpretation – The Covered Bonds Communiqué is untested and thus there is uncertainty as to how its provisions will be implemented or interpreted in any legal or regulatory proceedings or other relevant practice*”.

***The Global Covered Bonds are held by or on behalf of Euroclear and Clearstream, Luxembourg***

The Covered Bonds will be represented by one or more Global Covered Bonds, except in certain limited circumstances described in the Global Covered Bonds that may be deposited with a common depository for Euroclear and Clearstream, Luxembourg (as defined previously in this Base Prospectus). Except in the circumstances described in each Global Covered Bond, investors will not be entitled to receive Covered Bonds in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Covered Bond held through it. While the Covered Bonds are

represented by a Global Covered Bond, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Covered Bonds are represented by Global Covered Bonds, the Bank will discharge its payment obligations under the Covered Bonds by making payments through the relevant clearing systems. A holder of a beneficial interest in the Global Covered Bonds must rely on the procedures of the relevant clearing system and its participants to receive payments under the Covered Bonds. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Covered Bonds.

Holders of beneficial interests in the Global Covered Bonds will not have a direct right to vote in respect of the Covered Bonds so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

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

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

***No Secondary Market – An active secondary market in respect of the Covered Bonds may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Covered Bonds***

Covered Bonds may have no established trading market when issued, and one may never develop. If a market for the Covered Bonds does develop, it may not be very liquid. Therefore, investors may not be able to sell their Covered Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Covered Bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Covered Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Covered Bonds.

***Interest Rate Risk – The value of Fixed Rate Covered Bonds may be adversely affected by movements in market interest rates***

Investment in Fixed Rate Covered Bonds involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Covered Bonds, this will adversely affect the value of the Fixed Rate Covered Bonds.

***The regulation and reform of “benchmarks” may adversely affect the value of Covered Bonds linked to or referencing such “benchmarks”***

Interest rates and indices which are deemed to be “benchmarks” (including EURIBOR, LIBOR or TRLIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or to have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds linked to or referencing such a “benchmark”. Regulation (EU) 2016/1011 (the “**Benchmarks Regulation**”) was published in the Official Journal of the EU on 29 June 2016 and has applied from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities of

“benchmarks” of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Covered Bonds linked to or referencing EURIBOR, LIBOR or TRLIBOR, in particular, if the methodology or other terms of EURIBOR, LIBOR or TRLIBOR are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of EURIBOR, LIBOR or TRLIBOR.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of “benchmarks”, could increase the costs and risks of administering or otherwise participating in the setting of a “benchmark” and complying with any such regulations or requirements. Such factors may have the following effects on certain “benchmarks” (including EURIBOR, LIBOR or TRLIBOR): (i) discourage market participants from continuing to administer or contribute to the “benchmark”; (ii) trigger changes in the rules or methodologies used in the “benchmark”; or (iii) lead to the disappearance of the “benchmark”. Any of the above changes, or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Covered Bonds linked to or referencing EURIBOR, LIBOR or TRLIBOR.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Covered Bonds linked to or referencing EURIBOR, LIBOR or TRLIBOR.

***Future discontinuance of LIBOR may adversely affect the value of Floating Rate Covered Bonds which reference LIBOR***

On 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forward. This may cause LIBOR to perform differently than it did in the past and may have other consequences which cannot be predicted.

Investors should be aware that, if LIBOR were discontinued or otherwise unavailable, the rate of interest on Floating Rate Covered Bonds which reference LIBOR will be determined for the relevant period by the fall-back provisions applicable to such Covered Bonds. Depending on the manner in which the LIBOR rate is to be determined under the Terms and Conditions, this may (i) if ISDA Determination applies, be reliant upon the provision by reference banks of offered quotations for the LIBOR rate which, depending on market circumstances, may not be available at the relevant time or (ii) if Screen Rate Determination applies, result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Covered Bonds which reference LIBOR.

***The market price of the Covered Bonds may be volatile***

The market price of the Covered Bonds could be subject to significant fluctuations in response to actual or anticipated variations in the Group’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 of a large number of Covered Bonds, as well as other factors, including the trading market for notes issued by or on behalf of the

Republic of Turkey as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Covered Bonds without regard to the Group's results of operations or financial condition.

The market values of securities issued at a substantial discount (such as Zero Coupon Covered Bonds) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest bearing securities with comparable maturities.

***Financial turmoil in emerging markets could cause the price of the Covered Bonds to suffer***

Turkey is considered by international investors to be an emerging market. In general, investing in the securities of issuers that have operations primarily 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 EU or similar jurisdictions. The market price of the Covered Bonds is influenced by economic and market conditions in Turkey and, to a varying degree, economic and market conditions in both emerging market countries and more developed economies. Financial turmoil in emerging markets in the past have adversely affected market prices in the world's securities markets for companies that operate in developing economies. Even if the Turkish economy remains relatively stable, financial turmoil in these countries could materially adversely affect the market price of the Covered Bonds.

***Enforcement of Judgments – Investors may have difficulty enforcing foreign judgments against the Bank or its management***

The Bank is a public joint stock company organised under the laws of Turkey. Many of the Bank's directors and executive officers are residents of Turkey and a substantial portion of the assets of the Bank and such persons are located in Turkey. As a result, it may be difficult for investors to effect service of process upon the Bank or such persons outside Turkey, or to enforce judgments or arbitral awards obtained against such parties outside Turkey.

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 have recognised enforceable judgments of English courts on the basis that there is *de facto* reciprocity between the United Kingdom and Turkey with respect to enforcement of judgments of their respective courts, there is no treaty between the United Kingdom and Turkey setting out the reciprocal enforcement of judgments expressly. For further information, see "*Enforcement of Judgments and Service of Process*".

The Conditions of the Covered Bonds are governed by English law and the terms are specified with reference to that law as in effect as of the date of this Base Prospectus. Similarly, the enforcement rights of the Covered Bondholders against the Bank and its assets in Turkey assume the application of Turkish law as presently in effect. Any possible judicial decision or change to English or Turkish law or administrative practice after the date of this Base Prospectus may impact the Covered Bonds.

Furthermore, any claim against the Bank that is denominated in a foreign currency would, in the event of bankruptcy of the Bank, only be payable in Turkish Lira. The relevant exchange rate for determining the Turkish Lira equivalent amount of any such claim would be the Central Bank's exchange rate that is effective on the date the relevant court decides on bankruptcy of the Bank in accordance with Turkish law.

***Exchange rate risks and exchange controls – If an investor holds Covered Bonds which are not denominated in the investor's home currency, such investor will be exposed to movements in***

***exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Covered Bonds could result in an investor not receiving payments on those Covered Bonds***

The Issuer will pay principal and interest on the Covered Bonds in the currency or currencies as may be agreed from time to time by the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant Covered Bondholder(s) (as set out in the applicable Final Terms) (the “**Specified Currency**”). This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to a devaluation of the Specified Currency or a revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (1) the Investor’s Currency equivalent yield on the Covered Bonds, (2) the Investor’s Currency equivalent value of the principal payable on the Covered Bonds and (3) the Investor’s Currency equivalent market value of the Covered Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Covered Bonds. As a result, investors may receive less interest or principal than expected, or no interest or principal. An investor may also not be able to convert (at a reasonable exchange rate or at all) amounts received in the Specified Currency into the Investor’s Currency, which could materially adversely affect the market value of the Covered Bonds. There may also be tax consequences for investors.

***Credit ratings – Credit ratings assigned to the Issuer or any Covered Bonds may not reflect all risks associated with an investment in those Covered Bonds***

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Covered Bonds. Any ratings of the Bank or the Group may not reflect the potential impact of all risks related to the Covered Bonds, the global financial market, the Turkish banking sector, other factors described in this Base Prospectus or any other risks. Credit ratings assigned to the Covered Bonds 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 revision, suspension or withdrawal at any time by the assigning rating agency. The ratings do not address the marketability of the Covered Bonds or any market price.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). If the status of the rating agency rating the Covered Bonds changes, European regulated investors may no longer be able to use the rating for regulatory purposes and the Covered Bonds may have a different regulatory treatment. This may result in European regulated investors selling the Covered Bonds which may impact the value of the Covered Bonds and any secondary market. The list of registered and certified rating agencies published by the European Securities and Markets Authority (“**ESMA**”) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

## ENFORCEMENT OF JUDGMENTS AND SERVICE OF PROCESS

The Bank is a public joint stock company under the Turkish Commercial Code. 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 the Bank outside Turkey or to enforce against it in the courts of jurisdictions other than Turkey any judgments obtained in such courts that are predicated upon the laws of such other jurisdictions. In order to enforce such judgments in Turkey, investors should initiate enforcement proceedings before the competent Turkish courts. In accordance with Articles 50 to 59 of Turkey's International Private and Procedure Law (Law No. 5718), the courts of Turkey will not enforce any judgment obtained in a court established in a country other than Turkey unless:

- (a) there is in effect a treaty between such country and Turkey providing for reciprocal enforcement of court judgments;
- (b) there is *de facto* enforcement in such country of judgments rendered by Turkish courts; or
- (c) there is a provision in the laws of such country that provides for the enforcement of judgments of Turkish courts.

There is no treaty between Turkey and the United Kingdom providing for reciprocal enforcement of judgments. Turkish courts have rendered at least one judgment confirming *de facto* reciprocity between Turkey and England, and English law sets out certain criteria on satisfaction of which the courts of England and Wales may enforce foreign court judgments by way of summary proceedings, without substantive re-examination of the matters adjudicated upon; 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 England by Turkish courts. Moreover, there is uncertainty as to the ability of an investor to bring an original action in Turkey based upon 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 the public policy rules of Turkey;
- (f) the judgment is not final and binding with no further recourse for appeal or similar revision process under the laws of the country where the judgment has been rendered; or
- (g) the judgment was rendered by a foreign court that has deemed itself competent even though it has no actual relationship with the parties or the subject matter at hand.

Furthermore, any claim against the Bank that is denominated in a foreign currency would, in the event of bankruptcy of the Bank, only be payable in Turkish Lira. The relevant exchange rate for determining the Turkish Lira equivalent amount of any such claim would be the Central Bank's



exchange rate that is effective on the date the relevant court decides on bankruptcy of the Bank in accordance with Turkish law.

In connection with the Programme or any issuance of Covered Bonds, service of process may be made upon the Bank at UniCredit Bank AG, London Branch located at Moor House, 120 London Wall, London EC2Y 5ET, United Kingdom in relation to any proceedings in England and Wales in connection with any Covered Bonds issued under the Programme.

## DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the convenience translations into English of BRSA consolidated financial statements and related notes of the Group as of and for the year ended 31 December 2018 and the audit report of PwC thereon, which are published on the Bank's website at:

[https://www.yapikredi.com.tr/medium/file/31-december-2018-consolidated-financials\\_51323/download](https://www.yapikredi.com.tr/medium/file/31-december-2018-consolidated-financials_51323/download);

- (b) the convenience translations into English of BRSA consolidated financial statements and related notes of the Group as of and for the year ended 31 December 2017 and the audit report of PwC thereon, which are published on the Bank's website at:

[https://www.yapikredi.com.tr/medium/file/31-december-2017-consolidated-financials\\_42455/download](https://www.yapikredi.com.tr/medium/file/31-december-2017-consolidated-financials_42455/download);

- (c) the convenience translations into English of BRSA consolidated financial statements and related notes of the Group as of and for the year ended 31 December 2016 and the audit report of EY thereon, which are published on the Bank's website at:

[https://www.yapikredi.com.tr/medium/file/31-december-2016-signed-consolidated-financials\\_31263/download](https://www.yapikredi.com.tr/medium/file/31-december-2016-signed-consolidated-financials_31263/download);

- (d) the convenience translations into English of BRSA consolidated financial statements and related notes of the Group as of and for the nine months ended 30 September 2019 (with 30 September 2018 comparatives for the statement of income) and the review report of PwC which are published on the Bank's website at:

[https://www.yapikredi.com.tr/medium/file/30-september-2019-consolidated-financials\\_57516/download](https://www.yapikredi.com.tr/medium/file/30-september-2019-consolidated-financials_57516/download);

- (e) the convenience translations into English of BRSA unconsolidated financial statements and related notes of the Bank as of and for the year ended 31 December 2018 and the audit report of PwC thereon, which are published on the Bank's website at:

[https://www.yapikredi.com.tr/medium/file/31-december-2018-unconsolidated-financials\\_51325/download](https://www.yapikredi.com.tr/medium/file/31-december-2018-unconsolidated-financials_51325/download);

- (f) the convenience translations into English of BRSA unconsolidated financial statements and related notes of the Bank as of and for the year ended 31 December 2017 and the audit report of PwC thereon, which are published on the Bank's website at:

[https://www.yapikredi.com.tr/medium/file/31-december-2017-unconsolidated-financials\\_42454/download](https://www.yapikredi.com.tr/medium/file/31-december-2017-unconsolidated-financials_42454/download);

- (g) the convenience translations into English of BRSA unconsolidated financial statements and related notes of the Bank as of and for the year ended 31 December 2016 and the audit report of EY thereon, which are published on the Bank's website at:

[https://www.yapikredi.com.tr/medium/file/31-december-2016-signed-unconsolidated-financials\\_31261/download](https://www.yapikredi.com.tr/medium/file/31-december-2016-signed-unconsolidated-financials_31261/download);

- (h) the convenience translations into English of BRSA unconsolidated financial statements and related notes of the Bank as of and for the nine months ended 30 September 2019 (with 30 September 2018 comparatives for the statement of income) and the review report of PwC thereon, which are published on the Bank's website at:

[https://www.yapikredi.com.tr/medium/file/30-september-2019-unconsolidated-financials\\_57517/download](https://www.yapikredi.com.tr/medium/file/30-september-2019-unconsolidated-financials_57517/download);

- (i) the terms and conditions set out on pages 122 to 163 of the base prospectus dated 22 January 2019 relating to the Programme under the heading "*Terms and Conditions of the Covered Bonds*", which may be obtained from the following url:

<https://www.centralbank.ie/docs/default-source/regulation/prospectus-regulation/2019/prospectusdoc-2019-01/job20001032--baseprospectus.pdf?sfvrsn=2>;

- (j) the terms and conditions set out on pages 115 to 156 of the base prospectus dated 24 January 2018 relating to the Programme under the heading "*Terms and Conditions of the Covered Bonds*", which may be obtained from the following url:

[https://www.ise.ie/debt\\_documents/F%20Base%20Prospectus%20cIn%2024.01.2018\\_e6ef8edc-9838-4c70-9ad4-05967388a9b3.PDF](https://www.ise.ie/debt_documents/F%20Base%20Prospectus%20cIn%2024.01.2018_e6ef8edc-9838-4c70-9ad4-05967388a9b3.PDF); and

- (k) the terms and conditions set out on pages 108 to 149 of the base prospectus dated 21 October 2016 relating to the Programme under the heading "*Terms and Conditions of the Covered Bonds*", which may be obtained from the following url:

[http://www.ise.ie/debt\\_documents/Base%20Prospectus\\_4321555a-93d5-460e-ad9f-9ee73ff6b4e4.PDF](http://www.ise.ie/debt_documents/Base%20Prospectus_4321555a-93d5-460e-ad9f-9ee73ff6b4e4.PDF),

which shall be deemed to be incorporated in and to form part of this Base Prospectus. No other part of the Issuer's website forms a part of, or is incorporated into, this Base Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

**Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with Article 23 of the Prospectus Regulation, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of the Covered Bonds. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.**

## **SUPPLEMENTS TO THE BASE PROSPECTUS**

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to the information included in this Base Prospectus which is capable of affecting the assessment of the Covered Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Covered Bonds in accordance with Article 23 of the Prospectus Regulation.

Due to mandatory regulatory requirements, the Bank rotated its auditors following completion of its annual audit as of and for the year ended 31 December 2016. Accordingly, the Bank appointed PwC as its independent auditor effective as of 1 January 2017 and for a term of three years.

The Interim BRSA Financial Statements as of and for the nine-month period ended 30 September 2019 (with 30 September 2018 comparatives) and as of and for the nine-month period ended 30 September 2018 incorporated by reference into this Base Prospectus have been reviewed in accordance with the Standard on Review Engagements (SRE) 2410, “Limited Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. See the English convenience translations of the relevant PwC and EY reports incorporated by reference herein. With respect to the Interim BRSA Financial Statements, PwC has reported that it applied limited procedures in accordance with professional standards for a review of such information; however, its report states that it did not audit and does not express an opinion on such interim financial information.

## OVERVIEW OF THE GROUP AND THE PROGRAMME

*The following overview should be read in conjunction with, and is qualified in its entirety by, the detailed information appearing elsewhere in this Base Prospectus, including the Financial Statements. Prospective investors should see “Risk Factors” for a discussion of certain factors that should be considered in connection with an investment in the Covered Bonds (or beneficial interests therein).*

### Overview

Yapı ve Kredi Bankası A.Ş. is a full service bank with its headquarters in Istanbul, Turkey. It was established on 7 July 1944 and is incorporated with limited liability under the Turkish Commercial Code, the Banking Law and the Capital Markets Law for a period of 100 years.

According to BRSA statistics, as of 30 September 2019, the Bank was the third largest private bank in Turkey by total assets and ranked third among private banks in total cash loans (loans other than letters of guarantee, letters of credit and acceptances) with a 16.9% market share among private banks and an 8.8% market share in the overall banking sector (compared with a market share of 9.2% as of 31 December 2018, 9.5% as of 31 December 2017 and 10.2% as of 31 December 2016) and third among private banks in total deposits with a 9.2% market share (compared with a market share of 10.0% as of 31 December 2018, 10.0% as of 31 December 2017 and 10.6% as of 31 December 2016). As of 30 September 2019, the Bank had 854 branches covering all regions of Turkey (including one branch in Bahrain). It maintains market leading positions in key segments and products supported by its strong franchise, large network and leading brand. The Group is organised into three segments: (i) retail banking; (ii) corporate and commercial banking; and (iii) private banking and wealth management. The Bank’s service model is supported by its domestic and international subsidiaries. The Bank’s shares are listed on the Borsa Istanbul.

In addition to its branch network, the Bank offers products and services through a wide array of alternative distribution channels (“ADCs”) including 4,352 ATMs, 100% of which are “advanced” ATMs with cash deposit functionality (the fifth largest ATM network in Turkey with an 8.6% market share according to the Interbank Card Centre), award-winning digital banking with 6.1 million customers as of 30 September 2019, a leading position in mobile banking with 5.5 million customers as of 30 September 2019, as well as three award-winning call centres according to the Banks Association of Turkey. See “*Business of the Bank—Distribution Network—Alternative Channels*”. As of 30 September 2019, the Group had 17,798 employees, of which 16,950 were employees of the Bank (representing 8.9% market share). This compares to 18,448, 18,839 and 19,419 employees as of 31 December 2018, 31 December 2017 and 31 December 2016, respectively, of which 17,577, 17,944 and 18,366 were employees of the Bank. Internationally, the Group carries out business through subsidiaries in the Netherlands, Azerbaijan, Malta and a branch in Bahrain.

The Group had total assets of TL 397 billion (U.S.\$70.1 billion) as of 30 September 2019 compared with TL 373 billion as of 31 December 2018, TL 320.1 billion as of 31 December 2017 and TL 271.1 billion as of 31 December 2016.

According to the consolidated Interim BRSA Financial Statements for the nine-month period ended 30 September 2019, the Group had operating income of TL 10,159 million (U.S.\$1,795 million) compared to TL 13,352 million for the year ended 31 December 2018, TL 7,959 million for the year ended 31 December 2017 and TL 7,092 million for the year ended 31 December 2016. For the period ended 30 September 2019, the Group’s cost to income ratio was 34% and operating cost growth was 13% year-over-year. For the year ended 31 December 2018, the Group’s cost to income ratio was 33%, compared to 42% in 2017. As of 30 September 2019, the Group’s costs divided by average assets ratio realised at 1.4% versus 1.9% as of 31 December 2018. The Group’s fees divided by operating costs ratio reached 75% in the period ended 30 September 2019.

The Group aims to be a customer-centric commercial bank driven by cutting edge technology and a committed workforce, delivering responsible growth. A main strategy of the Group is achieving best-in-class profitability, backed by a strong balance sheet, resulting in enhanced and sustainable shareholder returns.

The Group's net profit realised at TL 3,337 million and its return on average tangible shareholders' equity (excluding intangible assets) was 11.8% for the nine months ended 30 September 2019, compared with TL 4,668 million and 14.2% for the year ended 31 December 2018, TL 3,614 million and 13.6% for the year ended 31 December 2017 and TL 2,933 million and 12.7% for the year ended 31 December 2016. The banking sector's return on average tangible shareholders' equity was 10.8%, 13.8%, 15.1% and 14.2% for the nine months ended 30 September 2019 and for the years ended 31 December 2018, 2017 and 31 December 2016, respectively. As of 30 September 2019, the Group's return on average assets ratio was at 1.2%, compared to 1.4% as of 2018 and 1.2% as of both 2017 and 2016 year-end.

## **Organisation**

The Bank's operations are carried out through two main segments: (1) retail banking, which includes the Bank's card payment systems, individual banking, private banking and wealth management, and SME banking segments; and (2) corporate and commercial banking. The Bank's service model is supported by its domestic and international subsidiaries.

## **Principal Shareholder**

The Bank's controlling shareholder is KFS, which as of 30 September 2019 holds an 81.9% stake. The remaining 18.1% of the Bank's shares are publicly traded and held by minority shareholders. KFS is a joint venture between the Koç Group and UniCredit Group (the Koç Group and UniCredit Group each owns 50% of the shares in KFS). The Koç Group is one of Turkey's largest conglomerates in terms of turnover and exports, with operations in the energy, automotive, consumer durables and finance sectors. UniCredit, with roots dating back to 1473, is a simple, successful, pan-European, commercial bank with a unique Western, Central and Eastern European network in 14 core markets.

On 30 November 2019, UniCredit and the Koç Group announced an agreement to change the Bank's ownership structure. According to the agreement, UniCredit's stake in the Bank is to reduce to 31.93% while the Koç Group's stake is to increase to 49.99%. The completion of the shareholding reduction is subject to regulatory approvals in all relevant jurisdictions and is expected to take place in the first half of 2020.

## **Key Competitive Advantages**

The Group's management believes that the Group has a number of key competitive advantages that enable it to compete effectively in the Turkish banking sector, including:

- leading market positions in key segments and products;
- robust and customer-oriented balance sheet;
- large network and leading brand;
- strong commitment to risk management;
- diversified, high quality revenue mix; and
- strong and committed shareholders.

## **Strategy**

As a fully integrated banking and financial services group, the Bank is working towards its goal of becoming a leader in the finance sector. The Bank's mission is to ensure long-term sustainable growth and value creation for all stakeholders and to become the first choice for customers and employees.

## **Principles**

The Bank's strategy is structured around three main principles:

- healthy and consistent growth;
- strong and sustainable profitability; and
- superior and long-lasting customer satisfaction.

## **Risk Factors**

An investment in the Covered Bonds involves certain risks. Prior to making an investment decision, prospective purchasers of the Covered Bonds should carefully review "*Risk Factors*", which sets out certain political, economic and legal risks, as well as risks relating to the Turkish banking industry, the business of the Group and the Covered Bonds themselves.

## GENERAL DESCRIPTION OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Covered Bonds, the applicable Final Terms.*

This overview constitutes a general description of the Programme for the purposes of Article 25(1) of Commission Delegated Regulation (EU) No. 2019/980.

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

### PRINCIPAL PARTIES

<b>Issuer</b> .....	Yapı ve Kredi Bankası A.Ş.
<b>Issuer Legal Entity Identifier (LEI)</b> .....	B85ZYWEZ5IZCZ2WNIO12
<b>Arrangers</b> .....	NATIXIS (“ <b>Natixis</b> ”), UniCredit Bank AG (“ <b>UniCredit Bank</b> ”) and/or any other arrangers appointed from time to time in accordance with the Programme Agreement (together the “ <b>Arrangers</b> ” and, each of them, an “ <b>Arranger</b> ”).
<b>Dealer(s)</b> .....	Natixis, UniCredit Bank and/or any other dealers appointed from time to time in accordance with the Programme Agreement. Notwithstanding the appointment of Dealer(s) to the Programme, Covered Bonds may be placed directly with investors by the Issuer as indicated in the applicable Final Terms, and all descriptions of the Programme in this Base Prospectus shall be interpreted accordingly.
<b>Cover Monitor</b> .....	<p>A reputable institution (the “<b>Cover Monitor</b>”) appointed from time to time pursuant to the Cover Monitor Agreement as an independent monitor to perform certain tests and recalculations in respect of the Statutory Tests when required in accordance with the requirements of the Turkish Covered Bonds Legislation.</p> <p>The initial Cover Monitor is KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi (KPMG Türkiye).</p>
<b>Offshore Account Bank</b> .....	<p>The Bank of New York Mellon, London Branch acts as the offshore account bank pursuant to the Offshore Bank Account Agreement (with its successors in such capacity, the “<b>Offshore Account Bank</b>”).</p> <p>The Non-TL Designated Account(s), the Hedge Collateral Account(s), the Non-TL Hedge Collection Account(s) and the Agency Account (together with any additional or replacement accounts opened in the name of the Issuer or the Security Agent, as applicable, and/or for the benefit of the Secured Creditors (or, with respect to the Agency Account, the Reserve Fund Secured Creditors) under the Offshore Bank Account Agreement, the “<b>Offshore Bank Accounts</b>”) have been and/or will be established and maintained with the Offshore Account Bank.</p>



In the event that the Offshore Account Bank ceases to meet the minimum rating required for such institution, the Issuer and the Security Agent will use their respective commercially reasonable endeavours to procure that the Offshore Bank Accounts are transferred to another financial institution which has the required ratings.

<b>Transfer Agent</b> .....	The Bank of New York Mellon SA/NV, Luxembourg Branch has been appointed pursuant to the Agency Agreement as transfer agent (with its successors in such capacity, the “ <b>Transfer Agent</b> ”).
<b>Registrar</b> .....	The Bank of New York Mellon SA/NV, Luxembourg Branch has been appointed pursuant to the Agency Agreement as registrar (with its successors in such capacity, the “ <b>Registrar</b> ”).
<b>Exchange Agent</b> .....	The Bank of New York Mellon, London Branch has been appointed pursuant to the Agency Agreement as exchange agent (with its successors in such capacity, the “ <b>Exchange Agent</b> ”).
<b>Calculation Agent</b> .....	The Bank of New York Mellon, London Branch has been appointed pursuant to the Calculation Agency Agreement as calculation agent (with its successors in such capacity, the “ <b>Calculation Agent</b> ”).
<b>Fiscal Agent</b> .....	The Bank of New York Mellon, London Branch has been appointed to act as fiscal agent and principal paying agent (with its successors in such capacity, the “ <b>Fiscal Agent</b> ”) in respect of the Covered Bonds (together with any other paying agent appointed from time to time pursuant to the Agency Agreement, the “ <b>Paying Agents</b> ”).
<b>Security Agent</b> .....	The Bank of New York Mellon, London Branch has been appointed as security agent (with its successors in such capacity, the “ <b>Security Agent</b> ”) to hold the benefit of all of the Non-Statutory Security for the Covered Bondholders and the other Secured Creditors under the Transaction Security Documents. Such appointment has been made pursuant to the Security Agency Agreement dated the Programme Closing Date made between the Issuer and the Security Agent (the “ <b>Security Agency Agreement</b> ”). See “— <i>Programme Description—Security for the Covered Bonds</i> ”.
<b>Hedging Counterparties</b> .....	The Issuer may, from time to time, enter into Hedging Agreements (as defined in “ <i>Description of the Transaction Documents—Hedging Agreements</i> ”) with one or more hedge provider(s) to hedge certain interest rate risks and/or currency risks (each a “ <b>Hedging Counterparty</b> ”) associated with the Cover Pool and/or the Covered Bonds. The rights of the Issuer under any such Hedging Agreement shall form part of the Cover Pool.

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

Pool Assets).

**Listing Agent** .....

Arthur Cox Listing Services Limited (the “**Listing Agent**”).

**Relevant Rating Agencies** .....

“**Relevant Rating Agencies**” means, in respect of each Series of Covered Bonds that is rated, Moody’s and/or such other rating agency(ies) indicated in the applicable Final Terms in respect of such Series; *it being understood* that a Series need not be rated. “**Relevant Rating Agency**” means any one of such rating agencies.

## PROGRAMME DESCRIPTION

**Risk factors** .....

There are certain factors that may affect the Issuer’s ability to fulfil its obligations under Covered Bonds issued under the Programme. These are set out under “*Risk Factors*” and include risks relating to the Group and its business, the Group’s relationship with the Issuer’s principal shareholders, Turkey and the Turkish banking industry. In addition, there are certain factors that are material for assessing the risks associated with Covered Bonds issued under the Programme. These are set out under “*Risk Factors*” and include (a) insolvency considerations, (b) risks relating to the Issuer’s ability to fulfil its obligations under the Covered Bonds, (c) risks relating to the Turkish mortgage market, (d) factors that are material for the purpose of assessing market risks and (e) risks associated with any Series of Covered Bonds and market risks generally.

**Description** .....

€1 billion Global Covered Bond Programme.

**Programme Limit** .....

Up to €1 billion (or its equivalent in other currencies determined as described in the Programme Agreement) outstanding at any time as described herein (the “**Programme Limit**”). The Issuer may increase the Programme Limit in accordance with the terms of the Programme Agreement.

**Distribution** .....

Covered Bonds may be distributed by way of private or (other than in the United States) public placement and in each case on a syndicated or non-syndicated basis.

**Maturities** .....

The maturity of the Covered Bonds shall be specified in the applicable Final Terms in accordance with such minimum or maximum maturities as may be allowed or required from time to time by the relevant regulatory authority or any laws or regulations applicable to the Issuer or the relevant currencies.

**Forms of Covered Bonds** .....

The Covered Bonds may be issued in either bearer or registered form (as described in “*Form of the Covered Bonds*”).

**Currencies** .....

Covered Bonds may be denominated and payments in respect of the Covered Bonds may be made in euro, Sterling, U.S. dollars, Turkish Lira or, subject to any applicable legal or regulatory restrictions, any other currency as set out in the conditions and specified in the applicable Final Terms.

If specified in the applicable Final Terms, payment in respect of Covered Bonds denominated in Turkish Lira may be made in U.S. dollars under Condition 7.8 (*U.S. dollar Exchange and*

*Payments on Turkish Lira-Denominated Covered Bonds held other than through DTC)* if an irrevocable election to receive such payment in U.S. dollars is made. See Condition 7.8 (*U.S. dollar Exchange and Payments on Turkish Lira-Denominated Covered Bonds held other than through DTC*).

<b>Denominations</b> .....	The Covered Bonds may be issued in any authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement.
<b>Fixed Rate Covered Bonds</b> .....	Fixed interest will be payable on such date or dates as specified in the applicable Final Terms and, on redemption, will be calculated on the basis of such Day Count Fraction as specified in the applicable Final Terms.
<b>Floating Rate Covered Bonds</b> .....	<p>Floating Rate Covered Bonds will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions or the 2006 ISDA Definitions, each as published by the International Swaps and Derivatives Association, Inc. (the “<b>ISDA</b>”) and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds of the relevant Series, as specified in the applicable Final Terms; or</li> <li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service.</li> </ul> <p>The margin (if any) relating to any Floating Rate Covered Bonds will be specified in the applicable Final Terms for each Series of Covered Bonds.</p>
<b>Zero Coupon Covered Bonds</b> .....	Zero Coupon Covered Bonds will be offered and sold at a discount to their nominal amount and will not bear interest.
<b>Redemption</b> .....	The applicable Final Terms will indicate either that the relevant Covered Bonds cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Covered Bonds will be redeemable at the option of the Issuer and/or the Covered Bondholders upon giving notice to the Covered Bondholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at the price or prices specified in the applicable Final Terms.
<b>Certain Covenants</b> .....	The Issuer will agree to certain covenants, including covenants limiting transactions with affiliates and a covenant to maintain the additional contractual overcollateralisation percentage – see further “— <i>Creation and Administration of the Cover Pool—Additional Contractual Overcollateralisation</i> ”.
<b>Status of the Covered Bonds and</b>	All Covered Bonds and any Coupons will, upon issue,

<b>Statutory Treatment of the Covered Bonds</b> .....	<p>constitute direct, unconditional and unsubordinated obligations of the Issuer in accordance with the Turkish Covered Bonds Legislation and will rank <i>pari passu</i> among themselves.</p> <p>Under the Covered Bonds Communiqué and by virtue of the statutory priority established thereunder, the Covered Bondholders, Couponholders, Hedging Counterparties and the Administrator (if appointed) in respect of its fees and expenses only will (subject to the following paragraph) have an exclusive, equal and <i>pro rata</i> preferential legal claim over the Cover Pool.</p> <p>The claims of the Other Secured Creditors against the Cover Pool are permitted only to the extent that the Issuer has provided Additional Cover in the manner described in Article 29 of the Covered Bonds Communiqué. To the extent that the Issuer has not so provided Additional Cover, the Other Secured Creditors will not be permitted to have recourse to the Cover Pool and their claims will rank <i>pari passu</i> with the other unsecured creditors of the Issuer. However, if Additional Cover has been provided, then the CMB may determine that the Other Secured Creditors have a <i>pari passu</i> claim over such Additional Cover, in which case the Other Secured Creditors would be able to claim alongside Covered Bondholders, Couponholders and Hedging Counterparties in respect of such Additional Cover.</p>
<b>Taxation</b> .....	<p>“<b>Statutory Segregation</b>” means the statutory protection of the Cover Pool against competing claims for the benefit of the Covered Bondholders, Couponholders, Hedging Counterparties, the Administrator (if appointed and only in respect of its fees and expenses) and (subject to the provisions of Article 29 of the Covered Bonds Communiqué) Other Secured Creditors pursuant to Article 13 of the Covered Bonds Communiqué.</p> <p>All payments in respect of the Covered Bonds by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“<b>Taxes</b>”), 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 (subject to certain exceptions) pay such Additional Amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds, after such withholding or deduction will equal the respective amounts that would have been receivable in respect of the Covered Bonds in the absence of the withholding or deduction. See “<i>Taxation—Certain Turkish Tax Considerations</i>” and Condition 9 (<i>Taxation</i>).</p> <p>All payments in respect of the Covered Bonds will be made subject to any withholding or deduction required pursuant to FATCA or any law implementing an intergovernmental approach to FATCA, as provided in Condition 7.1 (<i>Method of Payment</i>) and, in accordance with Condition 9.1 (<i>Payment without Withholding</i>), no Additional Amount will be payable</p>

by the Issuer in respect of any such withholding or deduction.

#### **Security for the Covered Bonds..**

In accordance with the Turkish Covered Bonds Legislation, by virtue of the Transaction Documents and pursuant to the Cover Register and any registrations required to update the Cover Register (the “**Security Update Registration**”), the Cover Pool and the other Transaction Security (including any amounts standing to the credit of the Collection Account), the Designated Account(s), the Hedge Collateral Accounts (other than Excess Hedge Collateral) and the Non-TL Hedge Collection Account(s) (but excluding the Agency Account) will be available to satisfy the obligations of the Issuer under the Total Liabilities (and the claims of Other Secured Creditors) following the occurrence of a Potential Breach of Statutory Test (which is continuing), an Issuer Event (which is continuing) or the service of a Notice of Default (which has not been revoked (such revocation to be provided in the same manner as the service of a Notice of Default)), in priority to the Issuer’s obligations to any other creditors, until the repayment in full of the Covered Bonds and payment of the Issuer’s other Secured Obligations under the Transaction Documents to the applicable Secured Creditors.

Pursuant to the Security Assignment, the Secured Obligations owing to the Secured Creditors will be secured by the following (the “**Security Assignment Security**”):

- (a) a security assignment over all the Issuer’s rights, title, interest and benefit, present and future in, to and under:
  - (i) each of the Offshore Bank Accounts;
  - (ii) the English Law Transaction Documents (other than the Security Assignment, the Programme Agreement, any Subscription Agreement and any deed expressed to be supplemental to the Security Assignment, the Programme Agreement and/or any Subscription Agreement), including, without limitation, any guarantee, credit support document or credit support annex entered into pursuant to the Hedging Agreements governed by the laws of England and Wales and any eligible credit support (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Deed or the 1995 English Law Credit Support Deed, each as defined by the International Swaps and Derivatives Association, Inc.) delivered or transferred to the Issuer thereunder, including, without limitation, all moneys received in respect thereof, all dividends paid or payable thereon, all property paid, distributed, accruing or offered at any time to or in respect of or in substitution thereof and the proceeds of sale, repayment and redemption thereof;

and

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

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

- (b) a charge, by way of first fixed equitable charge to the Security Agent, over all the Issuer's rights, title, interest and benefit, present and future, in, to and under the Authorised Investments which are Cover Pool Assets (and all moneys, income and proceeds to become payable thereunder or thereon and the benefits of all covenants relating thereto and all powers and remedies for enforcing the same), which are held unto the Security Agent absolutely for the Security Agent itself and on trust, subject to the terms of the Security Assignment, for the applicable Secured Creditors to whom the Secured Obligations from time to time become due, owing or payable.

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

**“Excess Hedge Collateral”** means: (a) the remaining Hedge Collateral due to be returned to a Hedging Counterparty after termination payments payable by such Hedging Counterparty to the Issuer in respect of the relevant Hedging Agreement

have been satisfied; (b) if no termination payments were payable by such Hedging Counterparty to the Issuer after the occurrence of an Early Termination Date (as defined in the 1992 ISDA Master Agreement (Multicurrency – Cross Border), the 2002 ISDA Master Agreement or analogous master agreement, each as published by ISDA from time to time (the “**ISDA Master Agreement**”)) in respect of the relevant Hedging Agreement, the Hedge Collateral due to be returned to the Hedging Counterparty in accordance with the provisions of the relevant credit support annex, in each case, under the terms of the relevant Hedging Agreement; or (c) any amounts in the applicable Hedge Collateral Account in excess of the amount of collateral required to be maintained in such account pursuant to the applicable Hedging Agreement.

“**Mandatory Excess Cover**” means the overcollateralisation of the Cover Pool by the Issuer from Substitute Assets in accordance with the minimum cover requirement provided under the Covered Bonds Communiqué that has to be maintained at all times (each such asset shall be a “**Mandatory Excess Cover Cover Pool Asset**”). Mandatory Excess Cover Cover Pool Assets are not subject to the Substitute Asset Limit and do not count towards the Substitute Asset Limit. For the avoidance of doubt, the Mandatory Excess Cover does not refer to the Additional Cover within the meaning of Article 29 of the Covered Bonds Communiqué.

“**Other Secured Creditors**” means the Agents, the Security Agent, the Calculation Agent, any Receiver, the Cover Monitor, the Offshore Account Bank and (other than the Covered Bondholders, the Couponholders and the Hedging Counterparties) any other creditor of the Issuer having the benefit of the Transaction Security in accordance with the Turkish Covered Bonds Legislation or pursuant to any Transaction Document entered into by the Issuer from time to time. To the extent that the Issuer has not provided sufficient Additional Cover in the manner described in Article 29 of the Covered Bonds Communiqué, the Other Secured Creditors will not be permitted to have recourse to the Cover Pool and (except to the extent of any applicable Non-Statutory Security available to such Other Secured Creditors pursuant to the Transaction Documents and, with respect to the Reserve Fund Secured Creditors, except with respect to the Agency Account) their claims will rank *pari passu* with the other unsecured creditors of the Issuer.

“**Programme Closing Date**” means 21 October 2016.

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

“**Secured Creditors**” means the Covered Bondholders, the Couponholders, the Other Secured Creditors and the Hedging Counterparties. “**Transaction Security**” means: (a) the

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

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

**Cross-collateralisation and Recourse** .....

By operation of the Covered Bonds Communiqué and in accordance with the Transaction Documents, the Cover Pool Assets shall form a single portfolio, irrespective of the date of their inclusion in the Cover Pool, and shall be held for the payment of the Total Liabilities to the Covered Bondholders, Couponholders and Hedging Counterparties (and claims of the Other Secured Creditors to the extent described in “—*Programme Description—Status of the Covered Bonds and Statutory Treatment of the Covered Bonds*”) irrespective of the Issue Date of the relevant Tranche, the date of any applicable Hedging Agreement or otherwise.

In accordance with the provisions of the Covered Bonds Communiqué, the Cover Pool Assets may not be seized or attached in any form by creditors of the Issuer and may be used only to pay the applicable Secured Creditors.

The Issuer is entitled, within certain limits and upon certain conditions, to effect certain changes to the Cover Pool. See “—*Creation and Administration of the Cover Pool—Changes to the Cover Pool*”.

**Issue Price** .....

Covered Bonds of each Tranche may be issued at par or at a premium over, or at a discount to, par on a fully paid basis, as specified in the applicable Final Terms.

**Final Maturity Date and Extended Maturity Date** .....

The final maturity date for each Series will be specified in the applicable Final Terms (the “**Final Maturity Date**”). Unless previously redeemed as provided in the Conditions, the Covered Bonds of a Series will be redeemed at their Principal Amount Outstanding on the relevant Final Maturity Date.

The applicable Final Terms relating to a Series of Covered Bonds may also provide that the Issuer’s obligations under the relevant Covered Bonds to pay their Principal Amount Outstanding on the relevant Final Maturity Date may be deferred past the Final Maturity Date until the applicable Extended Maturity Date (as specified in the applicable Final Terms). Such deferral will occur automatically if the Issuer fails to pay any amount representing the Final Redemption Amount in respect of the relevant Series of Soft Bullet Covered Bonds on the relevant Final Maturity Date.

In that event, the Issuer (or the institution appointed by the CMB, as the case may be) may (including with the use of the cash generated by the Cover Pool) redeem all or any part of the Principal Amount Outstanding of the Covered Bonds on an Interest Payment Date falling in any month after the Final



Maturity Date up to and including the Extended Maturity Date, as specified in the applicable Final Terms.

Upon such automatic deferral, the Issuer shall:

- (a) promptly liquidate all Authorised Investments that are Cover Pool Assets (*it being understood* that such does not include any investments that are Hedge Collateral) and Substitute Assets to the extent necessary to pay the Final Redemption Amount for the applicable Series of Soft Bullet Covered Bonds;
- (b) deposit the proceeds of such liquidation (the “**Liquidation Proceeds**”) into the relevant Designated Account(s) (such amounts to form part of the Available Funds); and
- (c) on the applicable Final Maturity Date for such Series and on each Interest Payment Date after the Final Maturity Date for such Series thereafter up to (and including) the relevant Extended Maturity Date, apply all Available Funds towards the payment of any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date of such Series of Soft Bullet Covered Bonds unless otherwise provided for in the applicable Final Terms; provided that, where an Interest Payment Date (including any such date that occurs after the Final Maturity Date) of any other Series of Covered Bonds (or any payment by the Issuer under a Hedging Agreement) corresponds with such Extended Maturity Date, the Issuer shall apply all Available Funds towards payment of amounts due in respect of such Series of Soft Bullet Covered Bonds, such other Series of Covered Bonds and such Hedging Agreement(s), as applicable, on a *pro rata* basis.

As regards interest on Covered Bonds to which an Extended Maturity Date so applies, if the Issuer fails to redeem the relevant Covered Bonds in full on the Final Maturity Date, the Covered Bonds will bear interest on the Principal Amount Outstanding of the Covered Bonds from (and including) the Final Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Final Maturity Date on which the Covered Bonds are redeemed in full or the Extended Maturity Date, and will be payable in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date in arrears or as otherwise provided for in the applicable Final Terms on each Interest Payment Date after the Final Maturity Date at the rate provided for in the applicable Final Terms.

In the case of Soft Bullet Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Final Maturity Date and for which an Extended Maturity Date is applicable, as specified in the applicable Final Terms, the Principal Amount Outstanding on the Final Maturity Date for

the above purposes shall be the total amount otherwise payable by the Issuer on the Final Maturity Date less any payments made by the Issuer in respect of such amount in accordance with the Conditions.

**“Available Funds”** means, following the occurrence of an automatic deferral of a Final Maturity Date of any Series of Soft Bullet Covered Bonds, all amounts standing to the credit of the Collection Account, the Designated Account(s) and the Non-TL Hedge Collection Account(s) and any Liquidation Proceeds.

The entitlements of Covered Bondholders in respect of voting rights (including with respect to the exercise of remedies) under the Conditions, the Agency Agreement and the Transaction Security Documents (and the other Transaction Documents to the extent applicable) upon the occurrence of an Issuer Event and/or an Event of Default will be determined by reference to the Principal Amount Outstanding of the relevant Covered Bond(s) held by the relevant Covered Bondholder(s). For the purposes of calculating the Principal Amount Outstanding of any Covered Bonds denominated in a currency other than Turkish Lira, the Principal Amount Outstanding of any such Covered Bonds shall be notionally converted into a Turkish Lira equivalent using the Applicable Exchange Rate for purposes of determining voting rights.

**“Applicable Exchange Rate”** means:

- (a) in respect of the non-Turkish Lira currency Covered Bonds of a particular Tranche:
  - (i) to the extent that a Hedging Agreement which is a currency swap transaction, cross currency and interest rate swap transaction or option contract, foreign exchange, derivative or similar agreement is in the Cover Pool in connection with the issuance of such Tranche of Covered Bonds, the rate at which the relevant currency is exchangeable into Turkish Lira pursuant to such Hedging Agreement; and
  - (ii) to the extent that paragraph (a)(i) above is not applicable, the Spot Rate;
- (b) in respect of the non-Turkish Lira currency amount of a Cover Pool Asset:
  - (i) to the extent that a Hedging Agreement which is a currency swap transaction, cross currency and interest rate swap transaction or option contract, foreign exchange, derivative or similar agreement is in the Cover Pool in connection with such Cover Pool Asset, the rate at which the relevant currency is exchangeable into Turkish Lira pursuant to such Hedging Agreement; and

- (ii) to the extent that paragraph (b)(i) above is not applicable, the Spot Rate; and
- (c) in respect of the expenses not denominated in U.S. dollars that are covered by the Reserve Fund, the Spot Rate.

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

**“Principal Amount Outstanding”** means, in respect of a Covered Bond on any day of determination, the principal amount of that Covered Bond on the relevant Issue Date thereof less the sum of all amounts of principal paid by the Issuer in accordance with the provisions of the Conditions and the relevant Covered Bonds in respect thereof on or prior to that day of determination.

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

#### **Ratings.....**

Series of Covered Bonds issued under the Programme may either be rated (whether by Moody’s and/or any other Relevant Rating Agency) or unrated. Where a Tranche of Covered Bonds is rated (other than unsolicited ratings), such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating assigned to the Covered

Bonds of other Series. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

<b>Listing and admission to trading</b>	Application will be made to the Euronext Dublin for certain Covered Bonds issued under the Programme to be admitted to the Official List and to trading on the Regulated Market; however, no assurance can be given that such application will be accepted. Covered Bonds may be unlisted or may be listed or admitted to trading, as the case may be, on any market (including any unregulated or regulated market for the purposes of MiFID II) as may be agreed among the Issuer and the relevant Dealer(s) or (in the case of a private placement) the relevant Covered Bondholders(s) in relation to each issue. The applicable Final Terms relating to each Tranche of the Covered Bonds will state whether or not such Covered Bonds are to be listed and/or admitted to trading and, if so, on which market(s).
<b>Clearing Systems</b> .....	For any Series of Covered Bonds, DTC, Euroclear, Clearstream, Luxembourg and/or any other clearing system approved by the Issuer and the Fiscal Agent or as otherwise specified in the applicable Final Terms may be the applicable clearing system(s).
<b>Selling Restrictions</b> .....	There are restrictions on the offer, sale and transfer of the Covered Bonds (and beneficial interests therein) in ( <i>inter alia</i> ) Turkey, the United States, the European Economic Area (including the United Kingdom and Ireland), the PRC, Hong Kong, Japan, Switzerland, Italy, Singapore and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Covered Bonds. See “ <i>Subscription and Sale and Selling Restrictions</i> ”.
<b>U.S. Selling Restrictions</b> .....	Regulation S Category 2, Bearer Covered Bonds will be issued in compliance with rules identical to those provided in: (a) U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (“ <b>TEFRA D</b> ”); or (b) U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (“ <b>TEFRA C</b> ”) such that the Bearer Covered Bonds will not constitute “registration-required obligations” under Section 4701(b) of the U.S. Internal Revenue Code of 1986, as specified in the applicable Final Terms. Such rules impose certain additional restrictions on transfers of Bearer Covered Bonds.
<b>Governing Law</b> .....	The Covered Bonds (other than as set forth in the following paragraph), the Agency Agreement, the Deed of Covenant, the Security Assignment, the Offshore Bank Account Agreement, the Security Agency Agreement, the Calculation Agency Agreement, the Programme Agreement, each Subscription Agreement and (unless specified otherwise in the applicable Hedging Agreement) each Hedging Agreement (and any non-contractual obligations arising out of or in connection with any of the above) shall be governed by, and construed in accordance with, the laws of England and Wales.

The Cover Monitor Agreement is governed by, and construed in accordance with, Turkish law. In addition, the Statutory Segregation referred to in Condition 3 (*Status of the Covered Bonds*) is (or will be, as the case may be) governed by and construed in accordance with Turkish law.

## CREATION AND ADMINISTRATION OF THE COVER POOL

### The Cover Pool.....

Pursuant to the Turkish Covered Bonds Legislation, the Statutory Segregation will be over:

- (a) mortgage loans meeting (i) the requirements set out in Articles 9(2), 10(1)(a) and 10(1)(c) of the Covered Bonds Communiqué and (ii) though not required by the Turkish Covered Bonds Legislation, the Individual Asset Eligibility Criteria (such assets included in the Cover Pool being the “Mortgage Assets”), and all receivables relating to such Mortgage Assets (for the purpose of clarification, the Cover Pool shall include all assets included in the Cover Register from time to time and notwithstanding that such assets may have ceased to satisfy the statutory requirements for covered assets specified in the Covered Bonds Communiqué or the Individual Asset Eligibility Criteria);
- (b) Substitute Assets (subject to the Substitute Asset Limit); and
- (c) the Issuer’s rights in, to and under Hedging Agreements,

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

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

By virtue of the creation of the Cover Pool by registration in the Cover Register (including through any Security Update Registration(s)) on or prior to the First Issue Date, the Issuer shall segregate the Cover Pool for the satisfaction of the rights of the Covered Bondholders and the Hedging Counterparties

(and the Other Secured Creditors to the extent described in “—*Programme Description—Status of the Covered Bonds and Statutory Treatment of the Covered Bonds*”).

All Mortgage Rights relating to Mortgage Assets in the Cover Pool are themselves included in the Cover Pool as part of the receivables of such Mortgage Assets; however, if it is subsequently judicially determined that all or part of the Mortgage Rights of the type referred to in paragraphs (b) and (c) of the definition of Mortgage Rights below (all such items being “**Ancillary Rights**”) do not constitute receivables of Mortgage Assets for the purposes of Article 9 of the Covered Bonds Communiqué, then such Ancillary Rights shall not be Cover Pool Assets and thus not benefit from Statutory Segregation.

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

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

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

“**Mortgage Rights**” means, with respect to a Mortgage Asset in the Cover Pool:

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

Asset; and

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

**“Substitute Assets”** means: (a) the assets permitted by the Covered Bonds Communiqué to constitute substitute assets (as of the date of this Base Prospectus, such assets include cash, certificates of liquidity issued by the Central Bank of Turkey, government bonds issued domestically (in Turkey) or abroad, lease certificates issued by asset leasing corporations established by the Undersecretariat of the Treasury of Turkey (*T.C. Cumhurbaşkanlığı Hazine Müsteşarlığı*), securities guaranteed by the Treasury of Turkey within the framework of the Law on the Regulation of Public Financing and Debt Management dated 28 March 2002 and No. 4749, and securities issued by or with the guarantee of the central administrations and/or central banks of the countries which are members of the Organisation for Economic Co-operation and Development (**“OECD”**)); and (b) other assets which the CMB approves and discloses to the public.

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

#### **Changes to the Cover Pool .....**

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

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

Substitute Asset Limit; and

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

In addition

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



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

**Cover Register** ..... “**Cover Register**” means the security book (*teminat defteri*) related to the assets in the Cover Pool and setting out certain information on such assets, which must be established and maintained in accordance with the Turkish Covered Bonds Legislation.

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

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

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

- (a) the requirements of Articles 9(2) and 10(1) of the Covered Bonds Communiqué;
- (b) such mortgage loan is denominated in Turkish Lira;
- (c) such mortgage loan is not a commercial loan or related receivable;
- (d) the applicable Borrower is not an employee of the Bank;
- (e) the principal amount outstanding of such mortgage loan at the time of its inclusion in the Cover Pool must be lower than or equal to the Turkish Lira equivalent of €1 million (using the TL/€ sell-side exchange rate most recently published by the Central Bank at such time of inclusion);
- (f) such mortgage loan is secured by a first ranking mortgage;
- (g) such mortgage loan is covered by valid and current earthquake insurance;
- (h) the applicable LTV is not greater than 80% (or such other level as specified in Article 19(1)(a)(2) (or equivalent provision) of the Covered Bonds Communiqué, as amended from time to time);
- (i) the applicable Borrower is a natural person; and
- (j) such mortgage loan constitutes a valid and enforceable claim against the applicable Borrower, subject to customary bankruptcy and similar exceptions and

general principles of equity.

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

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

“**Initial Appraised Value**” means, with respect to a mortgage loan, the appraised value of the applicable residential property used by such mortgage loan’s originator in connection with the origination of such mortgage loan.

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

#### **Monitoring of the Cover Pool .....**

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

- (a) the Nominal Value Test;
- (b) the Net Present Value Test;
- (c) the Cash Flow Matching Test; and
- (d) the Stress Test,

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

In addition, the Issuer shall, in accordance with Article 20(1) of the Covered Bonds Communiqué, test whether the Cover Pool complies with the Statutory Tests (e.g., as required as of the Programme Closing Date, at every change to the Cover Register and, in any case, at least once per calendar month) (each a “**Statutory Test Date**”) (see “*Description of the Transaction Documents—Security Agency Agreement*”).

The Cover Monitor shall, pursuant to the Cover Monitor Agreement, after testing the Statutory Tests as described above, send a copy of the report indicating compliance or non-compliance with the Statutory Tests to the Issuer and the Security Agent within 20 Istanbul Business Days of the end of the applicable accounting period.

“**Cover Monitor Calculation Date**” means the First Issue Date, each of the dates falling at the end of each semi-annual reporting period (or quarter reporting period if any Covered Bonds issued in a public offering in Turkey of Covered Bonds remain outstanding) following the First Issue Date and each subsequent Issue Date; provided that: (a) the first Cover Monitor Calculation Date shall be within six months of the First Issue Date (as agreed between the Issuer and the Cover Monitor); and (b) the end of each semi-annual reporting period or quarter reporting period, as applicable, shall be calculated from the first Cover Monitor Calculation Date and not from the First Issue Date.

**Statutory Tests.....**

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

- (a) *The Nominal Value Test:* The “**Nominal Value Test**” means the test set out in Article 15(1) of the Covered Bonds Communiqué.
- (b) *The Cash Flow Matching Test:* The “**Cash Flow Matching Test**” means the test set out in Article 16(1) of the Covered Bonds Communiqué.
- (c) *The Net Present Value Test:* The “**Net Present Value Test**” means the test set out in Article 17 of the Covered Bonds Communiqué.
- (d) *The Stress Test:* The “**Stress Test**” means the test set out in Article 18 of the Covered Bonds Communiqué.

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

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

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

- (a) assets (i) which are mortgage loans that do not satisfy the Individual Asset Eligibility Criteria or (ii) which are Substitute Assets all or portions of which are to be excluded in order for the Cover Pool to satisfy the Substitute Asset Limit; *it being understood* that if only portions of such assets are so excluded, then the part thereof that is not so excluded shall be included in the calculation of the Statutory Tests to the extent

otherwise eligible;

- (b) in the manner to be calculated pursuant to Article 19(1) of the Covered Bonds Communiqué and the applicable banking legislation, the portion of a Mortgage Asset in excess of 80% (or such other level as specified in Article 19(1)(a)(2) (or equivalent provision) of the Covered Bonds Communiqué, as amended from time to time) of the value of the residential property securing the corresponding loan;
- (c) rights in, and cash amounts standing to the credit of, the Collection Account (and investments made with such amounts);
- (d) Cover Pool Assets which are Additional Cover Cover Pool Assets pursuant to Article 29 of the Covered Bonds Communiqué;
- (e) Hedge Collateral; and
- (f) the Reserve Fund as the Reserve Fund and the Agency Account are not included in the Cover Pool.

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

**Additional Contractual  
Overcollateralisation .....**

So long as any of the Covered Bonds remains outstanding, the Issuer shall at all times ensure that the Nominal Value of the Cover Pool is not less than the product of (A) the Turkish Lira Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds outstanding and (B) the sum of one plus the decimal equivalent of the highest then-existing Programme Overcollateralisation Percentage among all then-outstanding Series. The then-existing Programme Overcollateralisation Percentage for each Series shall be specified in each Investor Report.

As used herein:

“**Covered Bond Swap Rate**” means, in respect of a Covered Bond, the exchange rate specified in the agreement among the Issuer, the relevant currency hedge provider and the Security Agent governing a foreign exchange transaction (the “**Currency Hedging Agreement**”) relating to the Series of which such Covered Bond is a part, or, if there is no Currency Hedging Agreement relating to such Series (including if the Currency Hedging Agreement for such Series has been terminated), the applicable Spot Rate.

“**Issue Date Rating**” means, in respect of a Series of Covered Bonds, the rating assigned on the relevant Issue Date.

“**Nominal Value**” means, in respect of the Cover Pool, the sum of: (a) the outstanding principal amounts of the Mortgage Assets in the Cover Pool; (b) the issue price of discounted debt securities that are included in the Cover Pool; and (c) the nominal value of debt securities issued at a premium that are

included in the Cover Pool (excluding any Hedge Collateral), in each case as such is determined pursuant to the Covered Bonds Communiqué.

**“Programme Overcollateralisation Percentage”** means the percentage figure as selected from time to time by the Issuer and notified to Moody’s (to the address specified by Moody’s from time to time) and the Fiscal Agent equating to the highest Series Overcollateralisation Percentage for all Series of Covered Bonds currently outstanding, and provided that there shall be no obligation on the Issuer to select a different Programme Overcollateralisation Percentage at any time and until a new Programme Overcollateralisation Percentage is selected by the Issuer, the Programme Overcollateralisation Percentage shall be the last figure so notified to Moody’s and the Fiscal Agent.

**“Series Overcollateralisation Percentage”** means, in respect of a Series of Covered Bonds, the percentage which is the greater of: (i) the percentage figure specified to Moody’s by the Issuer in connection with the issuance of a Series of Covered Bonds as set out in the Final Terms; or (ii) the percentage figure required to maintain the Issue Date Rating of such outstanding Series of Covered Bonds under Moody’s expected loss methodology, provided that (a) so long as the current rating for any outstanding Series of Covered Bonds is not below its Issue Date Rating, the percentage shall not be reduced unless Moody’s has confirmed in writing to the Issuer that such reduction would not result in any credit rating then assigned to such Series of Covered Bonds by Moody’s being reduced, removed, suspended or placed on credit watch and (b) so long as the current rating for any outstanding Series of Covered Bonds is below its Issue Date Rating, the percentage shall not at any time be reduced below the percentage applicable immediately prior to the most recent downgrade of such Series of Covered Bonds below its respective Issue Date Rating.

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

The Issuer, in its discretion, may increase or, as provided above, decrease the Programme Overcollateralisation Percentage at any time without the consent of the Covered Bondholders and/or the Agents and/or any other Secured Creditors. The Issuer shall notify the Covered Bondholders of any such change to the Programme Overcollateralisation Percentage in accordance with Condition 16 (*Notices*).

**Rating Agency Confirmation .....**

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

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

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

**Breach of Statutory Tests .....**

In accordance with the Turkish Covered Bond Legislation, if, on a Statutory Test Date, there is a Potential Breach of Statutory Test, the Issuer must cure any breach(es) of the relevant Statutory Tests within one month of such Statutory Test Date.

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

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

**"Potential Breach of Statutory Test"** means a breach by the Issuer of any one of the Statutory Tests that has not yet become a Breach of Statutory Test which is not remedied or cured within seven days of such potential breach provided further that the seven day grace period provided for herein shall only apply if the Issuer complies at all times with the provisions of Article 13(4) of the Covered Bonds Communiqué following such potential breach.

**Modifications .....**

The Fiscal Agent and the Issuer may agree, without the

consent of the Covered Bondholders or Couponholders, to:

- (a) any modification to any of the provisions of the Conditions of any Series, the Deed of Covenant, the Agency Agreement or any other Transaction Document, which modification is: (i) made while no Covered Bonds are outstanding; or (ii) in the opinion of the Issuer, either: (A) of a formal, minor or technical nature or that is made for the purpose of curing or correcting any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein; or (B) not materially prejudicial to the interests of the Covered Bondholders and/or the Hedging Counterparties (in each case, considered: (1) as a whole and not individually; *it being understood* that individual circumstances might differ; and (2) from a contractual perspective without consideration of any regulatory or other unique circumstances that might apply to any one or more Covered Bondholders and/or Hedging Counterparties);
- (b) any modification to a Hedging Agreement that is requested by the Issuer or the relevant Hedging Counterparty in order to enable the Issuer and/or the relevant Hedging Counterparty to comply with any requirements that apply to it under EMIR, Dodd-Frank, MiFID II or the applicable laws of Turkey (or other hedging-related applicable law in any jurisdiction to which the Issuer or the relevant Hedging Counterparty is subject), including any New EMIR Requirements (as defined in the Master Definitions and Construction Schedule), New Dodd-Frank Requirements, or New MiFID II Requirements or New Turkish Law Regulatory Requirements (or other hedging-related applicable law in any jurisdiction to which the Issuer or the relevant Hedging Counterparty is subject), as applicable, in relation to such Hedging Agreement, subject to the Issuer and/or the relevant Hedging Counterparty, as applicable, providing the Fiscal Agent and the Security Agent with written certification that the Issuer and/or the relevant Hedging Counterparty is only seeking to implement changes it considers appropriate to comply with EMIR, Dodd-Frank, MiFID II or the applicable law of Turkey (or other hedging-related applicable law in any jurisdiction to which the Issuer and/or the relevant Hedging Counterparty is subject), including or to meet the New EMIR Requirements, New Dodd-Frank Requirements, New MiFID II Requirements or New Turkish Law Regulatory Requirements, as applicable, together with any modification to any other Transaction Document(s) that may be necessary as a consequence of such modification to the relevant Hedging

Agreement; provided that any modification or change to the payment instructions (i.e., the account to which payment is to be made by the Hedging Counterparty) contained in such Hedging Agreement shall require the consent of the Security Agent (as directed by the Covered Bondholder Representative) and *provided further* that the consent of the Security Agent (as directed by the Covered Bondholder Representative) shall not be required in respect of any modification or change to such payment instructions following the appointment of a successor or replacement Security Agent or Offshore Account Bank, including any delegation, transfer or assignment of the rights or obligations of the Security Agent and/or Offshore Account Bank, in each case in accordance with the provisions of the Transaction Documents (subject to the additional requirement that the account to which such payment instructions relates is at all times a trust account held for the benefit of the Secured Creditors);

- (c) amendments to any of the Transaction Documents (including a change in the definitions of Cover Pool, Cover Pool Asset, Individual Asset Eligibility Criteria, Substitute Asset Limit, Programme Overcollateralisation Percentage and Statutory Test (and their corresponding subsidiary definitions)) (to the extent not otherwise permitted by the Transaction Documents, including per paragraphs (a) and (b) above as a result of any amendment, restatement, modification or other change to the Turkish Covered Bonds Legislation); provided that: (i) the Issuer provides the Security Agent and the Fiscal Agent with written certification that the Issuer is only seeking to implement mandatory provisions of the Turkish Covered Bonds Legislation applicable to the Programme; and (ii) each Relevant Rating Agency has been notified in writing in respect of such amendment not less than five London Business Days prior to the proposed amendment; and
- (d) at any time after a change in the applicable law of Turkey (including in the Covered Bonds Communiqué) that permits the Additional Cover to be made available to some or all of the Other Secured Creditors on a *pari passu* or priority basis to the Total Liabilities, any amendment to the Agency Agreement, the Security Assignment or any other Transaction Document to provide for such *pari passu* or priority treatment.

**“New Dodd-Frank Requirements”** means provisions, rules, regulations, directions, processes, guidelines and procedures relating to Dodd-Frank (including, without limitation, any associated regulatory or implementing technical standards and advice, guidance or recommendations from relevant competent



authorities) which have been clarified, updated, delivered, amended, modified or become operative or applicable on or after the Programme Closing Date.

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

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

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

Any such amendment or modification shall be binding on the Covered Bondholders, Couponholders and other Secured Creditors and, unless the Fiscal Agent agrees otherwise, any such modification shall be notified by the Issuer to the Covered Bondholders and Couponholders as soon as practicable thereafter in accordance with Condition 16 (*Notices*).

Notwithstanding anything in the above to the contrary, any amendment or modification that may decrease the rights of any Agent or the Security Agent (in their respective individual capacities), as applicable, or may increase the obligations and/or liabilities of any Agent or the Security Agent, as applicable, including any amendment or modification to the definition of Reserve Fund Secured Creditor, shall require the consent of such Agent or the Security Agent, as applicable, which shall be in its sole discretion.

Any amendments, modifications or waivers in relation to the Conditions or the other Transaction Documents which are not covered by the above are, subject to the requirements for Programme Reserved Matters and Series Reserved Matters, required to be effected by Extraordinary Resolution (though substituting the phrases “not less than 75%” with “more than

50%” in the definition of Extraordinary Resolution) in respect of the Covered Bonds for the time being outstanding (or, if applicable, a Series of Covered Bonds) and (except for waivers of compliance by the Issuer) require the consent of the Issuer.

**Issuer Events.....**

An “**Issuer Event**” arises if one of the following events occurs:

- (a) if default is made in the payment of any principal or interest due in respect of the Covered Bonds or any of them and the default continues for a period of seven days in the case of principal and 14 days in the case of interest;
- (b) if the Issuer fails to perform or observe any of its obligations (other than any obligation for the payment of interest, Additional Amounts or principal due under the Covered Bonds or Coupons of any Series) under the Agency Agreement, the Transaction Security Documents or any other Transaction Document to which the Issuer is a party which failure could reasonably be expected to have a materially prejudicial effect on the interests of the Covered Bondholders of any Series and/or any Hedging Counterparties, and the Issuer has received notice of the reasonable expectation of such a materially prejudicial effect from the Security Agent and (except where such failure is, or the effects of such failure are, incapable of remedy, in which event no such continuation and notice as is hereinafter mentioned will be required) such failure continues for at least 30 days after the Issuer’s receipt of such notice requiring such failure to be remedied;
- (c) if: (i) any Indebtedness for Borrowed Money (as defined in Condition 11 (*Issuer Events; Consequences of the occurrence of an Issuer Event*)) of the Issuer or any of its Material Subsidiaries (as defined in the Conditions) 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 any such (A) Indebtedness for Borrowed Money of the Issuer or such Material Subsidiary in the case of sub-paragraphs (i), (ii) and/or (iii) above and/or (B) 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-paragraph (iv) above, exceeds U.S.\$ 50 million (or its equivalent in any other currency or currencies);

(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;
- (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 as provided below, and save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution of Covered Bondholders, 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;
- (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 Covered Bondholders) or (y) for the appointment of a liquidator, receiver, administrator, administrative receiver, trustee or similar officer of it or any substantial part or all of its revenues and assets or (B) makes or proposes to make a general assignment for the benefit of its creditors, or enters into any composition with its creditors,

in each case in sub-paragraphs (i) to (iv) above, save for the solvent voluntary winding-up, dissolution or reorganisation of any Material Subsidiary in connection with any combination with, or transfer of all or substantially all of its business and/or assets to,

the Issuer or another Subsidiary of the Issuer;

- (e) if the banking licence of the Issuer is temporarily or permanently revoked or the Issuer is transferred to the Savings and Deposit Insurance Fund under the provisions of the Banking Law (Law No. 5411) of Turkey; or
- (f) if there is a Breach of Statutory Test.

For the avoidance of doubt, in the case of Soft Bullet Covered Bonds where the applicable Final Terms provide that the Issuer's obligations under the relevant Covered Bonds to pay the Principal Amount Outstanding on the relevant Final Maturity Date may be deferred past the Final Maturity Date until the Extended Maturity Date, the failure by the Issuer to pay the Principal Amount Outstanding on such Covered Bond on the Final Maturity Date shall (if not cured by the end of the applicable grace period) constitute an Issuer Event but shall not constitute an Event of Default.

**Authorised Investments .....**

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

**“Authorised Investments”** means: (a) government and public securities; and (b) demand or time deposits, certificates of deposits and short-term debt obligations, in each case that are not denominated in Turkish Lira and provided that all such Authorised Investments meet the: (i) requirements for eligible assets that can be Substitute Assets; (ii) criteria (which are commensurate with the then current rating of the highest-rated Tranche of Covered Bonds rated by such Relevant Rating Agency) of the applicable Relevant Rating Agency (and should there be more than one Relevant Rating Agency, then any such investment must satisfy each of the applicable above minimum rating requirements); and (iii) requirement that they are denominated in the same currency as the currency of the applicable Offshore Bank Account.

**ACCOUNTS AND CASH FLOW STRUCTURE**

**Collection Account .....**

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

**Account”).**

So long as an Issuer Event or Event of Default does not exist, the Bank will deposit or credit within one Istanbul Business Day of receipt all collections of interest and principal and any other amounts it receives on the Cover Pool Assets denominated in Turkish Lira, other than payments under Hedging Agreements (if any) included in the Cover Pool Assets, into the Collection Account. The Issuer will not commingle any of its other funds and general assets (including any Related Payments) with amounts standing to the credit of the Collection Account. For purposes of calculating compliance with the Statutory Tests: (a) cash amounts standing to the credit of the Collection Account (and investments made with such amounts) shall not constitute part of the Cover Pool; and (b) the TL Designated Account (and investments made with such amounts) shall comprise part of the Cover Pool.

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

**Designated Account(s) .....**

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

Pursuant to Article 26(4) of the Covered Bonds Communiqué, where the Cover Monitor determines that the Issuer has not satisfied the conditions specified in Article 26(3) of the Covered Bonds Communiqué, it shall submit a notice to the debtors of the Mortgage Assets, notifying them that they have to make their payments to an account, which is not held with the Issuer and which does not belong to the Issuer, within the scope of Article 13(8) of the Covered Bonds Communiqué, or to take equivalent measures approved by the CMB.

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

receipt) all such amounts to the applicable Non-TL Designated Account(s).

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

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

- (a) the occurrence of any event that is continuing on an Istanbul Business Day that generally makes it impossible to convert Turkish Lira into the applicable Specified Currency in Turkey through customary legal channels; and/or
- (b) the occurrence of any event that is continuing on an Istanbul Business Day that generally makes it impossible to deliver: (i) Turkish Lira or the applicable Specified Currency from accounts inside Turkey to accounts outside Turkey; or (ii) Turkish Lira or the applicable Specified Currency between accounts inside Turkey to a party that is a non-resident of Turkey,

provided that where such impossibility to convert or deliver (as described in paragraphs (a) and (b) above) arises as a direct result of force majeure (including earthquake, but excluding any governmental action or laws that result in either paragraph (a) and (b) above), a Transferability and Convertibility Event shall only occur if the impossibility to convert or deliver continues for longer than ten Istanbul Business Days.

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

During the continuance of an Issuer Event or an Event of Default, the Designated Account(s) will be the bank account(s)

used for the crediting of, *inter alia*, amounts standing to the credit of the Collection Account or in respect of the Cover Pool Assets (other than Hedging Agreements and Hedge Collateral) and to make payments under the Covered Bonds, including:

- (a) amounts in the Collection Account transferred to the TL Designated Account as described above;
- (b) any amounts (to the extent part of the Cover Pool) received by the Issuer in respect of the Mortgage Assets; *it being understood* that such does not include Related Payments;
- (c) any amounts credited into the applicable Designated Account(s) by the Issuer from its own funds for effecting payments on the Covered Bonds; and
- (d) any amounts transferred by the Issuer or the Administrator, as applicable, in connection with the sale of Cover Pool Assets.

**Non-TL Hedge Collection Account(s)** .....

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

**Hedge Collateral Account(s)** .....

With respect to credit support provided by Hedging Counterparties to the Issuer pursuant to the Hedging Agreements, a separate account (each such account being a “**Hedge Collateral Account**”) will be established and maintained pursuant to the Offshore Bank Account Agreement for each applicable currency (other than Turkish Lira) and for each applicable Hedging Counterparty in respect of each relevant Hedging Agreement with the Offshore Account Bank in the name of the Security Agent for the benefit of and on trust for the Secured Creditors (to the extent such Hedge Collateral does not constitute Excess Hedge Collateral) and for the benefit of and on trust for the relevant Hedging Counterparty (to the extent such Hedge Collateral constitutes Excess Hedge Collateral). Hedge Collateral provided to the Issuer by a Hedging Counterparty under a Hedging Agreement shall be credited to the relevant Hedge Collateral Account.

“**Hedge Collateral**” means, at any time, any asset or right (including, without limitation, cash and/or securities) which is paid, transferred or pledged by a Hedging Counterparty to (or for the benefit of) the Issuer as collateral in respect of the

performance by such Hedging Counterparty of its obligations under the relevant Hedging Agreement, together with any income or distributions received in respect of such asset or right and any equivalent of such asset or right into which such asset or right is transformed.

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

**Events of Default .....**

An “**Event of Default**” arises if one of the following events occurs and is continuing:

- (a) the Issuer fails to pay any interest (or any Additional Amounts) in respect of the Covered Bonds (including with respect to the Coupons) of any Series within a period of 14 Istanbul Business Days from the due date thereof; or
- (b) on the Final Maturity Date (in the case of Covered Bonds which are not subject to an Extended Maturity Date) or an Extended Maturity Date (in the case of Covered Bonds which are subject to an Extended Maturity Date), as applicable, in respect of any Series, there is a failure to pay any amount of principal due on such Covered Bonds on such date and such default is not remedied within a period of seven Istanbul Business Days from the due date thereof.

If an Event of Default occurs and is continuing in respect of any Series, then the Security Agent acting as directed by the Covered Bondholder Representative may serve a notice of default on the Issuer, upon the Issuer’s receipt of which the Covered Bonds of each Series shall become immediately due and payable.

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

**Investor Report .....**

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



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

## FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Covered Bonds will be issued outside the United States in reliance on Regulation S under the Securities Act (“**Regulation S**”) and Registered Covered Bonds will be issued in “offshore transactions” to non-U.S. persons in reliance on the exemption from registration provided by Regulation S or otherwise in transactions that are exempt from the registration requirements of the Securities Act.

### **Bearer Covered Bonds**

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

- (a) if such Bearer Global Covered Bonds are issued in new global covered bond (“**NGCB**”) form, as stated in the applicable Final Terms, be delivered on or prior to the original Issue Date of such Tranche to a common safekeeper (the “**Common Safekeeper**”) for Euroclear and Clearstream, Luxembourg; and
- (b) if such Bearer Global Covered Bonds are not issued in NGCB form, be delivered on or prior to the original Issue Date of the Tranche to a common depository (the “**Common Depository**”) for Euroclear and Clearstream, Luxembourg.

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

While any Bearer Covered Bond is represented by a Temporary Bearer Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of such Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Bearer Global Covered Bond if such Temporary Bearer Global Covered Bond is not issued in NGCB form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Bearer Global Covered Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has/have given a like certification (based on the certifications it has received) to the Fiscal Agent.

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

collect any payment of interest, principal or other amount due on or after the applicable Exchange Date unless, upon due certification, exchange of such Temporary Bearer Global Covered Bond for an interest in a Permanent Bearer Global Covered Bond or for definitive Bearer Covered Bonds is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Covered Bond will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Bearer Global Covered Bond) without any requirement for certification in the manner described above.

The applicable Final Terms will specify that a Temporary Bearer Global Covered Bond or a Permanent Bearer Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Bearer Definitive Covered Bonds with, where applicable, interest coupons and talons attached upon (a) not less than 60 days' written notice given at any time from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Covered Bond) to the Fiscal Agent as described therein, (b) only upon the occurrence of an Exchange Event or (c) at any time at the request of the Issuer. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 12 (*Events of Default*)) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Permanent Bearer Global Covered Bond in definitive form. The Issuer will promptly give notice to Covered Bondholders in accordance with Condition 16 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or the common depository for Euroclear and Clearstream, Luxembourg, as the case may be, on their behalf (acting on the instructions of any holder of an interest in such Permanent Bearer Global Covered Bond) may give notice to the Fiscal Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in sub-paragraph (iii) above, the Issuer may also give notice to the Fiscal Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent.

The following legend will appear on all Bearer Covered Bonds (other than Temporary Bearer Global Covered Bonds) and on all interest coupons relating to such Covered Bonds (where TEFRA D is specified in the applicable Final Terms):

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

The sections of the U.S. Internal Revenue Code of 1986 referred to above provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Covered Bonds or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Bearer Covered Bonds or interest coupons.

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

**Bearer Covered Bonds shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purposes of their immobilisation in accordance with Article 4 of the Belgian law of 14 December 2005.**

## Registered Covered Bonds

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

Registered Covered Bonds will be deposited with a common depository and registered in the name of a nominee of that common depository or, if the Registered Global Covered Bonds are to be held under the New Safekeeping Structure (“**NSS**”), a Common Safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of that common depository or common safekeeper, in each case as specified in the applicable Final Terms. Persons holding beneficial interests in Regulation S Registered Global Covered Bonds, Rule 144A Global Covered Bonds or IAI Global Covered Bonds (collectively, “**Registered Global Covered Bonds**”) will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Registered Covered Bonds in definitive form (“**Registered Definitive Covered Bonds**”).

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

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 7.4 (*Payments in respect of Registered Covered Bonds*)) as the registered holder of the Registered Global Covered Bonds on the relevant Record Date. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Payments of principal, interest or any other amount in respect of the Registered Covered Bonds in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7.4 (*Payments in respect of Registered Covered Bonds*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for Registered Definitive Covered Bonds without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, “**Exchange Event**” means that: (a) an Event of Default has occurred and is continuing; (b) 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 subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Registered Global Covered Bond in definitive form.

The Issuer will promptly give notice to Covered Bondholders in accordance with Condition 16 (*Notices*) 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 Registered Global Covered Bond) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in sub-paragraph (c) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur no later than ten days after the date of receipt of the first relevant notice by the Registrar.

### **Transfer of Interests**

Interests in a Registered Global Covered Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Covered Bond. No beneficial owner of an interest in a Registered Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

### **General**

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

A Covered Bond may be accelerated by the holder thereof in certain circumstances described in Condition 12 (*Events of Default*). In such circumstances, where any Covered Bond is still represented by a Global Covered Bond and the Global Covered Bond (or any part thereof) has become due and repayable in accordance with the Conditions of such Covered Bonds and payment in full of the amount due has not been made in accordance with the provisions of the Global Covered Bond, then the Global Covered Bond will become void at 8.00 p.m. (London time) on the day immediately following the applicable due date. At the same time, holders of interests in such Global Covered Bond credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the “**Deed of Covenant**”) dated 21 October 2016 and executed by the Issuer.

The Issuer may agree with any Dealer that Covered Bonds may be issued in a form not contemplated by the Conditions herein, in which event a new Base Prospectus will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

## FORM OF APPLICABLE FINAL TERMS

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

[Date]

**[PRIIPs REGULATION/PROSPECTUS REGULATION/PROHIBITION OF SALES TO EEA RETAIL INVESTORS]** – The Covered Bonds (and beneficial interests therein) are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Covered Bonds (and beneficial interests therein) or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds (and beneficial interests therein) or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

**[MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES (ECPS) ONLY TARGET MARKET]** – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

**[Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore]** (as modified or amended from time to time, the SFA) - *[To insert notice if classification of the Notes is not “prescribed capital markets products” pursuant to Section 309B of the SFA or Excluded Investment Products (as defined in Monetary Authority of Singapore (“MAS”) Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products)]*”].<sup>2</sup>

[insert date]

**Yapı ve Kredi Bankası A.Ş.**

**Legal entity identifier (LEI): B85ZYWEZ5IZCZ2WNIO12**

**Issue of [Aggregate Principal Amount of Tranche] [Title of Covered Bonds] (the “Covered Bonds”) under the €1,000,000,000 Global Covered Bond Programme**

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<sup>2</sup> Relevant Dealer(s) to consider whether it/they have received the necessary product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA.

## PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the base prospectus dated 3 February 2020 [and the supplement[s] to it dated [date]] [and [date]], which [together] constitute[s] a base prospectus [for the purposes of the Prospectus Regulation]<sup>3</sup> (the “**Base Prospectus**”). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Base Prospectus in order to obtain all the relevant information<sup>4</sup>. [The Base Prospectus has been published on the Issuer’s website ([insert website address]) [and the website of Euronext Dublin (www.ise.ie)]]].

*[The following alternative language applies if the first tranche of an issue that is being increased was issued under a base prospectus with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “**Conditions**”) set forth in the base prospectus dated [21 October 2016 and the supplements to it dated 16 March 2017 and 9 August 2017/24 January 2018/22 January 2019/3 February 2020 and the supplements to it dated [date] [and [date]]], which are incorporated by reference in the base prospectus dated 3 February 2020[, as supplemented on [date] [and [date]]] ([together,] the “**Current Base Prospectus**”). This document constitutes the Final Terms of the Covered Bonds described herein [for the purposes of the Prospectus Regulation]<sup>5</sup> and must be read in conjunction with the Current Base Prospectus, which constitutes a base prospectus [for the purposes of the Prospectus Regulation]<sup>6</sup> (the “**Base Prospectus**”), including the Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Issuer’s website ([insert website address]) [and the website of Euronext Dublin (www.ise.ie)]]].

*[Include whichever of the following apply or specify as “Not Applicable”. Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs (in which case the sub-paragraphs of the paragraphs that are not applicable can be deleted). Italics denote directions for completing the Final Terms.]*

*[If the Covered Bonds have a maturity of less than one year from the date of their issue, the minimum denomination must be £100,000 or its equivalent in any other currency.]*

- |    |  |   |
|----|--|---|
| 1. | Issuer:  | Yapı ve Kredi Bankası A.Ş.  |
| 2. | (a) Series Number:   | [●]   |
|    | (b) Tranche Number:  | [●]   |
|    | (c) Date on which the Covered Bonds will be consolidated and form a single Series: | The Covered Bonds will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/exchange of the Temporary Bearer Global Covered Bond for interests in the Permanent Bearer Global Covered Bond, as referred to in paragraph 22 below, which is expected to occur on or about [date]] [Not Applicable] |
| 3. | Specified Currency:  | [●]   |

<sup>3</sup> Delete where the Covered Bonds are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation.

<sup>4</sup> Delete where the Covered Bonds are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation.

<sup>5</sup> Delete where the Covered Bonds are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation.

<sup>6</sup> Delete where the Covered Bonds are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation.

4. USD Payment Election: [Applicable/Not Applicable]  
*(Only applicable for Turkish Lira-denominated Covered Bonds)*
5. Aggregate Principal Amount:
- (a) Series: [●]
- (b) Tranche: [●]
6. Issue Price: [●]% of the Aggregate Principal Amount of the Tranche *[plus accrued interest from [insert date] (if applicable)]*
7. (a) Specified Denominations: [●]  
*(Note – where multiple denominations above [€100,000] or equivalent are being used, the following sample wording should be followed:  
“[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Covered Bonds in definitive form will be issued with a denomination above [€199,000]”)*
- (b) Calculation Amount: [●]  
*(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations)*
8. (a) Issue Date: [●]
- (b) Interest Commencement Date: [specify/Issue Date/Not Applicable]  
*(N.B. an Interest Commencement Date will not be relevant for certain Covered Bonds, for example Zero Coupon Covered Bonds)*
9. (a) Final Redemption:
- (i) Final Maturity Date: *[Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month and year]]*
- (ii) Extended Maturity Date: [Applicable/Not Applicable]  
*[Insert Date if Applicable]*  
Notwithstanding anything in the Transaction Documents to the contrary, where Extended Maturity Date is Applicable, the failure by the Issuer to pay the Principal Amount Outstanding in respect of this Series on the Final Maturity Date shall (if not cured by the end of the applicable cure period) not constitute an Event of Default, but shall constitute an Issuer Event
- (iii) Extended Maturity Payment Date(s): *[Insert relevant dates. Should correspond with Interest Payment Dates.]*



- (b) Instalment Covered Bonds: [Applicable/Not Applicable].
- (i) Instalment Amounts: [●]
- (ii) Instalment Dates: [●]
10. Interest Basis: [[●]% Fixed Rate]  
 [[[●] month [[currency] LIBOR/EURIBOR/TRLIBOR]] +/- [●]% Floating Rate]  
 [Zero coupon]  
 (see paragraph [15]/[16]/[17] below)
11. Redemption[/Payment] Basis: Subject to any purchase and cancellation or early redemption, the Covered Bonds will be redeemed on the Final Maturity Date [(or, as applicable, Extended Maturity Date)] at [●]% of their principal amount
12. Change of Interest Basis: [For the period from (and including) the Interest Commencement Date up to (but excluding) [●] [(the “[Fixed/Floating] Rate Period”)], paragraph [15/16] below applies, and, for the period from (and including) [●] up to (but excluding) the [Final Maturity Date][Extended Final Maturity Date] [(the “[Fixed/Floating] Rate Period”)], paragraph [15/16] below applies)]/[Not Applicable]
13. Issuer Call: [Applicable/Not Applicable]  
 [(see paragraph 19 below)]
14. (a) Status of the Covered Bonds: Senior
- (b) Date Board approval for issuance of Covered Bonds obtained: [●] [Not Applicable] (N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Covered Bonds)

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

15. Fixed Rate Covered Bond Provisions [Applicable/Not Applicable]  
 (If not applicable, delete the remaining sub-paragraphs of this paragraph 15)
- (a) Rate(s) of Interest: [●]% per annum payable in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [●] [and [●]] in each year up to and including the Final Maturity Date  
 (Amend appropriately in the case of irregular coupons)  
 [There will be a [short/long] first interest period from, and including, the Interest Commencement Date to, but excluding, [ ] (the “Stub Period”)]  
 [There will be a [short/long] final interest period from, and including, [ ] to, but excluding, the Final Maturity Date (the “Stub Period”)]

- (c) Additional Business Centre(s): [[[●]/Not Applicable]]
- (d) Fixed Coupon Amount(s): [[●] per Calculation Amount] [Not Applicable]
- (Applicable to Covered Bonds in definitive form)*
- (e) Broken Amount(s) (being the first interest payment after the Issue Date in the case of a short coupon): [In respect of the Stub Period, [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]][Not Applicable]
- (Applicable to Covered Bonds in definitive form)*
- (f) Day Count Fraction: [30/360]  
[Actual/Actual (ICMA)]  
[Actual/360]
- (g) Determination Date(s): [[●] in each year][Not Applicable]
- (Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*
16. Floating Rate Covered Bond Provisions [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (a) Specified Period(s)/Specified Interest Payment Dates: [●][[●] subject to adjustment in accordance with the Business Day Convention set out in sub-paragraph (b) below/[●], not subject to adjustment, as the Business Day Convention in sub-paragraph (b) below is specified to be Not Applicable]
- [There will be a [short/long] first interest period from, and including, the Interest Commencement Date to, but excluding, [●] (the “**Stub Period**”)]
- [There will be a [short/long] final interest period from, and including, [●] to, but excluding, the Final Maturity Date (the “**Stub Period**”)]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]
- (c) Additional Business Centre(s): [●]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent): [●]
- (f) Screen Rate Determination:

- Reference Rate, Specified Time and Relevant Financial Centre:
 

Reference Rate: [●] month [[currency]  
[LIBOR/EURIBOR/TRLIBOR]]

Specified Time: [●]  
*(11.00 a.m. in the case of LIBOR and EURIBOR  
and 11.30 a.m. in the case of TRLIBOR)*

Relevant Financial Centre:  
[London]/[Brussels]/[Istanbul]
  - Interest Determination Date(s): [●]
 

*(Second London Business Day prior to the start of  
each Interest Period if LIBOR (other than Sterling  
or Euro LIBOR), first day of each Interest Period if  
Sterling LIBOR, the second day on which the  
TARGET2 System is open prior to the start of each  
Interest Period if EURIBOR or Euro LIBOR and  
the second Istanbul Business Day prior to the start  
of each Interest Period if TRLIBOR)*
  - Relevant Screen Page: [●]
 

*(In the case of EURIBOR, if not Reuters  
EURIBOR01 ensure it is a page that shows a  
composite rate or amend the fall-back provisions  
appropriately)*
  - Interpolation for Stub Period: [Applicable for the Stub Period]/[Not Applicable]
    - Reference Rate 1: [[●] month [●]  
LIBOR/EURIBOR/TRLIBOR]/[Not  
Applicable]
    - Relevant Screen Page 1: [●]/[Not  
Applicable]
    - Reference Rate 2: [[●] month [●]  
LIBOR/EURIBOR/TRLIBOR]/[Not  
Applicable]
    - Relevant Screen Page 2: [●]/[Not  
Applicable]
- (g) ISDA Determination: [Applicable/Not Applicable]
- Floating Rate Option: [●]
  - Designated Maturity: [●]
  - Reset Date: [●]
- (In the case of a LIBOR or EURIBOR-based option,  
the first day of the Interest Period)*
- (N.B. The fall-back provisions applicable to ISDA*

*Determination under the 2006 ISDA Definitions are reliant upon the provision by reference banks of offered quotations for LIBOR and/or EURIBOR which, depending on market circumstances, may not be available at the relevant time)*

- Interpolation for Stub Period: [Applicable for the Stub Period]/[Not Applicable]
  - Floating Rate Option 1: [●]
  - Designated Maturity 1: [●]
  - Reset Date 1: [●]
  - Floating Rate Option 2: [●]
  - Designated Maturity 2: [●]
  - Reset Date 2: [●]
- ISDA Definitions [2000 ISDA Definitions/2006 ISDA Definitions]
- (h) Linear Interpolation: [Not Applicable]/[Applicable – the rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (i) Margin(s): [+/-][●]% per annum
- (j) Minimum Rate of Interest: [[●]% per annum/Not Applicable]
- (k) Maximum Rate of Interest: [[●]% per annum/Not Applicable]
- (l) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360] [360/360] [Bond Basis]  
[30E/360] [Eurobond Basis]  
[30E/360 (ISDA)]  
(*See Condition 6 (Interest) for alternatives*)
- 17. Zero Coupon Covered Bond Provisions [Applicable/Not Applicable]
 

*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

  - (a) Accrual Yield: [●]% per annum
  - (b) Reference Price: [●]
  - (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]  
[Actual/360]  
[Actual/365]

## PROVISIONS RELATING TO REDEMPTION

- 18. Notice periods for Condition 8.2 Minimum period: [●] days  
(*Redemption for Tax Reasons*):

- Maximum period: [●] days
- Notice periods for Condition 8.4  
(Redemption due to Illegality):
- Minimum period: [●] days
- Maximum period: [●] days
- (N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of five clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent)*
19. Issuer Call: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (a) Optional Redemption Date(s): [●]
- (b) Optional Redemption Amount: [●] per Calculation Amount
- [Set out appropriate variable details in this pro forma, for example reference obligation]*
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [●]
- (ii) Maximum Redemption Amount: [●]
- (d) Notice periods: Minimum period: [●] days
- Maximum period: [●] days
- (N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, e.g., clearing systems (which, in the case of Euroclear and Clearstream, Luxembourg, require a minimum of five clearing system business days' notice for a call) and custodians, as well as any other notice requirements that may apply, for example, as between the Issuer and the Fiscal Agent)*
20. Final Redemption Amount: [●] per Calculation Amount
21. Early Redemption Amount:
- (a) payable on redemption for taxation reasons (Condition 8.2 (Redemption for Tax Reasons)): [[●] per Calculation Amount/Not Applicable]
- (b) payable on redemption for illegality (Condition 8.4 (Redemption due to Illegality)): [[●] per Calculation Amount/Not Applicable]

- (c) payable on redemption of Instalment Amounts [[●] per Calculation Amount/Not Applicable]  
(Condition 8.6 (*Instalments*));
- (d) payable on redemption for events of default (Condition 12 (*Events of Default*)): [[●] per Calculation Amount/Not Applicable]

## GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

### 22. Form of Covered Bonds:

- (a) Form: [Bearer Covered Bonds:  
 [Temporary Bearer Global Covered Bond exchangeable for a Permanent Bearer Global Covered Bond that is exchangeable for Definitive Covered Bonds [on not less than 60 days' notice given at any time/only upon an Exchange Event]]  
 [Temporary Bearer Global Covered Bond exchangeable for Definitive Covered Bonds on and after the Exchange Date]  
 [Permanent Bearer Global Covered Bond exchangeable for Definitive Covered Bonds [on not less than 60 days' written notice given at any time/only upon the occurrence of an Exchange Event/at any time at the request of the Issuer]]]  
*(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Covered Bonds in paragraph 7(a) above includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]". Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Covered Bonds that is to be represented on issue by a Permanent Bearer Global Covered Bond exchangeable for Definitive Covered Bonds)*  
 [Definitive Bearer Covered Bonds]  
 [Bearer Covered Bonds shall not be physically delivered: (i) in Belgium, except to a clearing system, a depositary or other institution for the purpose of their immobilisation in accordance with Article 4 of the Belgian Law of 14 December 2005; or (ii) in the United States of America]  
*(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Covered Bonds in paragraph 7(a) above includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]". Furthermore, such Specified Denomination construction is not*

*permitted in relation to any issue of Covered Bonds that is to be represented on issue by a Temporary Bearer Global Covered Bond exchangeable for Definitive Covered Bonds)*

[Registered Covered Bonds:

[Regulation S Registered Global Covered Bond registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg] exchangeable for Registered Definitive Covered Bonds [upon an Exchange Event][at any time at the request of the Issuer]]

[Rule 144A Global Covered Bond registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg] exchangeable for Registered Definitive Covered Bonds [upon an Exchange Event][at any time at the request of the Issuer]]

[Definitive Regulation S Registered Covered Bond]

[Definitive IAI Registered Covered Bonds]

[IAI Global Covered Bond registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg] exchangeable for Registered Definitive Covered Bonds [upon an Exchange Event][at any time at the request of the Issuer]]]

*(N.B. In the case of an issue with more than one Global Covered Bond or a combination of one or more Bearer Global Covered Bonds and Definitive IAI Covered Bonds, specify the principal amounts of each Global Covered Bond and, if applicable, the aggregate principal amount of all Definitive IAI Covered Bonds if such information is available)*

- |     |   |  |
|-----|---|--|
| (b) | New Global Covered Bond:<br><i>(Relevant to Bearer Global Covered Bonds only)</i>       | [Yes][No]<br>[Eurosystem eligibility: [Yes][No]]   |
| (c) | New Safekeeping Structure:<br><i>(Relevant to Registered Global Covered Bonds only)</i> | [Yes][No]<br>[Eurosystem eligibility: [Yes][No]]   |
| 23. | Additional Business Centre(s):  | [Not Applicable/give details]<br><br><i>(Note that this paragraph relates to the date of payment and not Interest Period end dates to which sub-paragraph 16(c) above relates)</i> |
| 24. | Talons for future Coupons to be attached to Definitive Covered Bonds:                   | [Yes, as the Covered Bonds have more than 27 coupon payments, Talons may be required if, on  |

(*Relevant to Bearer Definitive Covered Bonds only*) exchange into definitive form, more than 27 coupon payments are still to be made/No]

## RESPONSIBILITY AND THIRD PARTY INFORMATION

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

[[*Relevant third party information*,] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted that would render the reproduced information inaccurate or misleading.]

Signed on behalf of

**Yapı ve Kredi Bankası A.Ş.**

Trade Registry Number: 32736 (Istanbul Trade Registry Office)

Mersis No: 0937002089200741

Yapı Kredi Plaza D Blok, 34330, Levent-İstanbul

[www.yapikredi.com.tr](http://www.yapikredi.com.tr)

By: .....

*Duly authorised*

By: .....

*Duly authorised*



## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (a) Listing and admission to trading: [Application [will be/has been] made by the Issuer (or on its behalf) for the Covered Bonds to be listed on the Official List and admitted to trading on the Regulated Market of the Irish Stock Exchange plc trading as Euronext Dublin with effect from [●]].[Not Applicable.]

*(When documenting an issue of Covered Bonds that is to be consolidated and to form a single series with a previous issue, it should be indicated here that the original Covered Bonds are already listed and admitted to trading.)*

- (b) Estimate of total expenses related to admission to trading: [●].

### 2. RATINGS

Ratings: [Not Applicable][The Covered Bonds to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Covered Bonds of this type issued under the Programme generally]:

*[Insert details] by [insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms].*

*[Each of [defined terms] is established in the European Union and is registered under the CRA Regulation.]*

*[[Insert legal name of credit rating agency] is established in the European Union and is not registered under the CRA Regulation.]*

*[[Insert legal name of credit rating agency] is not established in the European Union but the rating it has given to the Covered Bonds is endorsed by [insert legal name of credit rating agency], which is established in the European Union and registered under the CRA Regulation.]*

*[[Insert legal name of credit rating agency] is not established in the European Union but is certified under the CRA Regulation.]*

*[[Insert legal name of credit rating agency] is not established in the European Union and is not certified under the CRA Regulation and the rating it has given to the Covered Bonds is not endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation.]*

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

*has been specifically rated, that rating.)*

Programme Overcollateralisation As at the Issue Date, [at least] [●]%.  
Percentage:

Series Overcollateralisation As at the Issue Date, [at least] [●]%.  
Percentage:

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

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

*[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 23 of the Prospectus Regulation.)]*

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

Indication of yield: [●]% *per annum*

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

### 5. OPERATIONAL INFORMATION

- (a) ISIN Code: [●]
- (b) Common Code: [●]
- (c) CFI: [See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN]/*[include code]*<sup>7</sup>/[Not [Applicable/Available]]
- (d) FISN: [See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN]/*[include code]*<sup>8</sup>/[Not [Applicable/Available]]
- (e) *[(Insert here any other relevant codes such as CUSIP and CINS codes)]:* [Not Applicable/give name(s) and number(s)]
- (f) Any clearing system(s) other than DTC, Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (g) Delivery: Delivery [against/free of] payment
- (h) Names and addresses of additional Agent(s) (if any): [●]

<sup>7</sup> The actual code should only be included where the Issuer is comfortable that it is correct.

<sup>8</sup> The actual code should only be included where the Issuer is comfortable that it is correct.

- |     |   |  |
|-----|---|--|
| (i) | Deemed delivery of clearing system notices for the purposes of Condition 16 ( <i>Notices</i> ): | Any notice delivered to Covered Bondholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to the relevant clearing system.   |
| (j) | Intended to be held in a manner that would allow Eurosystem eligibility:                        | <p>[Yes. Note that the designation “yes” simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs (as defined in the Agency Agreement) as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)][<i>include this text for registered covered bonds</i>] and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank (“ECB”) being satisfied that Eurosystem eligibility criteria have been met.]/</p> <p>[No. While the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them, the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)][<i>include this text for registered covered bonds</i>]. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]</p> |

## 6. DISTRIBUTION

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

**7. REASONS FOR THE OFFER AND ESTIMATED NET PROCEEDS**

- (a) Reasons for the offer: [●]/[The net proceeds from the issue of the Covered Bonds will be applied by the Issuer for its general corporate purposes]
- (See “Use of Proceeds” in the Base Prospectus. If the reason for the offer is different from general corporate purposes, then such specific reason will need to be included here)*
- (b) Estimated net proceeds: [●]

## TERMS AND CONDITIONS OF THE COVERED BONDS

*The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference to each Global Covered Bond and Definitive Covered Bond (each as defined below), in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such Definitive Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond and Definitive Covered Bond. Reference should be made to “Form of Applicable Final Terms” and “Form of the Covered Bonds” for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.*

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by Yapı ve Kredi Bankası A.Ş. (the “**Issuer**”) pursuant to the Agency Agreement (as defined below).

References herein to the “**Covered Bonds**” shall be references to the Covered Bonds of this Series and shall mean:

- (a) in relation to any Covered Bonds represented by a Global Covered Bond, units of each Specified Denomination in the Specified Currency;
- (b) any Global Covered Bond;
- (c) any Bearer Definitive Covered Bonds issued in exchange for a Bearer Global Covered Bond; and
- (d) any Registered Definitive Covered Bonds (whether or not issued in exchange for a Registered Global Covered Bond).

The Covered Bonds and the Coupons (as defined below) have the benefit of an agency agreement dated 21 October 2016 (such agency agreement as amended and restated on 24 January 2018, 22 January 2019 and on or about the date of this Base Prospectus, and as further amended, supplemented and/or restated from time to time, the “**Agency Agreement**”) and made between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent and exchange agent (the “**Fiscal Agent**” and the “**Exchange Agent**”, which expression shall, in each case, include any successor fiscal agent and exchange agent) and the other paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agents), The Bank of New York Mellon SA/NV, Luxembourg Branch, as transfer agent (together with the Registrar (as defined below), the “**Transfer Agents**”, which expression shall include any additional or successor transfer agent) and registrar (the “**Registrar**”, which expression shall include any successor registrar).

Interest bearing Bearer Definitive Covered Bonds have interest coupons (“**Coupons**”) and, in the case of Bearer Definitive Covered Bonds which have more than 27 interest payments remaining, talons for further Coupons (“**Talons**”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Registered Covered Bonds and Global Covered Bonds do not have Coupons or Talons attached on issue.

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

Any reference to “**Covered Bondholders**” or “**holders**” in relation to any Covered Bonds shall mean (in the case of Bearer Covered Bonds) the holders of such Covered Bonds and (in the case of

Registered Covered Bonds) the Persons in whose name such Covered Bonds are registered and shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below. Any reference herein to “**Couponholders**” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “**Tranche**” means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and “**Series**” means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which (a) are expressed in the applicable Final Terms to be consolidated and form a single series and (b) have the same terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon, the date from which interest starts to accrue, the Issue Date and the Issue Price.

The Covered Bondholders and the Couponholders are entitled to the benefit of a deed of covenant (such deed of covenant as modified and/or supplemented and/or restated from time to time, the “**Deed of Covenant**”) dated 21 October 2016 and made by the Issuer. The original Deed of Covenant is held by the common depository for Euroclear (as defined below) and Clearstream, Luxembourg (as defined in below).

Copies of the Agency Agreement, a deed poll (such deed poll as modified and/or supplemented and/or restated from time to time, the “**Deed Poll**”) dated 21 October 2016 and made by the Issuer and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Fiscal Agent, the Registrar and the other Paying Agents, the Exchange Agent and the other Transfer Agents (such agents and the Registrar being together referred to as the “**Agents**”). If the Covered Bonds are to be admitted to trading on the regulated market of Euronext Dublin, the applicable Final Terms are available for viewing at the specified office of the Fiscal Agent and will be published on Euronext Dublin’s website (<http://www.ise.ie>). If the Covered Bonds are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation (EU) 2017/1129, the applicable Final Terms will only be obtainable by a Covered Bondholder and such Covered Bondholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Covered Bonds and identity. The Covered Bondholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed Poll, the Deed of Covenant, the Security Assignment, the Security Agency Agreement, the Calculation Agency Agreement, the Offshore Bank Account Agreement, the applicable Final Terms, the Cover Monitor Agreement, the Hedging Agreements and the other Transaction Documents which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement, the Deed Poll, the Deed of Covenant, the Security Assignment, the Security Agency Agreement, the Calculation Agency Agreement, the applicable Final Terms, the Hedging Agreements and (other than the Final Terms for other Series, the Subscription Agreement for this or any other Series and the Programme Agreement) the other Transaction Documents.

Each Covered Bondholder and Couponholder, by reason of holding one or more Covered Bonds or Coupons (as applicable): (a) recognises the Security Agent as holding the Non-Statutory Security on behalf of Secured Creditors, including Covered Bondholders and Couponholders, pursuant to the provisions of the Transaction Security Documents and the Security Agency Agreement, acting in its name and on its behalf; (b) agrees to be bound by the terms of the Transaction Security Documents and the Security Agency Agreement as if such Covered Bondholder or Couponholder were a party thereto; and (c) acknowledges and accepts the terms of the appointment of the Security Agent as set out in the Security Agency Agreement and all of the provisions of the Security Agency Agreement relating to the exercise by the Security Agent of its powers, trusts, authorities, duties, rights and discretions contained therein.

Words and expressions defined in the master definitions and construction schedule made on or about the Programme Closing Date and signed for the purpose of identification by Allen & Overy LLP and White and Case LLP (as amended and restated on 24 January 2018 and on or about the date of this

Base Prospectus, and as further amended, supplemented and/or restated from time to time, the “**Master Definitions and Construction Schedule**”) and/or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Master Definitions and Construction Schedule and the Conditions, the Conditions as completed by the applicable Final Terms will prevail.

In the Conditions, “euro” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

## **1. Form, Denomination and Title**

### **1.1 Form and Denomination of Covered Bonds**

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

### **1.2 General provisions applicable to all forms of Covered Bonds**

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

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero Coupon Covered Bond or a combination thereof, depending upon the “Interest Basis” specified in the applicable Final Terms. Where the applicable Final Terms specifies that an Extended Maturity Date applies to a Series of Soft Bullet Covered Bonds, those Covered Bonds may be Fixed Rate Covered Bonds, Floating Rate Covered Bonds, Zero Coupon Covered Bonds or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms in respect of the period from the Issue Date to and including the Final Maturity Date, and Fixed Rate Covered Bonds, Floating Rate Covered Bonds, Zero Coupon Covered Bonds or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms in respect of the period from the Final Maturity Date up to and including the Extended Maturity Date, subject as specified in the applicable Final Terms.

Bearer Definitive Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Covered Bonds in which case references to Coupons and Couponholders in the Conditions are not applicable.

### **1.3 Title to Covered Bonds**

Subject as set out below, title to the Bearer Covered Bonds and Coupons will pass by delivery and title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer and any Agent will (except as otherwise required by applicable law) deem and treat the bearer of any Bearer Covered Bond or Coupon and the registered holder of any Registered Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next two succeeding paragraphs.

For so long as any of the Covered Bonds is represented by a Global Covered Bond deposited with and, in the case of a Registered Global Covered Bond, registered in the name of a

nominee for a common depository for Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking S.A. (“**Clearstream, Luxembourg**”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such principal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest on such principal amount of such Covered Bonds, for which purpose the bearer of the relevant Bearer Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer and any Agent as the holder of such principal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions “**Covered Bondholder**” and “**holder of Covered Bonds**” and related expressions shall be construed accordingly.

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

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

## **2. Transfers of Registered Covered Bonds**

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

Transfers of beneficial interests in Registered Global Covered Bonds will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Covered Bonds in definitive form or for a beneficial interest in another Registered Global Covered Bond only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Covered Bond registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Covered Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor’s nominee.

### **2.2 Transfers of Registered Definitive Covered Bonds**

Upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Definitive Covered Bond may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Definitive Covered Bond for registration of the transfer of the Registered Definitive Covered Bond (or the relevant part of



the Registered Definitive Covered Bond) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the Person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 8 (*Register and Transfer of Registered Covered Bonds*) to the Agency Agreement).

Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Definitive Covered Bond of a like aggregate principal amount to the Registered Definitive Covered Bond (or the relevant part of the Registered Definitive Covered Bond) being transferred.

In the case of the transfer of part only of a Registered Definitive Covered Bond, a new Registered Definitive Covered Bond in respect of the balance of the Registered Definitive Covered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the transferor.

## **2.3 Costs of Registration**

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

## **3. Status of the Covered Bonds**

### **3.1 Status of the Covered Bonds**

Subject to the provisions of Condition 3.2 (*Mortgage Covered Bonds*), the Covered Bonds and any related Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank and will rank *pari passu*: (a) without any preference among themselves; and (b) with all other outstanding unsecured and unsubordinated obligations of the Issuer present and future, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

### **3.2 Mortgage Covered Bonds**

The Covered Bonds and the Coupons are mortgage covered bonds (in Turkish, *ipotek terminatlı menkul kıymet*) issued in accordance with the Covered Bonds Communiqué. The Covered Bonds and the Coupons are backed by assets forming the Cover Pool of the Issuer. In accordance with the Turkish Covered Bonds Legislation, by virtue of the Transaction Documents, registration of Cover Pool Assets in the Security Register and any Security Update Registration, the Covered Bonds and related Coupons are secured by the Cover Pool (which includes all cash flows derived from the Cover Pool) and benefit from Statutory Segregation. In addition to the Cover Pool, the Covered Bonds are secured by the other Transaction Security (other than the Agency Account).

### 3.3 Turkish Lira Equivalent

For the purposes of determining the *pari passu* entitlement of any Covered Bondholder to payment in the Transaction Documents, any amount which is not denominated in Turkish Lira shall be notionally converted into Turkish Lira using the Applicable Exchange Rate.

## 4. Negative Pledge

### 4.1 Negative Pledge

So long as any of the Covered Bonds remain 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 Covered Bonds are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or
- (b) such Security Interest is terminated; or
- (c) such other Security Interest is provided as is approved by an Extraordinary Resolution of the Covered Bondholders.

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**” including, without limitations, any Covered Bonds under the Programme) or (ii) any securitisation of receivables, asset-backed financing or similar financing structure (including, but not limited to, transactions under the Issuer’s DPR securitisation programmes) (created in accordance with normal market practice) 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 value of assets or revenues subject to any Security Interest created in respect of (A) Covered Bonds 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, 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 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 such Security Interest or having the benefit of such 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 the International Financial Reporting Standards (formerly the 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 reissued from time to time); and

**“Relevant Indebtedness”** means (i) 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 an original maturity at issue in excess of 365 days or any loan disbursed to the Issuer as a borrower under a loan participation note or similar transaction and (ii) any guarantee or indemnity of any such indebtedness.

## **5. Covenants**

### **5.1 Maintenance of Authorisations**

So long as any of the Covered Bonds remains outstanding, the Issuer shall take all necessary actions 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, for the avoidance of doubt, with the Capital Markets Board and the BRSA) for (i) the execution, delivery or performance of the Transaction Documents or for the validity or enforceability thereof or (ii) 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 Covered Bonds remains outstanding, the Issuer shall not, and shall not permit any of its Subsidiaries to, in any 12-month period, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties, revenues or assets to, or purchase any properties, revenues or assets from, or 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 U.S.\$ 50 million (or its equivalent in any other currency) unless such Affiliate Transaction and each such other aggregate 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 Covered Bonds remains outstanding, the Issuer shall deliver to the Fiscal Agent and the Security Agent:

- (a) not later than 120 days after the end of each financial year, English language copies of the Issuer’s audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied and BRSA accounting standards (**“BRSAAS”**), including comparative financial information for the preceding financial year, and such financial statements of the Issuer shall be accompanied by the reports of the auditors thereon; and

- (b) not later than 90 days after the end of the first six months of each of the Issuer's financial years, English language copies of its unaudited consolidated financial statements for such six month period, prepared in accordance with IFRS consistently applied and BRSAAS, including comparative financial information for the corresponding period of the previous financial year.

For the purposes of this Condition 5:

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

**"Person"** means (i) any individual, company, unincorporated association, government, state agency, international organisation or other entity and (ii) its successors and assigns.

**"Subsidiary"** means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (iii) 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 on Fixed Rate Covered Bonds**

This Condition 6.1 applies to Fixed Rate Covered Bonds only. The applicable Final Terms contain provisions applicable to the determination of fixed rate interest and must be read in conjunction with this Condition 6.1 for full information on the manner in which interest is calculated on Fixed Rate Covered Bonds. In particular, the applicable Final Terms will specify the Interest Commencement Date, the Rate(s) of Interest, the Interest Payment Date(s), the Final Maturity Date, the Extended Maturity Date (if any), the Fixed Coupon Amount, any applicable Broken Amount, the Calculation Amount, the Day Count Fraction and any applicable Determination Date.

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

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

As used in the Conditions, “**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

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

- (a) in the case of Fixed Rate Covered Bonds which are represented by a Global Covered Bond, the Principal Amount Outstanding of the Fixed Rate Covered Bonds represented by such Global Covered Bond; or
- (b) in the case of Fixed Rate Covered Bonds in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest, in accordance with this Condition 6.1:

- (a) if “**Actual/Actual (ICMA)**” is specified in the applicable Final Terms:
  - (i) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of: (1) the number of days in such Determination Period; and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of: (x) the number of days in such Determination Period; and (y) the number of Determination Dates that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of: (x) the number of days in such Determination Period; and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if “**30/360**” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

“**Determination Period**” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“**sub-unit**” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

## 6.2 Interest on Floating Rate Covered Bonds

This Condition 6.2 applies to Floating Rate Covered Bonds only. The applicable Final Terms contain provisions applicable to the determination of floating rate interest and must be read in conjunction with this Condition 6.2 for full information on the manner in which interest is calculated on Floating Rate Covered Bonds. In particular, the applicable Final Terms will identify any Specified Interest Payment Dates, any Specified Period, the Interest Commencement Date, the Business Day Convention, any Additional Business Centres, whether ISDA Determination or Screen Rate Determination applies to the calculation of interest, the party who will calculate the amount of interest due if it is not the Fiscal Agent, the Margin, any maximum or minimum interest rates and the Day Count Fraction. Where ISDA Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Floating Rate Option, Designated Maturity and Reset Date. Where Screen Rate Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Reference Rate, Specified Time, Relevant Financial Centre, Interest Determination Date(s) and Relevant Screen Page.

### (a) Interest Payment Dates

Each Floating Rate Covered Bond bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

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

Such interest will be payable in respect of each Interest Period. In these Conditions, “**Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention (the “**Business Day Convention**”) is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with this Condition 6.2, the “**Floating Rate Convention**” such Interest Payment Date

(i) in the case of sub-paragraph (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of sub-paragraph (2) below shall apply *mutatis mutandis*, or (ii) in the case of sub-paragraph (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (1) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (2) each subsequent Interest Payment Date shall be the last Business Day in the month which falls within the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (B) the “**Following Business Day Convention**”, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the “**Modified Following Business Day Convention**”, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the “**Preceding Business Day Convention**”, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, “**Business Day**” means a day which is both:

- (I) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Istanbul and each Additional Business Centre specified in the applicable Final Terms; and
- (II) either: (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency; or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “**TARGET2 System**”) is open.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be determined in the manner specified in the applicable Final Terms.

(i) **ISDA Determination for Floating Rate Covered Bonds**

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (i), the ISDA Rate for an Interest Period (other than a Stub Period) means a rate equal to the Floating Rate that would be determined by the Fiscal Agent under an interest rate swap transaction if the Fiscal Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions or the 2006 ISDA Definitions, as specified in the applicable Final Terms, each as published by the International Swaps and Derivatives Association, Inc. and

as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the “**ISDA Definitions**”) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms;
- (C) the relevant Reset Date is either (1) if the applicable Floating Rate Option is based on the London interbank offered rate (“**LIBOR**”) or on the Eurozone interbank offered rate (“**EURIBOR**”), the first day of that Interest Period or (2) in any other case, as specified in the applicable Final Terms; and
- (D) “**ISDA Rate**” for a Stub Period means a rate calculated by the Fiscal Agent by means of linear interpolation of the relevant ISDA Rate 1 and the relevant ISDA Rate 2 in accordance with market convention.

ISDA Rate 1 and ISDA Rate 2 shall be determined for a Stub Period pursuant to this sub-paragraph (i) on the same basis as the determination of the ISDA Rate for an Interest Period that is not a Stub Period save that references in this sub-paragraph (i) to the Floating Rate Option, the Designated Maturity and the Reset Date shall be (I) in the case of ISDA Rate 1, to Floating Rate Option 1, Designated Maturity 1 and Reset Date 1, respectively, and (II) in the case of ISDA Rate 2, Floating Rate Option 2, Designated Maturity 2 and Reset Date 2, respectively, in each case as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (i), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(ii) **Screen Rate Determination for Floating Rate Covered Bonds**

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period (other than a Stub Period) will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate *per annum*) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page of that service which displays the information) as at the Specified Time on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Fiscal Agent. If five or more of such offered quotations are available on the Relevant Screen Page (or such replacement page of that service which displays the information), the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if



there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Fiscal Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of sub-paragraph (ii)(A) above, no such offered quotation appears or, in the case of sub-paragraph (ii)(B) above, fewer than three offered quotations appear, in each case as at the Specified Time, the Fiscal Agent shall request each of the Reference Banks (“**Reference Banks**”) to provide the Fiscal Agent with its offered quotation (expressed as a percentage rate *per annum*) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Fiscal Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Fiscal Agent.

If, on any Interest Determination Date, one only or none of the Reference Banks provides the Fiscal Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate *per annum* which the Fiscal Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Fiscal Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London interbank market (if the Reference Rate is LIBOR) or the Eurozone interbank market (if the Reference Rate is EURIBOR) or the Turkish Lira interbank rate (if the Reference Rate is TRLIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Fiscal Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Fiscal Agent it is quoting to leading banks in the London interbank market (if the Reference Rate is LIBOR) or the Eurozone interbank market (if the Reference Rate is EURIBOR) or the Turkish Lira interbank rate (if the Reference Rate is TRLIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

If the Reference Rate from time to time in respect of a Tranche of Floating Rate Covered Bonds is specified in the applicable Final Terms as being other than LIBOR, EURIBOR or TRLIBOR, the Rate of Interest in respect of such Covered Bonds will be determined as provided in the applicable Final Terms.

The Rate of Interest for a Stub Period means a rate calculated by the Fiscal Agent by means of linear interpolation of relevant Screen Rate 1 and relevant Screen Rate 2 in accordance with market convention.

“**Screen Rate 1**” and “**Screen Rate 2**” shall be determined for a Stub Period pursuant to this paragraph (b) on the same basis as the determination of the Screen Rate for an Interest Period that is not a Stub Period save that references in this paragraph (b) to the Reference Rate and the Relevant Screen Page shall be (i) in the case of the Screen Rate 1, to Reference Rate 1 and Relevant Screen Page 1, respectively and (ii) in the case of Screen Rate 2, to Reference Rate 2, and Relevant Screen Page 2, respectively, in each case as specified in the applicable Final Terms.

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) Determination of Rate of Interest and Calculation of Interest Amounts

The Fiscal Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Fiscal Agent will calculate the amount of interest (the “**Interest Amount**”) payable on the Floating Rate Covered Bonds for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Covered Bonds which are represented by a Global Covered Bond, the Principal Amount Outstanding of the Covered Bonds represented by such Global Covered Bond; or
- (ii) in the case of Floating Rate Covered Bonds in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Covered Bond in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Covered Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 6.2:

- (i) if “**Actual/Actual (ISDA)**” or “**Actual/Actual**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of: (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366; and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “**Actual/365 (Sterling)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “**Actual/360**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

$Y_1$  is the year, expressed as a number, in which the first day of the Interest Period falls;

$Y_2$  is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$M_1$  is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case  $D_1$  will be 30; and

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and  $D_1$  is greater than 29, in which case  $D_2$  will be 30;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

$Y_1$  is the year, expressed as a number, in which the first day of the Interest Period falls;

$Y_2$  is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$M_1$  is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case  $D_1$  will be 30; and

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case  $D_2$  will be 30; and

- (vii) if “**30E/360 (ISDA)**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

$Y_1$  is the year, expressed as a number, in which the first day of the Interest Period falls;

$Y_2$  is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$M_1$  is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$M_2$  is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$D_1$  is the first calendar day, expressed as a number, of the Interest Period, unless (A) that day is the last day of February or (B) such number would be 31, in which case  $D_1$  will be 30; and

$D_2$  is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (I) that day is the last day of February but not the Final Maturity Date or (II) such number would be 31, in which case  $D_2$  will be 30.

(e) Linear Interpolation

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Fiscal Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the

length of the relevant Interest Period; provided, however, that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Issuer (acting in good faith and in a commercially reasonable manner, and in consultation with an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer) shall determine such rate at such time and by reference to such sources as it determines appropriate.

“**Designated Maturity**” means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(f) Notification of Rate of Interest and Interest Amounts

The Fiscal Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed and notice thereof to be published in accordance with Condition 16 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed and to the Covered Bondholders in accordance with Condition 16 (*Notices*). For the purposes of this paragraph (f), the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(g) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6.2 and Condition 7.8 (*U.S. dollar Exchange and Payments on Turkish Lira-Denominated Covered Bonds held other than through DTC*) whether by the Fiscal Agent or, if applicable, any other Paying Agent, shall (in the absence of wilful default, manifest error or fraud) be binding on the Issuer, the Fiscal Agent, the other Agents and all Covered Bondholders and Couponholders, and (in the absence of wilful default or fraud) no liability to the Issuer, the Covered Bondholders or the Couponholders shall attach to the Fiscal Agent or, if applicable, any other Paying Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

### 6.3 Accrual of Interest

The Covered Bonds (or in the case of the redemption of part only of any Covered Bond, that part only of such Covered Bond) will cease to bear interest (if any) from the date for their redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Covered Bond (or, in the case of the redemption of part only of such Covered Bond, all amounts in respect of such part thereof) have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Covered Bond has been received by the Fiscal Agent or the Registrar, as the case may be, and notice to that effect has been given to the Covered Bondholders in accordance with Condition 16 (*Notices*).

#### **6.4 Interest Rate and Payments from the Final Maturity Date in the event of extension of maturity of the Covered Bonds up to the Extended Maturity Date**

If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Soft Bullet Covered Bonds and the Issuer does not pay any amount representing the Final Redemption Amount in respect of the relevant Series on the applicable Final Maturity Date, then the maturity of such Series of Soft Bullet Covered Bonds is automatically extended beyond such Final Maturity Date until the applicable Extended Maturity Date in accordance with Condition 8.10 (*Extension of Maturity up to an Extended Maturity Date*). Interest will continue to accrue and the Covered Bonds shall bear interest from (and including) the Final Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Final Maturity Date on which the Covered Bonds are redeemed in full or the Extended Maturity Date, subject to this Condition 6. In that event, interest shall be payable on those Covered Bonds at the rate determined in accordance with this Condition 6 on the Principal Amount Outstanding of the Covered Bonds in arrear on each Interest Payment Date in each month after the Final Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date. The final Interest Payment Date shall fall no later than the Extended Maturity Date.

If an Extended Maturity Date is applicable to a Series of Soft Bullet Covered Bonds, as specified in the applicable Final Terms, and the maturity of those Covered Bonds is extended beyond the Final Maturity Date in accordance with Condition 8.10 (*Extension of Maturity up to an Extended Maturity Date*), the rate of interest payable from time to time in respect of the Principal Amount Outstanding of the Covered Bonds on each Interest Payment Date after the Final Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date will be as specified in the applicable Final Terms and, where applicable, determined by the Fiscal Agent or, where the applicable Final Terms specifies a Calculation Agent, the Calculation Agent so specified, two Business Days after the Final Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms.

In the case of Soft Bullet Covered Bonds which are Zero Coupon Covered Bonds up to (and including) the Final Maturity Date and for which an Extended Maturity Date is applicable, as specified in the applicable Final Terms, for the purposes of this Condition 6.4, the Principal Amount Outstanding shall be the total amount otherwise payable by the Issuer on the Final Maturity Date less any payments made by the Issuer in respect of such amount in accordance with the Conditions.

Where the applicable Final Terms for a Series of Soft Bullet Covered Bonds provides that such Soft Bullet Covered Bonds are subject to an Extended Maturity Date, such failure to pay the Final Redemption Amount by the Issuer on the Final Maturity Date of such Series shall not constitute an Event of Default but shall (if not cured by the end of the applicable cure period) constitute an Issuer Event.

This Condition 6.4 shall only apply to Soft Bullet Covered Bonds with respect to which an Extended Maturity Date is specified in the applicable Final Terms.

### **7. Payments**

#### **7.1 Method of Payment**

Subject as provided below, payments in a Specified Currency will be made by credit or transfer to an account in the relevant Specified Currency (or any account to which such Specified Currency may be credited or transferred) maintained by the payee or, at the option of the payee, by a cheque in such Specified Currency drawn on a bank in the principal financial centre of the country of such Specified Currency.

Payments in respect of principal and interest on the Covered Bonds will be subject in all cases to: (a) any fiscal or other laws applicable thereto 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, as amended (the “**Code**”), or otherwise imposed pursuant to Sections 1471 to 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof (“**FATCA**”) or any law implementing an intergovernmental approach to FATCA.

## 7.2 Presentation of Bearer Definitive Covered Bonds and Coupons

Notwithstanding any other provision of the Conditions to the contrary, payments of principal in respect of Bearer Definitive Covered Bonds will (subject as provided below) be made in the manner provided in Condition 7.1 (*Method of Payment*) only against surrender (or, in the case of part payment of any sum due, presentation and endorsement) of Bearer Definitive Covered Bonds, and payments of interest in respect of Bearer Definitive Covered Bonds will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the applicable Coupon(s), in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Covered Bonds in definitive bearer form (other than Long Maturity Covered Bonds (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which, the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 9.1 (*Payment without Withholding*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Bearer Definitive Covered Bond becoming due and repayable prior to its Final Maturity Date (or as the case may be, Extended Maturity Date), all unmatured Coupons and Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Covered Bond or Long Maturity Covered Bond in definitive bearer form becomes due and repayable prior to its Final Maturity Date (or, as the case may be, Extended Maturity Date), all unmatured Coupons and Talons (if any) appertaining thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons will be made in respect thereof. A “**Long Maturity Covered Bond**” is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose principal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the principal amount of such Covered Bond.

If the due date for redemption of any Bearer Definitive Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Bearer Definitive Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest

Commencement Date shall be payable only against surrender of the relevant Bearer Definitive Covered Bond.

### 7.3 Payments in Respect of Bearer Global Covered Bonds

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Bearer Global Covered Bond will (subject as provided below) be made in the manner specified in Condition 7.2 (*Presentation of Bearer Definitive Covered Bonds and Coupons*) in relation to Bearer Definitive Covered Bonds or otherwise in the manner specified in the relevant Bearer Global Covered Bond, where applicable against presentation or surrender, as the case may be, of such Bearer Global Covered Bond at the specified office of any Paying Agent outside the United States. A record of each payment, distinguishing between payments of principal and payments of interest, will be made on such Bearer Global Covered Bond by the Paying Agent to which it was presented.

### 7.4 Payments in respect of Registered Covered Bonds

Payments of principal in respect of each Registered Covered Bond (whether or not in global form) will be made against surrender (or, in the case of part payment of any sum due, presentation and endorsement) of the Registered Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Specified Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar outside of the United Kingdom (the “**Register**”) at: (a) where in global form, the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg and/or DTC, as the case may be, are open for business) before the relevant due date; and (b) in all other cases, the close of business on the 15th day (or, if such 15th day is not a day on which banks are open for business in the city where the specified office of the Registrar is located), the first such day prior to such 15th day before the relevant due date (the “**Record Date**”). Notwithstanding the previous sentence, if: (i) a holder does not have a Specified Account; or (ii) the principal amount of the Covered Bonds held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, “**Specified Account**” means the account maintained by a holder with a Designated Bank and identified as such in the Register, and “**Designated Bank**” means a bank which processes payments in such Specified Currency.

Except as set forth in the final sentence of this paragraph, payments of interest in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Register at the close of business on the relevant Record Date at the address of such holder shown in the Register on the Record Date and at that holder’s risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Covered Bond on redemption will be made in the same manner as payment of the principal amount of such Registered Covered Bond.



Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition 7.4 arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds, save as provided in Conditions 7.8 (*U.S. dollar Exchange and Payments on Turkish Lira-Denominated Covered Bonds held other than through DTC*) and 7.9 (*Payments on Covered Bonds Held through DTC in a Specified Currency other than U.S. dollars*).

All amounts payable to DTC or its nominee as registered holder of a Registered Global Covered Bond, in respect of Covered Bonds denominated in a Specified Currency other than U.S. Dollars, shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. Dollars for payment through DTC, in each case in accordance with the provisions of the Agency Agreement and Condition 7.9 (*Payments on Covered Bonds Held through DTC in a Specified Currency other than U.S. dollars*).

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

## **7.5 General Provisions Applicable to Payments**

The holder of a Global Covered Bond shall be the only Person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Covered Bond in respect of each amount so paid. Each of the Persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC, as the beneficial holder of a particular principal amount of Covered Bonds represented by such Global Covered Bond must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for such Person's share of each payment so made by the Issuer to, or to the order of, the holder of such Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition 7.5, if any amount of principal and/or interest in respect of Bearer Covered Bonds is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Bearer Covered Bonds will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Covered Bonds in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

## **7.6 Payment Day**

If the date for payment of any amount in respect of any Covered Bond or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following

Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “**Payment Day**” means any day (other than a Saturday or Sunday) which (subject to Condition 10 (*Prescription*)) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) Istanbul;
  - (ii) in the case of Covered Bonds in definitive form only, the relevant place of presentation; and
  - (iii) each Additional Business Centre specified in the applicable Final Terms;
- (b) either: (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency; or (ii) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and
- (c) in the case of any payment in respect of a Registered Global Covered Bond denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Covered Bond) has elected to receive any part of such payment in that Specified Currency, a day on which commercial banks are not authorised or required by applicable law to be closed in New York City.

## **7.7 Interpretation of Principal and Interest**

Any reference in the Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (a) any Additional Amounts which may be payable with respect to such principal under Condition 9 (*Taxation*);
- (b) the Final Redemption Amount of the Covered Bonds;
- (c) the Early Redemption Amount of the Covered Bonds;
- (d) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (e) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 8.5 (*Early Redemption Amounts*)); and
- (f) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Covered Bonds.

Any reference in the Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any Additional Amounts which may be payable with respect to interest under Condition 9 (*Taxation*).

## **7.8 U.S. dollar Exchange and Payments on Turkish Lira-Denominated Covered Bonds held other than through DTC**

- (a) If “USD Payment Election” is specified in the applicable Final Terms and the Specified Currency is Turkish Lira and interests in the Covered Bonds are not

represented by a Registered Global Covered Bond registered in the name of DTC or its nominee, a Covered Bondholder as of the applicable Record Date may, not more than ten and not less than five Business Days before the due date (the “**Relevant Payment Date**”) for the next payment of interest and/or principal on such Covered Bond (such period, the “**USD Election Period**”), give an irrevocable election to any Agent to receive such payment in U.S. dollars instead of Turkish Lira (each, a “**USD Payment Election**”). Each Agent to which such an election is given shall notify the Fiscal Agent on the Business Day following each USD Election Period of the USD Payment Elections made by the Covered Bondholders during such USD Election Period, and, upon its receipt of such notification, the Fiscal Agent shall notify the Exchange Agent of the total amount of Turkish Lira (the “**Lira Amount**”) to be paid by the Issuer in respect of the Covered Bonds, the subject of such USD Payment Election and which is to be converted into U.S. dollars and paid to the holders of such Covered Bonds on the Relevant Payment Date in accordance with the provisions of this Condition 7.8 and Clause 5 (*Determination of End of Distribution Compliance Period*) of the Agency Agreement.

*Each USD Payment Election of a Covered Bondholder will be made only in respect of the immediately following payment of interest and/or principal on the Covered Bonds 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 Covered Bonds, such payments will be made in Turkish Lira.*

- (b) Upon receipt of the Lira Amount from the Issuer and by no later than 11.00 a.m. (London time) on the Relevant Payment Date, the Fiscal Agent shall transfer the Lira Amount to the Exchange Agent, which shall purchase U.S. dollars with the Lira Amount for settlement on the Relevant Payment Date at a purchase price calculated on the basis of its own internal foreign exchange conversion procedures, which conversion shall be conducted in a commercially reasonable manner and on a similar basis to that which the Exchange Agent would use to effect such conversion for its customers (such rate, taking into account any spread, fees, commission or charges on foreign exchange transactions customarily charged by it in connection with such conversions, the “**Relevant Exchange Rate**”). In no event shall any Agent be liable to any Covered Bondholder, the Issuer or any third party for the conversion rate so used.

The Issuer’s obligation to make payments on Covered Bonds the Specified Currency of which is Turkish Lira is limited to the specified Turkish Lira amount of such payments and, in the event that it fails to make any payment on the Covered Bonds in full on its due date, its obligation shall remain the payment of the relevant outstanding Turkish Lira amount and it shall have no obligation to pay any greater or other amount as a result of any change in the Relevant Exchange Rate between the due date and the date on which such payment is made in full.

- (c) Following conversion of the Lira Amount into U.S. dollars in accordance with this Condition 7.8 and the Agency Agreement, the Exchange Agent shall notify the Fiscal Agent of: (i) the total amount of U.S. dollars purchased with the relevant Lira Amount; and (ii) the Relevant Exchange Rate at which such U.S. dollars were purchased by the Exchange Agent. On each Relevant Payment Date, the Fiscal Agent shall give notice to the applicable Covered Bondholders of such U.S. dollar amount and Relevant Exchange Rate in accordance with Condition 16 (*Notices*) as so notified to it by the Exchange Agent.

*Under the terms of the Agency Agreement, the Fiscal Agent will need to have received cleared funds from the Issuer by no later than 11.00 a.m. (local time in the relevant financial centre of the payment or, in the case of a payment in euro, London*

*time) on each date on which any payment in respect of any Covered Bond becomes due in order to make any payments to Covered Bondholders on such Relevant Payment Date, including any such payments in U.S. 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 U.S. dollar amounts) as soon as reasonably practicable thereafter.*

- (d) If, for illegality or any other reason, it is not possible for the Exchange Agent to purchase U.S. dollars with the Lira Amount, then the Exchange Agent will promptly notify the Fiscal Agent, which shall, as soon as practicable upon receipt of such notification from the Exchange Agent, promptly notify the applicable Covered Bondholders of such event in accordance with Condition 16 (*Notices*), and all payments on the applicable Covered Bonds on the Relevant Payment Date will be made in Turkish Lira in accordance with this Condition 7, irrespective of any USD Payment Election made.
- (e) If it is not practicable for the Fiscal Agent, either itself or through the relevant Paying Agent, to make payment of the relevant amount of U.S. dollars on the Relevant Payment Date, then such relevant amount shall be paid as soon as practicable following such Relevant Payment Date. No additional interest shall be payable in respect of such deferral of payment and such deferred payment shall not constitute an Issuer Event or an Event of Default.
- (f) To give a USD Payment Election:
  - (i) in the case of Definitive Covered Bonds, a Covered Bondholder must deliver at the specified office of the Fiscal Agent, on any Business Day falling within the USD Election Period, a duly signed and completed USD Payment Election in the form (for the time being current) obtainable from the 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 7.8 accompanied by the relevant Covered Bonds or evidence satisfactory to the Agent concerned that such Covered Bonds will, following the delivery of the USD Payment Election, be held to the Agent's order or under its control until the applicable U.S. Dollar payment is made; and
  - (ii) in the case of Global Covered Bonds, a Covered Bondholder must, on any Business Day falling within the USD Election Period, give notice to the Fiscal Agent of such exercise in accordance with the standard procedures of Euroclear or Clearstream, Luxembourg, as applicable (which may include notice being given on such holder's instruction by Euroclear or Clearstream, Luxembourg or any depositary for any of them to the Fiscal Agent by electronic means) in a form acceptable to Euroclear or Clearstream, Luxembourg, as applicable, from time to time.
- (g) Notwithstanding any other provision in the Conditions to the contrary: (i) all costs of the purchase of U.S. dollars with the Lira Amount shall be borne *pro rata* by the relevant Covered Bondholders relative to the Covered Bonds of such Covered Bondholders the subject of USD Payment Elections, which *pro rata* amount will be deducted from the U.S. dollar payment made to such Covered Bondholders; (ii) none of the Issuer, any Agent or any other Person shall have any obligation whatsoever to pay any related foreign exchange rate spreads, conversion fees, commissions or expenses or to indemnify any Covered Bondholder against any difference between the U.S. dollar amount received by such Covered Bondholder and the portion of the Lira Amount that would have been payable to the Covered Bondholder if it had not made the relevant USD Payment Election; and (iii) the Issuer shall not have any

liability or other obligation to any Covered Bondholder with respect to the conversion into U.S. dollars of any amount paid by it to the Fiscal Agent in Turkish Lira or the payment of any U.S. dollar amount to the applicable Covered Bondholders.

## **7.9 Payments on Covered Bonds Held through DTC in a Specified Currency other than U.S. dollars**

In the case of any Covered Bonds represented by a Registered Global Covered Bond registered in the name of DTC or its nominee and denominated in a Specified Currency other than U.S. dollars, payments in respect of such Covered Bonds will be made to the applicable Covered Bondholders in U.S. dollars unless the participant in DTC with an interest in such Covered Bonds has elected to receive any part of such payment in that Specified Currency in the manner specified in the Agency Agreement and in accordance with the rules and procedures for the time being of DTC.

## **7.10 Definitions**

In these Conditions, the following expressions have the following meanings:

“**Accrual Yield**” means, in respect of a Tranche of Covered Bonds, the yield specified in the applicable Final Terms.

“**Final Redemption Amount**” means, in respect of a Tranche of Covered Bonds, the amount specified in the applicable Final Terms.

“**Optional Redemption Amount**” has, in respect of a Tranche of Covered Bonds, the meaning (if any) given in the applicable Final Terms.

“**Rate of Interest**” has, with respect to any Tranche, the meaning given to that term in the applicable Final Terms as further elaborated by Condition 6 (*Interest*).

“**Reference Rate**” means, unless otherwise specified in the applicable Final Terms: (a) the London interbank offered rate (“**LIBOR**”); (b) the Eurozone interbank offered rate (“**EURIBOR**”); or (c) the Turkish Lira interbank offered rate (“**TRLIBOR**”), in each case as specified in the applicable Final Terms.

“**Relevant Screen Page**” has, in respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given to that term in the applicable Final Terms.

“**Screen Rate Determination**” means, if specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 6.2(b)(ii) (*Screen Rate Determination for Floating Rate Covered Bonds*).

## **8. Redemption and Purchase**

### **8.1 Redemption at Maturity**

Subject to Condition 8.10 (*Extension of Maturity up to an Extended Maturity Date*), and unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in (except as provided in Conditions 7.8 (*U.S. dollar Exchange and Payments on Turkish Lira-Denominated Covered Bonds held other than through DTC*) and 7.9 (*Payments on Covered Bonds Held through DTC in a Specified Currency other than U.S. dollars*)) the relevant Specified Currency on the Final Maturity Date specified in the applicable Final Terms.

## 8.2 Redemption for Tax Reasons

If:

- (a) as a result of any change in, or amendment to, the laws of a Relevant Jurisdiction (as defined in Condition 9.1 (*Payment without Withholding*)) or any change or clarification in the application or official interpretation of the laws of a Relevant Jurisdiction, which change or amendment becomes effective after the date on which agreement is reached to issue the first Tranche of the Covered Bonds (which shall, for the avoidance of doubt and for the purposes of this Condition 8.2, be the date on which the applicable Final Terms is signed by the Issuer), on the next Interest Payment Date the Issuer would be required to:
  - (i) pay Additional Amounts as provided or referred to in Condition 9 (*Taxation*); and
  - (ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the prevailing applicable rates on such date on which agreement is reached to issue the first Tranche of the Covered Bonds; and
- (b) such requirement cannot be avoided by the Issuer taking reasonable measures available to it as determined in good faith by the Board of Directors of the Issuer,

then the Issuer may at its option, having given not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Covered Bondholders in accordance with Condition 16 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Covered Bonds at any time at their Early Redemption Amount together (if appropriate) with interest accrued and unpaid to (but excluding) the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition 8.2, 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 paragraph (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it; and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of the change or amendment.

## 8.3 Redemption at the Option of the Issuer (Issuer Call)

This Condition 8.3 applies to Covered Bonds that are subject to redemption prior to the Final Maturity Date (or, as applicable, Extended Maturity Date) at the option of the Issuer (other than for taxation reasons pursuant to Condition 8.2 (*Redemption for Tax Reasons*)), such option being referred to as an “**Issuer Call**”. The applicable Final Terms contains provisions applicable to any Issuer Call and must be read in conjunction with this Condition 8.3 for full information on any Issuer Call. In particular, the applicable Final Terms will identify the Optional Redemption Date(s), the Optional Redemption Amount, any minimum or maximum amount of Covered Bonds that can be redeemed and the applicable notice periods.

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Covered Bondholders in accordance with Condition 16 (*Notices*) (which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued and unpaid to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a principal amount not less than

the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms.

In the case of a partial redemption of Covered Bonds under this Condition 8.3, the Covered Bonds to be redeemed (“**Redeemed Covered Bonds**”) will be selected individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion) and/or DTC, in the case of Redeemed Covered Bonds represented by a Global Covered Bond, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “**Selection Date**”). In the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 16 (*Notices*) not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 8.3 and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 16 (*Notices*) at least five days prior to the Selection Date.

#### 8.4 Redemption due to Illegality

If, as a result of any change in, or amendment to, the laws of the Republic of Turkey or any change or clarification in the application or official interpretation of the laws of the Republic of Turkey, which change, clarification or amendment becomes effective after the date on which agreement is reached to issue the first Tranche of the Covered Bonds (which shall, for the avoidance of doubt and for the purposes of this Condition 8.4, be the date on which the applicable Final Terms is signed by the Issuer), it has or will, before the next Interest Payment Date, become illegal for the Issuer to allow to remain outstanding any Covered Bonds, then the Issuer may at its option, having given not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Covered Bondholders in accordance with Condition 16 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Covered Bonds at any time at their Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition 8.4, the Issuer shall deliver to the Fiscal Agent: (i) a certificate signed by two Directors of the Issuer; and (ii) an opinion of independent legal advisers of recognised standing, in each case, stating that it has or will, before the next Interest Payment Date, become illegal for the Issuer to allow to remain outstanding any Covered Bonds as a result of the change, clarification or amendment.

#### 8.5 Early Redemption Amounts

For the purpose of Conditions 8.2 (*Redemption for Tax Reasons*), 8.4 (*Redemption due to Illegality*), 8.6 (*Instalments*) and 12 (*Events of Default*):

- (a) each Covered Bond (other than a Zero Coupon Covered Bond) will be redeemed at its early redemption amount specified in the applicable Final Terms (the “**Early Redemption Amount**”); and
- (b) each Zero Coupon Covered Bond will be redeemed at an amount (the “**Amortised Face Amount**”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“**RP**” means the Reference Price;

“AY” means the Accrual Yield expressed as a decimal; and

“y” is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable, and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable, and the denominator will be 365).

## 8.6 Instalments

Instalment Covered Bonds will be redeemed in the instalment amount as specified in the applicable Final Terms (the “**Instalment Amount**”) and on the Instalment Date(s) specified in such Final Terms. In the case of early redemption of Instalment Covered Bonds, the applicable Early Redemption Amount will be determined pursuant to Condition 8.5 (*Early Redemption Amounts*).

## 8.7 General

Prior to the publication of any notice of redemption pursuant to Condition 8.2 (*Redemption for Tax Reasons*) or Condition 8.3 (*Redemption at the Option of the Issuer (Issuer Call)*), the Issuer shall deliver to the Fiscal Agent a certificate signed by two authorised signatories (at the relevant time) of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions set out in Condition 8.2 (*Redemption for Tax Reasons*) or Condition 8.3 (*Redemption at the Option of the Issuer (Issuer Call)*) for such right of the Issuer to arise have been satisfied and that the Issuer will have the funds in the relevant Specified Currency outside of Turkey, not subject to the interest of any other Persons (other than any ordinary course banker’s lien or similar encumbrance of the applicable account bank), required to fulfil its obligations hereunder in respect of the Covered Bonds to be redeemed and any amounts required under the Transaction Documents and/or the Turkish Covered Bonds Legislation to be paid at the same time *pari passu* with, or in priority to, such Covered Bonds (including any early termination amount or settlement amount payable to a Hedging Counterparty under a Hedging Agreement in connection with such redemption), and the Fiscal Agent shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions set out above, in which event, it shall be conclusive and binding on all Covered Bondholders and Couponholders of the applicable Series.

## 8.8 Purchases

The Issuer or any of its Subsidiaries may at any time purchase Covered Bonds (provided that, in the case of Bearer Definitive Covered Bonds, all unmatured, Coupons and Talons appertaining thereto are purchased therewith) in any manner, at any price in the open market or otherwise. Such Covered Bonds may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.



## 8.9 Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and Covered Bonds purchased and cancelled pursuant to Condition 8.8 (*Purchases*) (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Fiscal Agent or, as the case may be, the Registrar and cannot be reissued or resold.

## 8.10 Extension of Maturity up to an Extended Maturity Date

If so specified in the applicable Final Terms relating to a Series of Soft Bullet Covered Bonds, the Issuer's obligations under the relevant Covered Bonds to pay their Principal Amount Outstanding on the relevant Final Maturity Date may be automatically deferred past that Final Maturity Date until the applicable Extended Maturity Date if the Issuer fails to pay the Final Redemption Amount of those Covered Bonds in full on such Final Maturity Date. Upon such automatic deferral, any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date of such Series of Soft Bullet Covered Bonds plus accrued interest thereon may be paid by the Issuer on any Interest Payment Date for such Series thereafter up to (and including) the relevant Extended Maturity Date or as otherwise provided for in the applicable Final Terms. The Issuer shall give to the Covered Bondholders, the Fiscal Agent and the Paying Agents notice of its intention to redeem all or any of the Principal Amount Outstanding of such Soft Bullet Covered Bonds in accordance with Condition 16 (*Notices*).

Upon such automatic deferral, the Issuer shall:

- (a) promptly liquidate all Authorised Investments that are Cover Pool Assets (*it being understood* that such does not include any investments that are Hedge Collateral) and Substitute Assets to the extent necessary to pay the Final Redemption Amount for such Series of Soft Bullet Covered Bonds;
- (b) deposit the proceeds of such liquidation (the "**Liquidation Proceeds**") into the relevant Designated Account(s) (such proceeds to form part of the Available Funds); and
- (c) on the Final Maturity Date for such Series and on each Interest Payment Date after the Final Maturity Date for such Series thereafter up to (and including) the relevant Extended Maturity Date, apply all Available Funds towards the payment of any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date of such Series of Soft Bullet Covered Bonds unless otherwise provided for in the applicable Final Terms; provided that where an Interest Payment Date (including any such date that occurs after the Final Maturity Date) of any other Series of Covered Bonds (or any payment by the Issuer under a Hedging Agreement) corresponds with such Extended Maturity Date, the Issuer shall apply all Available Funds towards payment of amounts due and payable in respect of such Series of Soft Bullet Covered Bonds, such other Series of Covered Bonds and such Hedging Agreement(s), as applicable, on a *pro rata* basis.

In the case of Covered Bonds that are Zero Coupon Covered Bonds up to (and including) the Final Maturity Date and for which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 8.10, the Principal Amount Outstanding shall be the total amount otherwise payable by the Issuer on the Final Maturity Date less any payments made by the Issuer in respect of such amount in accordance with the Conditions.

Any extension of the maturity of Soft Bullet Covered Bonds under this Condition 8.10 shall (if not cured by the end of the applicable cure period) be irrevocable. Where this Condition 8.10 applies, non-payment of the Soft Bullet Covered Bonds on their Final Maturity Date and the resulting extension of the maturity of such Soft Bullet Covered Bonds under this Condition 8.10 shall (if not cured by the end of the applicable cure period) not constitute an Event of Default for any purpose or give any Covered Bondholder or Couponholder any right to receive any payment of interest, principal or otherwise on the relevant Soft Bullet Covered Bonds other than as expressly set out in the Conditions. Where this Condition 8.10 applies, any non-payment of the Soft Bullet Covered Bonds on their Final Maturity Date and the resulting extension of the maturity of such Soft Bullet Covered Bonds to their Extended Maturity Date under this Condition 8.10 shall (if not cured by the end of the applicable cure period) constitute an Issuer Event.

In the event of the extension of the maturity of Soft Bullet Covered Bonds under this Condition 8.10, interest rates, interest periods and interest payment dates on such Soft Bullet Covered Bonds from (and including) the Final Maturity Date of such Covered Bonds to (but excluding) their Extended Maturity Date shall be determined and made in accordance with the applicable Final Terms and Condition 6 (*Interest*).

If the Issuer redeems part and not all of the Principal Amount Outstanding of a Series of Soft Bullet Covered Bonds after the applicable Final Maturity Date, then the redemption proceeds shall be applied rateably across the Covered Bonds of such Series and the Principal Amount Outstanding on the relevant Covered Bonds shall be reduced by the level of that redemption.

This Condition 8.10 shall only apply to Covered Bonds to which an Extended Maturity Date is specified in the applicable Final Terms and if the Issuer fails to redeem those Soft Bullet Covered Bonds in full on the Final Maturity Date.

#### **8.11 Late Payment on Zero Coupon Covered Bonds**

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to this Condition 8 or upon its becoming due and repayable as provided in Condition 12 (*Events of Default*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 8.5 (*Early Redemption Amounts*) as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date that is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bond has been received by the Fiscal Agent or the Registrar and notice to that effect has been given to the Covered Bondholders in accordance with Condition 16 (*Notices*).

### **9. Taxation**

#### **9.1 Payment without Withholding**

All payments of principal and interest in respect of the Covered Bonds and Coupons (if any) by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed or levied by or on behalf of any Relevant Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts (“**Additional Amounts**”) as shall be necessary in order that the net

amounts received by the holders of the Covered Bonds or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Covered Bonds or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any payment in respect of any Covered Bond or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable for Taxes in respect of the Covered Bond or Coupon by reason of such holder having some connection with any Relevant Jurisdiction other than the mere holding of such Covered Bond or Coupon; or
- (b) where such withholding or deduction would not have been imposed but for the failure of the applicable holder or beneficial owner of such payment to comply with any certification, identification, information, documentation or other reporting requirement to the extent (i) such compliance is required by applicable law, administrative practice or an applicable treaty as a precondition to exemption from, or reduction in the rate of deduction or withholding of, such Taxes and (ii) such obligor shall have notified such recipient in writing that such recipient will be required to comply with such requirement; or
- (c) presented for payment in the Republic of Turkey; or
- (d) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an Additional Amount on presenting the same for payment on the last day of the period of 30 days (assuming that day to have been a Payment Day (as defined in Condition 7.6 (*Payment Day*))).

Notwithstanding any other provision of these Conditions or the other Transaction Documents, in no event will the Issuer be required to pay any Additional Amounts or amount in respect of the Covered Bonds 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.

As used herein:

- (i) “**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 duly 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, that notice to that effect is duly given to the applicable Covered Bondholders or Couponholders, as the case may be, in accordance with Condition 16 (*Notices*).
- (ii) “**Relevant Jurisdiction**” means the Republic of Turkey or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it in respect of the Covered Bonds or Coupons.

## 9.2 Additional Amounts

Any reference in the Conditions to any amounts payable in respect of the Covered Bonds shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9.

### 9.3 Tax Sharing Laws

Each Covered Bondholder, by its acquisition of a Covered Bond, is deemed to agree, and each Paying Agent (with the consent of each Covered Bondholder, which consent is deemed to have been irrevocably provided) agrees: (a) to provide to the Issuer and each Paying Agent (or any agent acting on any of their respective behalf) all information reasonably available to it that is reasonably requested by the Issuer and/or such Paying Agent (or any agent acting on any of their respective behalf) in connection with the Tax Sharing Laws (“**Tax Sharing Laws**”); and (b) that each of the Issuer and the Paying Agents (or any agent acting on any of their respective behalf) may: (i) provide such information, any related documentation and any other information concerning such Covered Bondholder’s investment in the Covered Bonds to each other and/or any relevant tax authority; and (ii) take such other steps as it may deem necessary or helpful to comply with the Tax Sharing Laws; provided that the requirements of this Condition 9.3 shall not apply to any Covered Bondholder that is an Exempt Government Entity. For the purpose of clarification, this is applicable only to the registered Covered Bondholders (or holders of Bearer Covered Bonds) and not to holders of beneficial interests in the Covered Bonds held through Clearing Systems.

### 10. Prescription

The Covered Bonds (whether in bearer or registered form) and Coupons will become void unless claims in respect of principal and/or interest are made within a period of ten years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 9 (*Taxation*) therefor).

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 10 or Condition 7.2 (*Presentation of Bearer Definitive Covered Bonds and Coupons*) or any Talon that would be void pursuant to Condition 7.2 (*Presentation of Bearer Definitive Covered Bonds and Coupons*).

### 11. Issuer Events; Consequences of the occurrence of an Issuer Event

For so long as an Issuer Event (either prior to, or concurrent with the occurrence of an Event of Default) or (with respect to paragraphs (a) to (c) below) a Potential Breach of Statutory Test is continuing:

- (a) no further Covered Bonds shall be issued;
- (b) after the Issuer’s detection of such Issuer Event or Potential Breach of Statutory Test, all amounts on deposit in the Collection Account shall be transferred by the Issuer to the TL Designated Account within two Istanbul Business Days of receipt;
- (c) after the Issuer’s detection of such Issuer Event or Potential Breach of Statutory Test, all collections of principal and interest on the Cover Pool Assets will be dedicated exclusively towards the satisfaction of all the Issuer’s payment obligations towards the Secured Creditors, subject to: (i) in the case of the Other Secured Creditors, the provisions of Article 29 of the Covered Bonds Communiqué; and (ii) in all cases, the provisions of Article 13 of the Covered Bonds Communiqué; and
- (d) where Article 27(1) of the Covered Bonds Communiqué applies, an Administrator may be appointed by the CMB to manage the Cover Pool.

An “**Issuer Event**” arises if one of the following events occurs:

- (a) if default is made in the payment of any principal or interest due in respect of the Covered Bonds or any of them and the default continues for a period of seven days in the case of principal and 14 days in the case of interest;
- (b) if the Issuer fails to perform or observe any of its obligations (other than any obligation for the payment of interest, Additional Amounts or principal due under the Covered Bonds or Coupons of any Series) under the Agency Agreement, the Transaction Security Documents or any other Transaction Document to which the Issuer is a party which failure could reasonably be expected to have a materially prejudicial effect on the interests of the Covered Bondholders of any Series and/or any Hedging Counterparties, and the Issuer has received notice of the reasonable expectation of such a materially prejudicial effect from the Security Agent, and (except where such failure is, or the effects of such failure are, incapable of remedy, in which event no such continuation and notice as is hereinafter mentioned will be required) such failure continues for at least 30 days after the Issuer's receipt of such notice requiring such failure to be remedied;
- (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 any such (A) Indebtedness for Borrowed Money of the Issuer or such Material Subsidiary in the case of sub-paragraphs (i), (ii) and/or (iii) above, and/or (B) 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-paragraph (iv) above, exceeds U.S.\$50 million (or its equivalent in any other currency or currencies);
- (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; (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 as provided below, and save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution of Covered Bondholders, 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; (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 Covered Bondholders), or (y) for the appointment of a liquidator, receiver, administrator, administrative receiver, trustee or similar officer of it or any substantial part or all of its revenues and assets or (B) shall or proposes to make a general assignment for the benefit of its creditors, or shall enter into any composition with its creditors, in each case in sub-paragraphs (i) to (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;

- (e) if the banking licence of the Issuer is temporarily or permanently revoked or the Issuer is transferred to the Savings and Deposit Insurance Fund under the provisions of the Banking Law (Law No. 5411) of Turkey; or
- (f) a Breach of Statutory Test.

For the avoidance of doubt, in the case of Soft Bullet Covered Bonds where the applicable Final Terms provide that the Issuer's obligations under the relevant Covered Bonds to pay the Principal Amount Outstanding on the relevant Final Maturity Date may be deferred past the Final Maturity Date until the Extended Maturity Date, the failure by the Issuer to pay the Principal Amount Outstanding on such Covered Bond on the Final Maturity Date shall (if not cured by the end of the applicable grace period) constitute an Issuer Event but shall not constitute an Event of Default.

For the purposes of these Conditions:

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

- (a) any notes, bonds, debentures, debenture stock, loan stock or other securities;
- (b) any borrowed money; or
- (c) any liability under or in respect of any acceptance or acceptance credit.

**"Material Subsidiary"** means, at any time, a Subsidiary of the Issuer:

- (a) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer relate, are equal to) not less than 15% of the consolidated total assets of the Issuer, all as calculated respectively by reference to the then latest audited IFRS financial statements (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer, provided that:
  - (i) if the then latest audited consolidated accounts of the Issuer show negative assets at the end of the relevant financial period, the financial statements shall be read as if the words "net assets" were substituted by the words "total assets", for the purposes of this definition; and
  - (ii) 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 which 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 paragraph (b) but shall cease to be a Material Subsidiary on the date of publication of its next audited IFRS financial statements unless it would then be a Material Subsidiary under paragraph (a) above; or
- (c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, represented (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, represent) not less than 15% of the consolidated total assets of the Issuer taken as a whole (calculated as set out in paragraph (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 not less than 15% of the consolidated total assets of the Issuer (calculated as set out in paragraph (a) above), and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this paragraph (c) on the date of the publication of its next audited IFRS 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 paragraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

A report by the auditors of the Issuer that in their opinion a Subsidiary 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. Events of Default

12.1 An “**Event of Default**” arises if one or both of the following events occur and are continuing:

- (a) the Issuer fails to pay any interest in respect of the Covered Bonds (including with respect to the Coupons) of any Series within a period of 14 days from the due date thereof; or
- (b) on the Final Maturity Date (in the case of Covered Bonds which are not subject to an Extended Maturity Date) or Extended Maturity Date (in the case of Soft Bullet Covered Bonds that are subject to an Extended Maturity Date), as applicable, in respect of any Series there is a failure to pay any amount of principal due on such Covered Bonds on such date and such default is not remedied within a period of seven days from the due date thereof.

At any time following the occurrence of any Event of Default and for so long as such Event of Default is continuing, the Security Agent acting as directed by the Covered Bondholder Representative (acting on the instructions of the Majority Instructing Creditor in accordance with Clause 4.26 (*Rights, Duties and Responsibility of the Security Agent*) of the Security Agency Agreement) may serve a notice of default on the Issuer (such notice, a “**Notice of Default**”), upon the Issuer’s receipt of which the Covered Bonds of each Series shall become immediately due and payable at their Early Redemption Amount as set out in the applicable Final Terms.

In the case of Soft Bullet Covered Bonds where the applicable Final Terms provide that the Issuer’s obligations under the relevant Covered Bonds to pay the applicable Principal Amount

Outstanding on the relevant Final Maturity Date may be deferred until the applicable Extended Maturity Date, the non-payment by the Issuer of the Principal Amount Outstanding on such Soft Bullet Covered Bonds on such Final Maturity Date (if not cured by the end of the applicable cure period) shall constitute an Issuer Event. This will not, however, constitute an Event of Default unless the Issuer fails to pay the Principal Amount Outstanding on such Soft Bullet Covered Bonds on the Extended Maturity Date or fails to pay any interest due on such Soft Bullet Covered Bonds (subject to the applicable cure periods).

## **12.2 Enforcement**

The Security Agent, at its discretion and without notice, may take such steps or proceedings against or in relation to the Issuer as it may think fit to enforce the provisions of the Transaction Security Documents, the Covered Bonds, the Coupons and the other English Law Transaction Documents to which it is a party (or with respect to which the Issuer's rights, title, interest and benefit therein have been assigned to it pursuant to the Security Assignment), but the Security Agent shall not be bound to take any such steps or proceedings unless so requested in writing by the Covered Bondholder Representative (acting on the instructions of the Majority Instructing Creditor in accordance with Clause 4.26 (*Rights, Duties and Responsibility of the Security Agent*) of the Security Agency Agreement) (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction).

Pursuant to the Security Assignment, each of the Secured Creditors (other than the Security Agent) agrees with (or, by accepting the benefits of the Security Assignment, shall be deemed to have agreed with) the Security Agent and the Issuer that such Secured Creditor: (a) shall not be entitled to take, and shall not take, any steps whatsoever to enforce the security created by or pursuant to the Security Assignment, or to direct the Security Agent to do so; and (b) shall not be entitled to take, and shall not take, any steps (including, without limitation, the exercise of any right of set-off) for the purpose of recovering any of the Secured Obligations owing to it or any other debts whatsoever owing to it by the Issuer or procuring the winding-up, examination, administration, bankruptcy, insolvency, dissolution or reorganisation of the Issuer (or any analogous procedure or step in any jurisdiction in relation to the Issuer) in respect of the Secured Obligations; provided that if the Security Agent or the Receiver, having become bound to do so, fails to serve a Notice of Default and/or to take any steps or proceedings to enforce such security pursuant to the Security Assignment within a reasonable time, and such failure is continuing, then the Secured Creditors shall be entitled to take any such steps and proceedings as they shall deem necessary (other than procuring the winding-up, examination, administration, bankruptcy, insolvency, dissolution or reorganisation of the Issuer (or any analogous procedure or step in any jurisdiction in relation to the Issuer) in respect of the Secured Obligations); *and provided further* that the Covered Bondholder Representative is entitled to direct the Security Agent to enforce the security created pursuant to the Security Assignment as more particularly set out in this Condition 12 and the Security Agency Agreement.

In acting on the instructions of the Covered Bondholder Representative, the Security Agent shall not be required to consider the interests of any other Secured Creditor. The Security Agent shall not be required to take any action that would involve the Security Agent in any liability or expense (unless previously pre-funded and/or indemnified and/or secured to its satisfaction). The Security Agent shall not, in any event, have regard to the consequences for individual Secured Creditors resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular jurisdiction. No Secured Creditor shall be entitled to require from the Issuer or the Security Agent, nor shall any Secured Creditor be entitled to claim from the Issuer or the Transaction Security, any indemnification or other payment in respect of any consequence (including any tax consequence) for such individual Secured Creditor of any such exercise.



For the avoidance of doubt, the Security Agent shall be entitled to act in relation to all matters arising under the Conditions, the Security Agency Agreement, the Transaction Security Documents and the other Transaction Documents to which it is a party as soon as it has received any instruction, direction and/or request from the Covered Bondholder Representative (subject in all cases to the requirement for the Security Agent to first have been pre-funded and/or secured and/or indemnified to its satisfaction), and, if the Security Agent receives a conflicting instruction, direction and/or request from one or more Secured Creditors (other than the Covered Bondholder Representative) in relation to any such matter, then the Security Agent shall in no way incur any liability for acting or continuing to act as it was instructed, directed and/or requested by the Covered Bondholder Representative.

In order for the Covered Bondholders to direct or instruct the Security Agent under these Conditions, the Transaction Security Documents and/or the other Transaction Documents to which the Security Agent is a party, the Majority Instructing Creditor shall appoint the Covered Bondholder Representative on such terms as the Majority Instructing Creditor thinks fit, to act as the representative of the Covered Bondholders. The Security Agency Agreement and the Agency Agreement contain provisions for convening meetings of Covered Bondholders to appoint the Covered Bondholder Representative.

### **13. Replacement of Covered Bonds, Coupons and Talons**

Should any Covered Bond, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent (in the case of Bearer Covered Bonds, Coupons or Talons) or the Registrar (in the case of Registered Covered Bonds) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to: (a) evidence of such loss, theft, mutilation, defacement or destruction; and (b) indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Coupons or Talons must be surrendered before replacements will be issued.

### **14. Agents**

The names of the initial Agents and their initial specified offices are set out in the Agency Agreement. If any additional Agents are appointed in connection with any Series, the names of such Agents will be specified in the applicable Final Terms. The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Fiscal Agent and a Registrar;
- (b) so long as the Covered Bonds are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be (in the case of Bearer Covered Bonds) a Paying Agent (which may be the Fiscal Agent) and (in the case of Registered Covered Bonds) a Transfer Agent (which may be the Registrar) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) so long as any of the Registered Global Covered Bonds payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City; and
- (d) there will at all times be a Paying Agent in a jurisdiction other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7.5 (*General Provisions Applicable to Payments*). Notice of any variation, termination, appointment or change in

Agents will be given to the Covered Bondholders promptly by the Issuer in accordance with Condition 16 (*Notices*).

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

#### **15. Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet, including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 10 (*Prescription*).

#### **16. Notices**

All notices regarding the Bearer Covered Bonds will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any relevant Stock Exchange or other relevant authority on which the Bearer Covered Bonds (if any) are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

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

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

Notices to be given by any Covered Bondholder shall be in writing and given by lodging the same, together (in the case of any Bearer Definitive Covered Bond) with the relative Covered Bond or Covered Bonds, with the Fiscal Agent (in the case of Bearer Definitive Covered Bonds) or the Registrar (in the case of Registered Covered Bonds). While any of the Covered

Bonds are represented by a Global Covered Bond, such notice may be given by any holder of the Covered Bond to the Fiscal Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Fiscal Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

Notices given by (or on behalf of) the Issuer to Covered Bondholders of this Series pursuant hereto shall also be delivered to all Hedging Counterparties (if any) that are parties to Hedging Agreements relating to this Series at the same time as they are given to such Covered Bondholders, which notices (unless published as provided in the first paragraph of this Condition 16) shall be delivered to each such Hedging Counterparty in accordance with the relevant Hedging Agreement.

## **17. Meetings of Covered Bondholders and Modification**

### **17.1 Meetings of Covered Bondholders**

The Agency Agreement contains provisions for convening meetings of all Covered Bondholders or the holders of Covered Bonds of a particular Series to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Covered Bonds, the Coupons or any of the provisions of the Agency Agreement. The following provisions are a limited summary of, and are subject to, the detailed provisions of the Agency Agreement. In relation to a Series of Covered Bonds, a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Covered Bondholders holding not less than 5% in Principal Amount Outstanding of the relevant Series. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing in aggregate not less than a majority of the principal amount of the Covered Bonds of such Series for the time being remaining outstanding, or at any adjourned meeting one or more persons being or representing Covered Bondholders whatever the principal amount of the Covered Bonds so held or represented, except that, at any meeting, the business of which includes the modification of certain provisions of the Covered Bonds or the Coupons (including modifying the date of maturity of the Covered Bonds or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Covered Bonds, altering the currency of payment of the Covered Bonds or the Coupons or amending the Deed of Covenant in certain respects), the quorum shall be one or more persons holding or representing in the aggregate not less than two-thirds in principal amount of the Covered Bonds of the relevant Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in principal amount of the Covered Bonds of such Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders shall be binding on all the Covered Bondholders of such Series, whether or not they are present at the meeting, and on all Couponholders of such Series.

A Programme Meeting (as defined in the Agency Agreement) may be convened by the Issuer and shall be convened by the Issuer if required in writing by Covered Bondholders holding not less than 5% in Principal Amount Outstanding of all Covered Bonds.

The quorum at any such Programme Meeting (including any adjourned meeting) convened to consider a Programme Reserved Matter (as defined in the Agency Agreement) is one or more persons present and holding or representing in the aggregate not less than a majority in Principal Amount Outstanding of all Covered Bonds for the time being outstanding. A Programme Reserved Matter is required to be passed by a Programme Resolution (as defined in the Agency Agreement).

A Programme Resolution passed at any Programme Meeting of the Covered Bondholders shall be binding on all the Covered Bondholders, whether or not they are present at the Programme Meeting, and on all Couponholders.

## **17.2 Modification**

The Agency Agreement contains provisions relating to the modification of these Conditions and the Transaction Documents. The following provisions are a limited summary of, and are subject to, the detailed provisions of the Agency Agreement. The Fiscal Agent and the Issuer may agree, without the consent of the Covered Bondholders or Couponholders, to *inter alia*, any modification of any of these Conditions or any Transaction Document which is, in the opinion of the Issuer: (a) of a formal, minor or technical nature or that is made for the purpose of curing or correcting any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein; (b) not materially prejudicial to the interests of the Covered Bondholders and/or the Hedging Counterparties (in each case considered (i) as a whole and not individually and (ii) from a contractual perspective); or (c) to implement changes required as a result of any amendment, restatement, modification or other change to the Turkish Covered Bonds Legislation or any other mandatorily applicable law, provided that each Relevant Rating Agency has been notified in writing in respect of such amendment not less than five London Business Days prior to the proposed amendment.

Any such modification shall be binding on the Covered Bondholders, the Couponholders and other Secured Creditors and, unless the Fiscal Agent agrees otherwise, any such modification shall be notified by the Issuer to the Covered Bondholders and Couponholders as soon as practicable thereafter in accordance with Condition 16 (*Notices*).

## **18. Further Issues**

The Issuer may from time to time, without the consent of the Covered Bondholders or the Couponholders, create and issue further covered bonds having terms and conditions the same as the Covered Bonds or the same in all respects save for the amount and date of the first payment of interest thereon, the date from which interest starts to accrue, the Issue Date and the Issue Price, so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds, provided that: (a) there is no Potential Breach of Statutory Test, Issuer Event or Event of Default outstanding and that such issuance would not cause a Potential Breach of Statutory Test, Issuer Event or Event of Default; (b) the Issuer notifies each Relevant Rating Agency of any Series of Covered Bonds of the issuance not less than five Business Days prior to the relevant issuance; (c) if applicable, such issuance has been approved by the Capital Markets Board in accordance with the Turkish Covered Bonds Legislation; and (d) if a Hedging Agreement is in place with respect to such outstanding Covered Bonds, a further Hedging Agreement (or amendment or other modification of such existing Hedging Agreement) is entered into with respect to such further Covered Bonds.

In addition, the Issuer may from time to time without the consent of the Covered Bondholders or any other Secured Creditors create and issue separate Series of Covered Bonds under the Programme subject to satisfaction of sub-paragraphs (a) and (c) above referred to in the immediately preceding paragraph.

Notwithstanding the preceding two paragraphs, in order to issue any other Series of Covered Bonds or any further Tranche of an outstanding Series of Covered Bonds, a Rating Agency Confirmation from the Relevant Rating Agency(ies) of any outstanding Series of Covered Bonds shall have been obtained *unless* the new issuance is denominated and payable in Turkish Lira.

## **19. Contracts (Rights of Third Parties) Act 1999**

No Person shall have any right to enforce any term or condition of this Covered Bond under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any Person which exists or is available apart from that Act and the rights and remedies of the relevant Hedging Counterparty(ies) in respect of the matters described in Condition 16 (*Notices*) and the rights and remedies of the Security Agent as described herein, including in respect of the matters described in the preamble to Condition 1 (*Form, Denomination and Title*), Condition 5.3 (*Financial Reporting*), Condition 12 (*Events of Default*), Condition 17 (*Meetings of Covered Bondholders and Modification*) and Condition 20 (*Governing Law and Submission to Jurisdiction*).

## **20. Governing Law and Submission to Jurisdiction**

### **20.1 Governing Law**

The Conditions, the Agency Agreement, the Deed of Covenant, the Deed Poll, the Covered Bonds and the Coupons and any non-contractual obligations arising out of or in connection with the Conditions, the Agency Agreement, the Deed of Covenant, the Deed Poll, the Covered Bonds and the Coupons are and shall be governed by, and construed in accordance with, the laws of England and Wales; provided that the Statutory Segregation referred to in Condition 3 (*Status of the Covered Bonds*) is and shall be governed by and construed in accordance with the laws of Turkey.

### **20.2 Submission to Jurisdiction**

The Issuer irrevocably agrees, for the benefit of the Covered Bondholders and the Couponholders, that the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) is to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Covered Bonds and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Covered Bonds and/or the Coupons) and accordingly submits to the exclusive jurisdiction of the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales).

The Issuer waives any objection to the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) on the grounds that they are an inconvenient or inappropriate forum. To the extent allowed by law, the Covered Bondholders and the Couponholders may take any suit, action or proceedings (together referred to as “**Proceedings**”) arising out of or in connection with the Covered Bonds and the Coupons (including any Proceeding relating to any non-contractual obligations arising out of or in connection with the Covered Bonds and/or the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### **20.3 Consent to Enforcement**

The Issuer agrees, without prejudice to the enforcement and recognition of a judgment obtained in the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) according to the relevant provisions of the International Private and Procedural Law of Turkey (Law No. 5718), that in the event that any action is brought in relation to the Issuer in a court in Turkey in connection with the Covered Bonds, and/or the Coupons, in addition to other permissible legal evidence

pursuant to the Civil Procedure Code of Turkey (Law No. 6100), any judgment obtained in the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) in connection with such action shall constitute conclusive evidence of the existence and amount of the claim against the Issuer, pursuant to the provisions of the first sentence of Article 193 of the Civil Procedure Code of Turkey (Law No. 6100) and Articles 58 and 59 of the International Private and Procedural Law of Turkey (Law No. 5718).

#### **20.4 Appointment of Process Agent**

Service of process may be made upon the Issuer at UniCredit Bank SpA, London Branch (with a current address of Moor House, 120 London Wall, London EC2Y 5ET, United Kingdom) in respect of any Proceedings in England, and the Issuer undertakes that, in the event of such process agent ceasing so to act, it will promptly appoint another Person as its agent for that purpose. Failing this, the Security Agent may appoint an agent for this purpose; provided that the Issuer may thereafter appoint a replacement therefor.

#### **20.5 Other Documents**

The Issuer has in the Agency Agreement, the Deed of Covenant and the Deed Poll submitted to the jurisdiction of the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) and agreed to the service of process in terms substantially similar to those set out above.

## DESCRIPTION OF THE TRANSACTION DOCUMENTS

### Security Assignment

Pursuant to the security assignment entered into on the Programme Closing Date by the Issuer and the Security Agent (the “**Security Assignment**”), the Secured Obligations owing to the Secured Creditors (including the Security Agent and any Receiver) are secured by, *inter alia*:

- (a) a security assignment over all the Issuer’s rights, title, interest and benefit, present and future, in, to and under:
  - (i) each of the Offshore Bank Accounts;
  - (ii) the English Law Transaction Documents (other than the Security Assignment, the Programme Agreement, any Subscription Agreement and any deed expressed to be supplemental to the Security Assignment, the Programme Agreement and/or any Subscription Agreement), including, without limitation, any guarantee, credit support document or credit support annex entered into pursuant to the Hedging Agreements governed by the laws of England and Wales and any eligible credit support (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Deed or the 1995 English Law Credit Support Deed, each as defined by the International Swaps and Derivatives Association, Inc.) delivered or transferred to the Issuer thereunder, including, without limitation, all moneys received in respect thereof, all dividends paid or payable thereon, all property paid, distributed, accruing or offered at any time to or in respect of or in substitution thereof and the proceeds of sale, repayment and redemption thereof; and
  - (iii) all payments of any amounts that may become payable to the Issuer under the items described in sub-paragraphs (i) and (ii) above, all payments received by the Issuer thereunder, all rights to serve notices and/or make demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof,

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

- (b) a charge, by way of first fixed equitable charge to the Security Agent, over all the Issuer’s rights, title, interest and benefit, present and future, in, to and under the Authorised Investments which are Cover Pool Assets (and all moneys, income and proceeds to become payable thereunder or thereon and the benefits of all covenants relating thereto and all powers and remedies for enforcing the same), which are held unto the Security Agent absolutely for the Security Agent itself and on trust, subject to the terms of the Security Assignment, for the applicable Secured Creditors to whom the Secured Obligations from time to time become due, owing or payable.

“**English Law Transaction Documents**” means the Security Assignment, the Security Agency Agreement, the Agency Agreement, the Offshore Bank Account Agreement, the Calculation

Agency Agreement, the Hedging Agreements (to the extent governed by the laws of England and Wales), the Subscription Agreements (to the extent governed by the laws of England and Wales), the Programme Agreement and any additional document (governed by the laws of England and Wales) entered into in respect of a Series of Covered Bonds and/or the Cover Pool and designated as an English Law Transaction Document by the Issuer and the Security Agent.

Immediately following the creation of the security interest referred to in sub-paragraph (a)(i) above, the Security Agent has declared that it shall hold all such right, title, interest and benefit, present and future, in, to and under: (i) each of the Hedge Collateral Account(s) and the Non-TL Hedge Collection Account(s) for the benefit of and on trust for the Secured Creditors (other than in respect of the Excess Hedge Collateral, which is held for the benefit of the relevant Hedging Counterparty); and (ii) the Agency Account for the benefit of and on trust for the Reserve Fund Secured Creditors.

Notwithstanding the assignment in the Security Assignment, the Issuer shall be entitled to exercise its rights in respect of the English Law Transaction Documents, but subject to the provisions of the English Law Transaction Documents and certain provisions of the Security Assignment.

Notwithstanding the security created by the Security Assignment, but subject to the security enforcement provisions contained in the Security Assignment: (A) amounts may and shall be withdrawn from the Offshore Bank Accounts in the amounts contemplated in, and for application in accordance with, the Conditions, the Offshore Bank Account Agreement, the Calculation Agency Agreement and the relevant Hedging Agreement; and (B) payments to be made under the Transaction Documents may be made by the Issuer and in accordance with the directions of the Issuer, subject as provided in the Offshore Bank Account Agreement and the Calculation Agency Agreement. Any amounts so withdrawn or paid from amounts standing to the credit of the Offshore Bank Accounts shall be automatically released and discharged from the security interest created under the Security Assignment. Subject as provided above and for making Authorised Investments as permitted in the Security Assignment, no other payments may be made out of any of the Offshore Bank Accounts without the prior written approval of the Security Agent.

The Security Assignment Security will become enforceable upon the serving of a Notice of Default on the Issuer following the occurrence of an Event of Default that is continuing. Upon the security becoming enforceable, the Security Agent will be entitled to appoint a Receiver and/or to enforce the security constituted by the Security Assignment, subject to being indemnified and/or secured and/or pre-funded to its satisfaction against all actions, proceedings, claims and demands to which it may thereby render itself liable and all costs, charges, damages, expenses and liabilities which it may incur by so doing.

All moneys received by the Security Agent on the realisation or enforcement of the Security Assignment Security and other Non-Statutory Security (subject to the following paragraph) will be held and applied by the Security Agent in the following order of priority: (I) firstly, to pay, or procure the payment of, *pro rata* and *pari passu*, all amounts due to: (1) the Covered Bondholders in respect of all outstanding Covered Bonds; (2) the Couponholders in respect of all outstanding Coupons; and (3) the Hedging Counterparties in respect of all outstanding Hedging Agreements; and (II) thereafter, to use any amounts remaining after the satisfaction of sub-paragraph (I) above and constituting the Additional Cover (if any) or any other amounts permitted by the Covered Bonds Communiqué from time to time (to the extent remaining after all payments made pursuant to sub-paragraph (I) above have been satisfied; *it being understood* that the amounts used to make payments pursuant to sub-paragraph (I) above shall be deemed first to have been made from funds other than Additional Cover) to meet the Secured Obligations of the Other Secured Creditors permitted by Article 29 of the Covered Bonds Communiqué; provided that if the Covered Bonds Communiqué is amended after the Programme Closing Date to permit Other Secured Creditors to have access to the Additional Cover on a priority or a *pari passu* basis with the Covered Bondholders and/or the Hedging Counterparties, then the Security Assignment Security (and, to the extent applicable, other Transaction Documents) shall



(at the request of the Security Agent) be amended to reflect the statutory order of priority prescribed by the Covered Bonds Communiqué in respect of Additional Cover from time to time.

Notwithstanding the foregoing: (x) funds from the Agency Account shall be applied in payment of, *pro rata* and *pari passu*, all amounts due and payable to the Reserve Fund Secured Creditors; and (y) Excess Hedge Collateral shall be transferred or delivered by the Security Agent to the relevant Hedging Counterparty. The Agency Account does not form part of the Cover Pool. To the extent possible under applicable law, at any time after the security created by the Security Assignment has become enforceable, the Security Agent may (without notice to the Issuer) sell or otherwise dispose of the property subject to the security of the Security Assignment or any part of it and (notwithstanding the above) shall be entitled to apply the proceeds of such sale or other disposal in paying the costs of such sale or disposal and only thereafter in or towards the discharge of the Secured Obligations or otherwise as provided for in the Security Assignment.

The Security Assignment is governed by the laws of England and Wales.

### **Security Agency Agreement**

Pursuant to the terms of the Security Agency Agreement, the Issuer has appointed the Security Agent to act as the security agent and trustee of the Secured Creditors in connection with the Security Assignment, the other Transaction Security Documents, the Offshore Bank Account Agreement, the Calculation Agency Agreement and the Security Agency Agreement.

The Issuer has agreed to pay to the Security Agent a fee for acting as Security Agent and to reimburse the Security Agent for certain charges and expenses incurred by the Security Agent in connection with the Transaction Documents to which it is a party.

Notwithstanding any provision of any Transaction Document to the contrary, the Security Agent is not required: (a) to undertake any act that may be illegal or contrary to any applicable law or fiduciary duty or duty of confidentiality to which the Security Agent is subject; or (b) to perform its duties and obligations or exercise its rights and remedies, or expend or risk its own funds or incur a financial liability, under the Transaction Documents to which it is a party where amounts are due and payable to the Security Agent under such Transaction Document and remain unpaid or the repayment of such funds or adequate indemnity against such risk or liability is not assured to the Security Agent.

In the execution and exercise of all or any of the trusts, powers, authorities and discretions vested in it by any Transaction Document, the Security Agent may act by responsible officers or a responsible officer for the time being of the Security Agent.

In order for the Covered Bondholders to direct or instruct the Security Agent under the Security Agency Agreement, the Transaction Security Documents and/or the other Transaction Documents to which the Security Agent is a party, the Majority Instructing Creditor shall appoint a representative (which may be any person and need not be a Covered Bondholder) (such representative, the “**Covered Bondholder Representative**”) on such terms as the Majority Instructing Creditor thinks fit, to act as the representative of the Covered Bondholders. The Covered Bondholder Representative shall, where required pursuant to the Transaction Documents, act as directed, instructed and/or requested by the Majority Instructing Creditor.

The Security Agent shall have no duty to verify the authority of the Covered Bondholder Representative and shall be entitled (without enquiry) to rely on any instruction received from any person whom the Security Agent reasonably believes to be the Covered Bondholder Representative.

“**Majority Instructing Creditor**” means, at any time, the holders of at least a majority in Principal Amount Outstanding of all Covered Bonds then outstanding (with the Principal Amount Outstanding of Covered Bonds not denominated in Turkish Lira notionally converted into Turkish Lira using the Applicable Exchange Rate).

None of the Security Agent, the Receiver nor any delegate, agent, attorney or co-agent appointed by the Security Agent (each a “**Delegate**”) will be liable for: (i) any damages, costs or losses to any person, any diminution in value or any liability whatsoever arising as a result of taking or not taking any action under or in connection with any Transaction Security Document or the Non-Statutory Security unless caused by its negligence, fraud or wilful default or that of its officers, directors or employees; (ii) exercising or not exercising any right, power, authority or discretion given to it by, or in connection with, any Transaction Security Document, the Non-Statutory Security or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with, any Transaction Security Document or the Non-Statutory Security; (iii) any shortfall that arises on the enforcement or realisation of the Non-Statutory Security; (iv) without prejudice to the generality of sub-paragraphs (i) to (iii) above, any damages, costs, losses, diminution in value or liability whatsoever arising as a result of: (A) any force majeure event; or (B) the general risks of investment in, or the holding of assets in, any jurisdiction; (v) any loss, cost, damage, expense or liability occasioned to the Non-Statutory Security, however caused, by the Administrator, whether or not acting in accordance with the Covered Bonds Communiqué, or any other person (including any bank, broker, depository, warehouseman or other intermediary or by any clearing system or the operator thereof), or otherwise, unless caused by the negligence, fraud or wilful default of the Security Agent, the Receiver or a Delegate, respectively; (vi) any decline in value or any loss realised upon any sale or other disposition of any Non-Statutory Security pursuant to any Transaction Document; (vii) any decline in value or any loss realised upon any sale or other disposition of any Non-Statutory Security pursuant to any Transaction Document; or (viii) any deficiency which might arise because the Security Agent, the Receiver or the Delegate is subject to tax (other than in respect of its net income) in respect of the Non-Statutory Security or any party thereof or any income thereon or any proceeds thereof.

“**Non-Statutory Security**” means: (A) any property, assets or undertakings (other than the Agency Account and the property, assets and undertakings included in the Cover Pool) charged, pledged or otherwise secured by the Issuer pursuant to the Transaction Security Documents for the benefit of the Secured Creditors; and (B) the Agency Account secured by the Issuer pursuant to the Security Assignment for the benefit of the Reserve Fund Secured Creditors.

For so long as any Covered Bonds remain outstanding, the Issuer has covenanted in the Security Agency Agreement in favour of, *inter alios*, the Security Agent (for itself and for the benefit of the other Secured Creditors) that it will at all times:

- (a) maintain a Fiscal Agent, Paying Agent, Exchange Agent, Registrar and Transfer Agent with specified offices in accordance with the Conditions and at all times maintain any other agents required by the Conditions;
- (b) give notice in writing to the Fiscal Agent and the Security Agent promptly upon becoming aware of the occurrence of an Issuer Event, Transferability and Convertibility Event or Event of Default and without waiting for the Fiscal Agent or the Security Agent to take any further action;
- (c) keep proper books of account (including books of record and other relevant records relating to the administration of the Cover Pool Assets and related matters in accordance with the Security Agency Agreement) and permit, to the extent permitted by applicable law, the Security Agent, the Cover Monitor and any persons appointed by the Security Agent or the Cover Monitor (including any auditor or professional adviser of the Security Agent or the Cover Monitor) to whom the Issuer shall have no reasonable objection free access to such books of account at all reasonable times during normal working hours; provided that nothing in this paragraph (c) shall oblige the Issuer to disclose confidential information concerning customers of the Issuer or regarding any matters for which the Issuer would be entitled to claim exemption from disclosure by reason of applicable law binding on it;

- (d) administer and manage the Cover Pool in the manner described in Schedule 2 (*The Cover Pool*) of the Security Agency Agreement;
- (e) maintain the Cover Register in accordance with the requirements of the Covered Bonds Communiqué and ensure that it is up-to-date at all times;
- (f) ensure at all times that the Cover Pool Assets are identified in such manner as is required to benefit from Statutory Segregation;
- (g) give to the Security Agent at all times such opinions, certificates, information and evidence as it shall reasonably require for the purpose of the discharge of the duties, powers, trusts, authorities and discretions vested in it under the Security Agency Agreement, the Transaction Security Documents, the Offshore Bank Account Agreement and the Calculation Agency Agreement or by operation of law; *provided* always that the foregoing shall not oblige the Issuer to give any information non-disclosure of which is required by any applicable law;
- (h) deliver to the Fiscal Agent for distribution to any Covered Bondholder upon such Covered Bondholder's written request to the Fiscal Agent:
  - (i) not later than six months after the end of each financial year of the Issuer, English language copies of the Issuer's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding financial year, and all such annual financial statements of the Issuer shall be accompanied by the report of the auditors thereon; and
  - (ii) not later than 120 days after the end of the first six months of each financial year of the Issuer, English language copies of its unaudited consolidated financial statements for such six-month period, prepared in accordance with IFRS consistently applied, together with the financial statements for the corresponding period of the previous financial year;
- (i) so far as permitted by law, at all times execute all such further documents and do all such further acts and things that are necessary at any time or times in the opinion of the Security Agent to give effect to the terms and conditions of the Security Agency Agreement, the Transaction Security Documents, the Offshore Bank Account Agreement and the Calculation Agency Agreement;
- (j) send to the Fiscal Agent and the Security Agent a copy of each notice given to the Covered Bondholders of any one or more Series in accordance with Condition 16 (*Notices*);
- (k) give prior notice to the Fiscal Agent and the Security Agent of any proposed redemption pursuant to Condition 8.2 (*Redemption for Tax Reasons*) or Condition 8.3 (*Redemption at the Option of the Issuer (Issuer Call)*) and, if it shall have given notice to the relevant Covered Bondholders in accordance with the Conditions of its intention, duly proceed to redeem any relevant Covered Bonds accordingly;
- (l) in the event of the unconditional payment to a Paying Agent or the Security Agent (in any case) of any sum due in respect of principal, redemption amount, premium (if any) and/or interest on the Covered Bonds of any Series or any of them being made after the due date for payment thereof, forthwith give or procure the Fiscal Agent to give notice to the Covered Bondholders of such Series in accordance with Condition 16 (*Notices*) that such payment has been made;

- (m) give or procure that there be given notice to the Covered Bondholders in accordance with the Conditions of any appointment (other than the initial appointment), resignation or removal of the Fiscal Agent, Exchange Agent, Registrar or any Transfer Agent or Paying Agent as shown on the Covered Bonds or so published in accordance with the Conditions as soon as practicable and in any event within 14 days after such event taking effect and within 30 days of notice received from the Fiscal Agent, Exchange Agent, Registrar or any Transfer Agent or Paying Agent of a change in its specified office, give notice to the Security Agent and to the Covered Bondholders of such change;
- (n) in order to enable the Fiscal Agent and/or the Security Agent to ascertain the Principal Amount Outstanding of Covered Bonds of each Series for the time being outstanding (other than for the purpose of ascertaining the amount of Covered Bonds of each Series for the time being outstanding for the purpose of the Programme Limit), deliver to the Fiscal Agent and/or the Security Agent promptly after being so requested in writing by the Fiscal Agent and/or the Security Agent, as applicable, a certificate in writing signed by an authorised signatory of the Issuer setting out the total numbers and Principal Amount Outstanding of the Covered Bonds of each Series which up to and including the date of such certificate have been purchased by or for the account of the Issuer or any Subsidiary of the Issuer, in each case held by them as beneficial owner, and the Principal Amount Outstanding of the Covered Bonds of each Series so purchased which have been cancelled;
- (o) notify the Fiscal Agent and the Security Agent promptly upon becoming aware of any change in the ratings assigned by the Relevant Rating Agencies to the Covered Bonds or any Series of Covered Bonds;
- (p) maintain its principal office in Turkey and that it will maintain at all times its Turkish banking licence issued to it by the BRSA in accordance with the Banking Law (Law No. 5411) of Turkey;
- (q) maintain all necessary authorisations to be an issuer of mortgage covered bonds (within the meaning of the Covered Bonds Communiqué);
- (r) give, within seven Istanbul Business Days after demand by the Security Agent or the Cover Monitor, any information required to comply with the terms of the Turkish Covered Bonds Legislation;
- (s) so far as permitted by law, from time to time upon request from a Relevant Rating Agency, provide such further information as such Relevant Rating Agency reasonably requests;
- (t) observe and comply with its obligations under the Turkish Covered Bonds Legislation;
- (u) observe and comply with its obligations under the Transaction Documents (to the extent not otherwise provided for above);
- (v) from the First Issue Date and on each London Business Day thereafter, maintain the Reserve Fund in an amount at least equal to the Reserve Fund Required Amount; provided that the Issuer shall not be considered to be in breach of its obligations under paragraphs (a) above to (nn) below if, during the continuance of a Transferability and Convertibility Event, it is impossible for the Issuer to deposit moneys to the Reserve Fund as a result of such Transferability and Convertibility Event;

- (w) maintain records in relation to the Designated Account(s) in accordance with the Transaction Documents;
- (x) maintain the Cover Pool in accordance with the requirements for Cover Pool Assets and Hedging Agreements set out in the Covered Bonds Communiqué;
- (y) perform such checks and reviews as are required on each Statutory Test Date and Issue Date to ensure that each Cover Pool Asset included in the Statutory Test calculations is in compliance with the Individual Asset Eligibility Criteria and the Covered Bonds Communiqué;
- (z) comply with the Statutory Tests (i.e., the Nominal Value Test, the Cash Flow Matching Test, the Net Present Value Test and the Stress Test). The Statutory Tests (both their nature and their method of calculation) may vary from time to time to the extent that the Covered Bonds Communiqué is amended; *it being understood* that all Series of Covered Bonds are subject to the Statutory Tests as in force at the time of their issuance unless expressly provided otherwise by the Turkish Covered Bonds Legislation.

The method of calculating the Statutory Tests shall (within the requirements of the Covered Bonds Communiqué) be determined by the Issuer, acting reasonably (and subject to any guidance, pronouncement, rule, official directive or guideline (whether or not having the force of law) issued by the CMB to the Issuer specifically or to covered bond issuers generally in relation to the method of calculating the Statutory Tests). For the avoidance of doubt, with respect to any Covered Bonds with a floating interest rate, the Issuer may, at any time, perform such calculations utilising the interest rate in effect at such time;

- (aa) in addition to the Statutory Tests, ensure that the Nominal Value of the Cover Pool is not less than the product of: (i) the Turkish Lira Equivalent of the aggregate Principal Amount Outstanding of all Covered Bonds outstanding; and (ii) the sum of one plus the decimal equivalent of the highest then-existing Programme Overcollateralisation Percentage among all then-outstanding Series. The then-existing Programme Overcollateralisation Percentage for each Series shall be specified in each Investor Report;
- (bb) if, on a Statutory Test Date, there is a Potential Breach of Statutory Test, cure any breach(es) of the relevant Statutory Tests within one month of such Statutory Test Date;
- (cc) if, in its own monitoring of the Statutory Tests, the Issuer identifies a Potential Breach of Statutory Test, promptly notify the Fiscal Agent, the Security Agent and the Cover Monitor of such breach and cure such breach within one month of its detection of such breach;
- (dd) maintain the Cover Pool for the benefit of all Covered Bondholders in compliance with the Statutory Tests;
- (ee) to the extent that any mortgage loan included in the Cover Pool is not in compliance with the Individual Asset Eligibility Criteria, make such substitutions in the Cover Pool as are necessary to ensure compliance with the Individual Asset Eligibility Criteria; provided that no such substitution shall be required if the Statutory Tests are otherwise satisfied and the Issuer is otherwise complying with its obligations under the Covered Bonds Communiqué;
- (ff) establish and maintain the Cover Register in accordance with the Turkish Covered Bonds Legislation;

- (gg) create Statutory Segregation over each Cover Pool Asset and segregate the Cover Pool for the satisfaction of the rights of the Covered Bondholders, the Hedging Counterparties and (subject to the provisions of Article 29 of the Covered Bonds Communiqué) the Other Secured Creditors.

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

All Mortgage Rights relating to Mortgage Assets in the Cover Pool are themselves included in the Cover Pool as part of the receivables of such Mortgage Assets; however, if it is subsequently judicially determined that all or part of the Mortgage Rights of the type referred to in paragraphs (a) and (c) of the definition of Mortgage Rights do not constitute receivables of Mortgage Assets for the purposes of Article 9 of the Covered Bonds Communiqué (once so judicially determined all such items being “**Ancillary Rights**”), then such Ancillary Rights shall not be Cover Pool Assets and thus not benefit from Statutory Segregation;

- (hh) apply the relevant proceeds of Ancillary Rights in satisfaction of any indebtedness owed by the Issuer under the Transaction Documents to the Secured Creditors as an unsecured contractual obligation only; *it being understood* that such Ancillary Rights shall not be Cover Pool Assets and thus not benefit from Statutory Segregation;
- (ii) at any time after the service of a Notice of Default (which has not been revoked (such revocation to be provided in the same manner as the service of a Notice of Default)), as an unsecured contractual obligation only, transfer (within two Istanbul Business Days of receipt) all Related Payments to the Security Agent for the benefit of the Secured Creditors to be applied in satisfaction of the Secured Obligations; *it being understood* that any such Related Payments shall not be deposited into the Collection Account or the Designated Account(s) and shall otherwise remain segregated from the Cover Pool Assets;
- (jj) at any time after the service of a Notice of Default (which has not been revoked (such revocation to be provided in the same manner as the service of a Notice of Default)), transfer (within two Istanbul Business Days of receipt) all payments made to the Issuer on Cover Pool Assets (other than Hedging Agreements) in currencies other than Turkish Lira to the applicable Non-TL Designated Account(s);
- (kk) in respect of Substitute Assets, comply with the Substitute Asset Limit and the requirements of the Covered Bonds Communiqué relating to Mandatory Excess Cover Cover Pool Assets;
- (ll) act in a manner consistent with that of an experienced lender and servicer of mortgage loans granted to obligors in Turkey in respect of the Mortgage Assets in the Cover Pool; provided that:

- (i) during the continuance of an Issuer Event, the Issuer may not make any modification, variation, amendment, release or waiver of a Mortgage Asset, including as to, but not limited to, interest rates, repayment schedule and/or maturity of such Mortgage Asset other than in accordance with its then-prevailing servicing and collection procedures in respect of mortgage assets that are not part of the Cover Pool; and
  - (ii) the Issuer shall service such Mortgage Assets with no less care than the Issuer exercises or would exercise in connection with the servicing of mortgage assets held for its own account as if such Mortgage Assets were not part of the Cover Pool;
- (mm) only make changes to the Cover Pool as set out below:

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

- (i) allocate to the Cover Pool additional assets at any time, including, for the purposes of issuing further Series of Covered Bonds, complying with the Statutory Tests and/or the Programme Overcollateralisation Percentage of any Series, maintaining the rating(s) assigned to any Series of the Covered Bonds and/or maintaining or increasing the creditworthiness of the Cover Pool; provided that such new assets meet the requirements of the Covered Bonds Communiqué, comply with the Individual Asset Eligibility Criteria and do not cause the Substitute Assets in the Cover Pool to exceed the Substitute Asset Limit; and
- (ii) remove (including to substitute) one or more Cover Pool Assets (including any Cover Pool Assets that cease to comply or did not comply at the time of their registration in the Cover Register with the requirements of the Covered Bonds Communiqué and the Individual Asset Eligibility Criteria) at any time in accordance with the Covered Bonds Communiqué and to the extent not prohibited by the Transaction Documents; provided that, in addition to the requirements of the Covered Bonds Communiqué: (A) any assets added to the Cover Pool by way of substitution must comply with the Individual Asset Eligibility Criteria; (B) any assets added to the Cover Pool by way of substitution or any removal of assets from the Cover Pool does not cause the Substitute Assets in the Cover Pool to exceed the Substitute Asset Limit; (C) neither any Potential Breach of Statutory Test nor any of the Issuer Events of the type described in any of paragraphs (a) to (f) of the definition thereof would occur as a result of such removal or Cover Pool Asset Substitution; and (D) any collections in respect of any such removed Cover Pool Assets will no longer be transferred to the Collection Account. The Issuer is obliged to substitute any Cover Pool Assets that cease to comply with the requirements of the Covered Bonds Communiqué or the Individual Asset Eligibility Criteria unless the Statutory Tests are otherwise satisfied and the Issuer is otherwise complying with its obligations under the Covered Bonds Communiqué (in which case, the Issuer may either keep such ineligible Cover Pool Asset within the Cover Pool or remove such ineligible Cover Pool Asset without new eligible assets being registered in the Cover Pool). By the tenth Istanbul Business Day after the end of each calendar month, the Issuer shall submit a report relating to the last test made during the preceding calendar month to the Cover Monitor.

It is agreed that: (A) upon the occurrence of any Potential Breach of Statutory Test or an Issuer Event that is continuing, no Cover Pool Assets can be removed or substituted from the Cover Pool unless such removal or substitution is required pursuant to the provisions of the Covered Bonds Communiqué; and (B) upon the occurrence of an Event of Default that is continuing, no Cover Pool Assets can be removed or substituted from the Cover Pool unless: (1) such removal or substitution is required pursuant to the provisions of the Covered Bonds Communiqué; or (2) such substitution or removal is made by the Administrator in accordance with the provisions of the Covered Bonds Communiqué or by the Security Agent in accordance with the Transaction Documents; and

- (nn) on or before the Investor Report Date after each Collection Period, the Issuer will produce an Investor Report for such Collection Period.

Pursuant to the terms of the Security Agency Agreement, the Issuer has covenanted to maintain the TL Designated Account and the Collection Account.

So long as an Issuer Event or Event of Default does not exist, the Issuer will deposit or credit within one Istanbul Business Day of receipt all collections of interest and principal and any other amounts it receives on the Cover Pool Assets denominated in Turkish Lira, other than payments under Hedging Agreements (if any) included in the Cover Pool Assets, into the Collection Account. The Issuer will not commingle any of its other funds and general assets (including any Related Payments) with amounts standing to the credit of the Collection Account.

For purposes of calculating compliance with the Statutory Tests: (a) cash amounts standing to the credit of the Collection Account (and investments made with such amounts) shall not constitute part of the Cover Pool; and (b) the TL Designated Account (and investments made with such amounts) shall comprise part of the Cover Pool.

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

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

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

After the occurrence of a Potential Breach of Statutory Test or an Issuer Event, the Issuer shall procure that within two Istanbul Business Days of its detection thereof (and on each Istanbul Business Day thereafter for so long as such Potential Breach of Statutory Test or Issuer Event is continuing), all amounts on deposit in the Collection Account are transferred to the TL Designated



Account. The Issuer will not commingle any of its other funds and general assets with amounts standing to the credit of the TL Designated Account.

The Non-TL Hedge Collection Account(s) and the Hedge Collateral Account(s) are described in “—*Offshore Bank Account Agreement*”.

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

The Security Agency Agreement is governed by the laws of England and Wales.

### **Offshore Bank Account Agreement**

Pursuant to the terms of the offshore bank account agreement entered into on the Programme Closing Date between the Issuer, the Offshore Account Bank, the Security Agent and the Calculation Agent (the “**Offshore Bank Account Agreement**”), the Issuer has appointed (and the Offshore Account Bank has accepted such appointment) the Offshore Account Bank to perform certain duties, including:

- (a) acting on the instructions of the Issuer, the Security Agent and/or the Administrator, as applicable, or information provided by the Calculation Agent;
- (b) making payments from the Offshore Bank Accounts as instructed by the Issuer (or, if an Administrator has been appointed, the Administrator) and/or the Security Agent, as applicable; and
- (c) providing the Issuer (or, if an Administrator has been appointed, the Administrator), the Security Agent and/or the Calculation Agent with details of the amounts standing to the credit of the Offshore Bank Accounts from time to time that the Issuer (or, if an Administrator has been appointed, the Administrator), the Security Agent and/or the Calculation Agent may request, including in order for them to make the calculations required in performing their respective obligations (including making calculations required under the Hedging Agreements, including for the related payments) and exercising their respective rights under the Transaction Documents.

As of the Programme Closing Date, the following accounts have been opened at the Offshore Account Bank:

- (a) the euro Non-TL Designated Account in the name of the Issuer (as to which see Clause 5 (*Non-TL Designated Account(s)*) of the Offshore Bank Account Agreement) (which account is a Non-TL Designated Account);
- (b) the U.S. dollar Non-TL Designated Account in the name of the Issuer (as to which see Clause 5 (*Non-TL Designated Account(s)*) of the Offshore Bank Account Agreement) (which account is a Non-TL Designated Account); and
- (c) the U.S. dollar Agency Account (as to which see Clause 9 (*Agency Account*) of the Offshore Bank Account Agreement) in the name of the Security Agent (which account is not a Non-TL Designated Account).

### *Non-TL Designated Accounts*

With respect to amounts received on Substitute Assets in currencies other than Turkish Lira, a separate Non-TL Designated Account will be established in the name of the Issuer pursuant to the Offshore Bank Account Agreement for each applicable currency. Save as provided in the Offshore Bank Account Agreement, no amount other than those deriving from Substitute Assets shall be paid into the Non-TL Designated Account(s). Notwithstanding the above, such amounts may be payable

directly to the Issuer (including within Turkey and/or through a clearing system such as Euroclear or Clearstream, Luxembourg); provided that the Issuer shall transfer (within two Istanbul Business Days of receipt) all such amounts to the applicable Non-TL Designated Account(s).

Other than to make Authorised Investments, no amounts shall be withdrawn from the Non-TL Designated Accounts (by the Issuer or otherwise) other than for the purposes of making payment to a Secured Creditor in accordance with the process of Clause 5.3 (*Instructions from the Issuer and/or the Administrator*) of the Offshore Bank Account Agreement unless the Security Agent provides its prior written consent. Such consent shall be provided by the Security Agent (without further enquiry) following its receipt of certification by the Issuer that: (a) no Reconciliation Event has occurred and is continuing; (b) no Event of Default has occurred and is continuing; and (c) immediately following such withdrawal, the Statutory Tests and the Programme Overcollateralisation Percentage will continue to be satisfied.

**“Reconciliation Event”** means the occurrence of an Issuer Event described in any of paragraphs (a) to (f) of the definition thereof or the occurrence of a Transferability and Convertibility Event, in each case which is continuing.

Subject to Clauses 2.4 (*No Negative Balance*) and 13.3 (*Consequences of Security Agent Notice*) of the Offshore Bank Account Agreement, the Offshore Account Bank shall comply with any direction of the Issuer given on any London Business Day to effect a payment to a Secured Creditor by debiting any one of the Non-TL Designated Account(s): (a) if such direction: (i) is in writing in a manner required by the Offshore Bank Account Agreement or given through the internet banking service provided by the Offshore Account Bank; and (ii) complies with the mandates delivered by the Issuer or the Security Agent to the Offshore Account Bank (such direction shall constitute an irrevocable payment instruction); and (b) unless the Offshore Account Bank has been notified by the Calculation Agent of the occurrence of a Reconciliation Reporting Event (if a Reconciliation Event has occurred and is then continuing). The Calculation Agent shall promptly notify the Issuer, the Offshore Account Bank and the Security Agent of the occurrence of a Reconciliation Reporting Event.

Amounts to be credited into the Non-TL Designated Account(s) include: (a) any amounts received by the Issuer in respect of the Substitute Assets and Authorised Investments that (in each case) are Cover Pool Assets, are not denominated in Turkish Lira and do not relate to the Agency Account; (b) any amounts credited into the applicable Non-TL Designated Account(s) by the Issuer from its own funds for effecting payments to Secured Creditors of Secured Obligations that are not denominated in Turkish Lira; (c) any amounts transferred by the Issuer in connection with the sale of Cover Pool Assets that are not denominated in Turkish Lira; and (d) any amounts transferred from the Non-TL Hedge Collection Account(s) at the request of the Issuer in the circumstances specified in the Offshore Bank Account Agreement.

Subject to the Substitute Asset Limit, cash amounts standing to the credit of the Non-TL Designated Account(s) (and Authorised Investments made with such amounts) shall constitute part of the Cover Pool for the purposes of the Statutory Tests; *it being understood* that the amounts described in sub-paragraph (c) of the previous paragraph derived from Mortgage Assets are not subject to the Substitute Asset Limit as they are collections on such Mortgage Assets. All amounts deposited in, and standing to the credit of, the Non-TL Designated Account(s) shall constitute segregated property distinct from all other property of the Issuer pursuant to Article 13 of the Covered Bonds Communiqué.

#### *Hedge Collateral Accounts*

With respect to credit support provided to the Issuer by the Hedging Counterparties pursuant to the Hedging Agreements, a separate Hedge Collateral Account will be established and maintained pursuant to the Offshore Bank Account Agreement for each applicable currency (other than Turkish Lira) and for each applicable Hedging Counterparty in respect of each relevant Hedging Agreement.

The Hedge Collateral Accounts will be held with the Offshore Account Bank in the name of the Security Agent for the benefit of and on trust for the Secured Creditors (to the extent such Hedge Collateral does not constitute Excess Hedge Collateral) and for the benefit of and on trust for the relevant Hedging Counterparty (to the extent such Hedge Collateral constitutes Excess Hedge Collateral).

For the avoidance of doubt, Hedge Collateral will be deposited in a Hedge Collateral Account regardless of whether a Reconciliation Event or an Event of Default has occurred.

Payments, deliveries and/or transfers of Hedge Collateral to the relevant Hedge Collateral Account shall be made in accordance with the provisions of the relevant Hedging Agreement.

Subject to Clauses 6.4 (*Hedge Collateral Account(s)*), 6.5 (*Hedge Collateral Account(s)*) and 6.6 (*Hedge Collateral Account(s)*) of the Offshore Bank Account Agreement, payments, deliveries and/or transfers of Hedge Collateral from the relevant Hedge Collateral Account shall be made solely for the purpose of making payments or deliveries in respect of: (a) any Settlement Amount (as defined in the ISDA Master Agreement), any Close-out Amount (as defined in the ISDA Master Agreement) or analogous payment; (b) any Return Amount (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.); (c) any Interest Amount (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.); (d) any Delivery Amount (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.); (e) any substitution of Hedge Collateral permitted by the applicable Hedging Agreement; (f) any amounts in respect of default interest; or (g) any amounts analogous to any of the above, in each case: (i) other than in respect of any amounts referred to in sub-paragraph (a) above of the Offshore Bank Account Agreement, to be delivered to the relevant Hedging Counterparty under a collateral agreement entered into under or in connection with the relevant Hedging Agreement (including, but without limitation, the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.) or any analogous agreement; and (ii) in the case of amounts referred to in sub-paragraph (a) above, due to the Issuer or deliverable to the relevant Hedging Counterparty following the termination (in whole or in part, as applicable) of the relevant Hedging Agreement, as applicable. If a Reconciliation Event has occurred and is then continuing, any amount due to the Issuer under sub-paragraph (a) above shall be transferred from the relevant Hedge Collateral Account to the relevant Non-TL Hedge Collection Account.

The Security Agent shall, within one London Business Day of receipt of the relevant approved form, make such payments, deliveries and/or transfers (or direct or instruct the payment, delivery and/or transfer, as applicable) of Hedge Collateral to the relevant Hedging Counterparty unless notified by the Calculation Agent of the occurrence of a Reconciliation Reporting Event (if a Reconciliation Event has occurred and is then continuing) as to the relevant payment, delivery and/or transfer, as applicable.

**“Reconciliation Reporting Event”** means: (a) the detection by the Calculation Agent of a manifest error in a Reconciliation; (b) the relevant payment, delivery or transfer, as applicable, cannot be reconciled by the Calculation Agent against the approved form; (c) the relevant payee is not a Secured Creditor; and/or (d) that the Calculation Agent is otherwise unable to validate the relevant payment, transfer or delivery, as applicable, due to, including, without limitation, the absence of an approved form.

**“Reconciliation”** means that the Calculation Agent shall compare the requested payment against an approved form required by the Calculation Agency Agreement and: (a) confirm that the relevant payee is a Secured Creditor; (b) calculate (or check the computation of) the relevant payment

transfer or delivery, as applicable, to be made; and (c) in the case of payments under each Hedging Agreement and the transfer or delivery of Hedge Collateral, as applicable, check that the account details and specified payee or transferee for the requested payment, transfer or delivery, as applicable, are correct.

Where a Hedging Counterparty provides Hedge Collateral (other than in Turkish Lira) to the Issuer in accordance with the terms of a Hedging Agreement, such collateral will be credited to the relevant Hedge Collateral Account. Any Hedge Collateral applied in satisfying any termination payments payable by the relevant Hedging Counterparty to the Issuer in respect of the relevant Hedging Agreement: (a) if not in Turkish Lira, shall be transferred to the Non-TL Hedge Collection Account of the corresponding currency; and (b) if in Turkish Lira, shall be transferred to the Collection Account or the TL Designated Account, as applicable. Excess Hedge Collateral (including any standing to the credit of the Hedge Collateral Account(s)) shall not be available to Secured Creditors (other than to the relevant Hedging Counterparty) and (if in a Hedge Collateral Account) shall be returned by the Offshore Account Bank to the relevant Hedging Counterparty upon a request from the Issuer.

**“Secured Obligations”** means any and all moneys, all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity) and all other amounts due, owing, payable or owed by the Issuer to the Secured Creditors under the Covered Bonds and/or the other Transaction Documents and secured by the Transaction Security, and references to Secured Obligations include references to any of them.

Each of the Offshore Account Bank, the Issuer, the Calculation Agent and the Security Agent has acknowledged and agreed that the Hedge Collateral Account(s) are accounts of the Security Agent over which a trust has been declared by the Security Agent for the benefit of the Secured Creditors (in respect of Excess Hedge Collateral, being held for the benefit of the relevant Hedging Counterparty only).

#### *Non-TL Hedge Collection Accounts*

With respect to payments by a Hedging Counterparty on the Hedging Agreements in currencies other than Turkish Lira, a separate Non-TL Hedge Collection Account will be established and maintained for each applicable currency with the Offshore Account Bank pursuant to the Offshore Bank Account Agreement, each of which accounts to be in the name of the Security Agent for the benefit of and on trust for the Secured Creditors; *it being understood* that the transfer or delivery by a Hedging Counterparty of Hedge Collateral is not a payment on a Hedging Agreement. For the avoidance of doubt, any amounts that are not denominated in Turkish Lira, which are paid to the Issuer or the Security Agent, as applicable, by the Hedging Counterparties under the Hedging Agreements (including all scheduled payments, principal exchange amounts, termination payments, final payments on cross currency swaps or other unscheduled sums due and payable by each Hedging Counterparty under any Hedging Agreement, but excluding Hedge Collateral) shall be paid into a Non-TL Hedge Collection Account regardless of whether a Reconciliation Event or an Event of Default has occurred.

Amounts may be withdrawn from the relevant Non-TL Hedge Collection Account(s) solely for the purposes of paying amounts due or otherwise scheduled to be paid by the Issuer on the Covered Bonds and Hedging Agreements (i.e., the due and payable Total Liabilities), unless the Issuer has otherwise delivered to the Agents the necessary amounts to make all such payments that are then due and payable, in which case the funds in the Non-TL Hedge Collection Account(s) shall be transferred, at the request of the Issuer, to the relevant Non-TL Designated Account(s).

In respect of Hedging Agreements, the Security Agent, within one London Business Day following receipt of the relevant approved form, shall pay (or direct or instruct the payment of, as applicable) payments due or otherwise scheduled to be paid by the Issuer thereunder unless notified

by the Calculation Agent of the occurrence of a Reconciliation Reporting Event (if a Reconciliation Event has occurred and is then continuing) as to the relevant payment or transfer, as applicable.

Each of the Offshore Account Bank, the Issuer, the Calculation Agent and the Security Agent has acknowledged and agreed that the Non-TL Hedge Collection Account(s) are accounts of the Security Agent over which a trust has been declared by the Security Agent for the benefit of the Secured Creditors.

All amounts deposited in, and standing to the credit of, the Non-TL Hedge Collection Account(s) shall constitute segregated property distinct from all other property of the Issuer pursuant to Article 13 of the Covered Bonds Communiqué.

All: (a) amounts payable in Turkish Lira by a Hedging Counterparty under a Hedging Agreement will be credited to the Collection Account or the TL Designated Account, as applicable; and (b) Hedge Collateral provided in Turkish Lira by a Hedging Counterparty under a Hedging Agreement will be managed in the manner agreed in such Hedging Agreement.

#### *Agency Account*

The Issuer has established a reserve fund maintained in a U.S. dollar-denominated account (the “**Agency Account**”) maintained at the Offshore Account Bank for the benefit of the Reserve Fund Secured Creditors (the “**Reserve Fund**”). From the First Issue Date and on each London Business Day thereafter, while any Covered Bonds are outstanding, the Reserve Fund will be fully funded by the Issuer at all times in an amount at least equal to the greater of: (a) two years’ estimated Programme and Series fees of the Agents, the Calculation Agent, the Security Agent and the Offshore Account Bank (the “**Reserve Fund Secured Creditors**”) that are not payable in Turkish Lira (as reasonably determined by the Issuer) from each such London Business Day; and (b) such other amount as may be agreed from time to time between the Issuer and any of the Reserve Fund Secured Creditors (such greater amount, the “**Reserve Fund Required Amount**”); provided that the Issuer shall not be considered to be in breach of its obligations under the Offshore Bank Account Agreement if, during the continuance of a Transferability and Convertibility Event, it is impossible for the Issuer to deposit moneys to the Reserve Fund as a result of such Transferability and Convertibility Event. If the balance in the Reserve Fund at any time exceeds the Reserve Fund Required Amount, then the excess amount in the Reserve Fund shall be transferred to the Issuer promptly after its request to the Offshore Account Bank.

Fees included in the calculation of the Reserve Fund Required Amount and not denominated in U.S. dollars shall be notionally converted into U.S. dollars using the Applicable Exchange Rate at the relevant date of calculation. The Reserve Fund may (without the consent of any other person) be debited by the Security Agent to meet the outstanding fees and reimbursable costs and expenses of (and all other amounts due and payable under and in respect of the Transaction Documents to) the Reserve Fund Secured Creditors upon the occurrence and during the continuance of a Reconciliation Event or an Event of Default, in each case where the Issuer has otherwise failed to pay such amounts.

In lieu of funds held in the Agency Account, the Issuer may also provide Authorised Investments (or instruct the Security Agent to use funds in the Agency Account for the purchase of Authorised Investments); however, separate custody arrangements in accordance with the Security Agent’s standard custody terms as well as security and instruction arrangements to the satisfaction of the Security Agent shall be required to be put in place to hold such securities. For the purpose of calculating whether the Agency Account holds the Reserve Fund Required Amount, any such securities shall be valued at the lower of: (a) the outstanding principal amount of such securities; and (b) if applicable, the market value as of close of business in the applicable market on the last applicable business day of the most recent calendar month. Upon the occurrence of a Reconciliation Event or Event of Default, such Authorised Investments shall be automatically liquidated by the Issuer (or the Security Agent on its behalf) and the proceeds thereof credited to the Agency Account.

Rights in, and cash amounts standing to the credit of, the Agency Account (and Authorised Investments with respect thereto) do not constitute part of the Cover Pool (for the purposes of the Statutory Tests or otherwise).

Each of the Offshore Account Bank, the Issuer, the Calculation Agent and the Security Agent has acknowledged and agreed that the Agency Account is an account of the Security Agent over which a trust has been declared by the Security Agent for the benefit of the Reserve Fund Secured Creditors.

Following the redemption in full of all Covered Bonds under the Programme and the satisfaction in full of the outstanding fees and reimbursable costs and expenses of (and all other amounts due and payable under and in respect of the Transaction Documents to) the Reserve Fund Secured Creditors, any remaining balance in the Reserve Fund shall be transferred to the Issuer promptly after its request to the Offshore Account Bank.

The Offshore Account Bank will notify the Issuer of its applicable ratings promptly after the end of each calendar month; *it being understood* that the Issuer is independently responsible for monitoring the Offshore Account Bank's ratings for purposes of determining whether the applicable rating of the Offshore Account Bank is no longer at least the Offshore Account Bank Required Rating (an "**Offshore Account Bank Event**"). In the event that an Offshore Account Bank Event occurs, the Issuer and the Security Agent will use their respective commercially reasonable endeavours to procure that the Offshore Bank Accounts are transferred to another financial institution that has the Offshore Account Bank Required Rating pursuant to an agreement with such institution in substantially the form of the Offshore Bank Account Agreement within a period not exceeding 30 calendar days from the date on which such Offshore Account Bank Event occurs, and the Offshore Account Bank will, at the request and cost of the Issuer, use its commercially reasonable endeavours to assist with the same; *provided*, that if such is not possible within such 30 calendar day period, then the Issuer and the Security Agent shall continue to use their respective commercially reasonable endeavours to effect such transfer.

"**Offshore Account Bank Required Rating**" means if the Relevant Rating Agency is: (a) Moody's, a "Baa1" long-term bank deposit rating (local); or (b) another rating agency, the rating applicable to the Offshore Account Bank so specified at the applicable time (without the consent of any of the Secured Creditors). Should there be more than one Relevant Rating Agency, then the Offshore Account Bank must satisfy each of the applicable above minimum rating requirements.

The Offshore Bank Account Agreement is governed by the laws of England and Wales.

### **Calculation Agency Agreement**

Pursuant to the terms of the calculation agency agreement entered into on the Programme Closing Date by the Issuer, the Security Agent and the Calculation Agent (the "**Calculation Agency Agreement**"), the Security Agent has appointed the Calculation Agent as its agent to make certain Reconciliations as required pursuant to the provisions of the Offshore Bank Account Agreement, including:

- (a) in relation to the Non-TL Designated Account(s) following the occurrence of a Reconciliation Event:
  - (i) reconciling amounts payable from the Non-TL Designated Account(s) to Secured Creditors; and
  - (ii) notifying the Issuer, the Security Agent and the Offshore Account Bank in the case of a Reconciliation Reporting Event;
- (b) in relation to the Hedge Collateral Account(s) following the occurrence of a Reconciliation Event:

- (i) reconciling the amounts to be transferred or delivered in respect of Hedge Collateral to or from the relevant Hedge Collateral Account in accordance with the relevant Hedging Agreement; and
  - (ii) notifying the Issuer, the Security Agent, the Offshore Account Bank and the relevant Hedging Counterparty in the case of a Reconciliation Reporting Event; and
- (c) in relation to the Non-TL Hedge Collection Account(s) following the occurrence of a Reconciliation Event:
  - (i) reconciling payments under each Hedging Agreement and the Covered Bonds, as applicable, to or from the relevant Non-TL Hedge Collection Account in accordance with the relevant Hedging Agreement and the applicable Final Terms, as applicable; *it being understood* that the transfer or delivery by a Hedging Counterparty of Hedge Collateral is not a payment under a Hedging Agreement; and
  - (ii) notifying the Issuer, the Security Agent, the Offshore Account Bank and the relevant Hedging Counterparty in the case of a Reconciliation Reporting Event,

provided that:

- (A) the Calculation Agent shall not be required to calculate (or check the computation of):
  - (1) any Settlement Amount (as defined in the ISDA Master Agreement), any Close-out Amount (as defined in the ISDA Master Agreement) or analogous payment;
  - (2) any Return Amount (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.);
  - (3) any Interest Amount (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.);
  - (4) any Delivery Amount (as defined in the 1995 English Law Credit Support Annex, the 1994 New York Law Credit Support Annex or the 1995 English Law Credit Support Deed, each as published by the International Swaps and Derivatives Association, Inc.);
  - (5) any substitution notice delivered pursuant to a credit support annex;
  - (6) any amounts in respect of default interest in respect of a Hedging Agreement; or
  - (7) any amounts analogous to any of the above;
- (B) the Calculation Agent shall not be obliged to perform a Reconciliation in respect of any payment, delivery or transfer, as applicable, unless such payment, delivery or transfer, as applicable, can be reconciled against an approved form provided by the relevant Secured Creditor (including the relevant Hedging Counterparty), the Issuer, an Agent or the Security Agent, as applicable.

Without prejudice to Clause 6.6 (*Request for Information*) of the Calculation Agency Agreement, the Issuer agrees to cooperate with requests from the Security Agent and the Calculation Agent to enable a Reconciliation to be performed by the Calculation Agent in a timely manner in respect of the relevant payment, transfer or delivery, as applicable; and

- (C) the Calculation Agent shall not be obliged to perform a Reconciliation in respect of any payment or withdrawal from the Agency Account.

Absent a Reconciliation Reporting Event, no further notice, consent or approval shall be required from the Calculation Agent in order for the relevant payment, transfer or delivery, as applicable, to be made.

The Calculation Agent shall at all times promptly perform its obligations at the request of the Security Agent.

The Issuer has agreed to pay the Calculation Agent a fee for carrying out such services and to reimburse the Calculation Agent for certain expenses.

The Calculation Agent may, without giving any reason, resign at any time by giving at least 45 days' written notice to the Issuer and the Security Agent and may be removed at any time by the Security Agent or the Issuer on at least 45 days' written notice to the Calculation Agent (copying the other parties to the Calculation Agency Agreement); provided that no such resignation or removal shall be effective unless a successor calculation agent has been appointed.

The Calculation Agency Agreement is governed by the laws of England and Wales.

### **Programme Agreement**

Under the terms of a Programme Agreement dated the Programme Closing Date between the Issuer and the Dealers, the Issuer and the Dealers have agreed that the Dealers shall be appointed as Dealers under the Programme and will purchase Covered Bonds from the Issuer pursuant to the terms of the Programme Agreement and the relevant Subscription Agreement (the form of which is set out in the Programme Agreement).

The Programme Agreement is governed by the laws of England and Wales.

### **Agency Agreement**

Under the terms of the Agency Agreement, the Agents have each agreed to provide the Issuer with certain agency services. In particular, each Paying Agent has agreed to hold available for inspection at its specified office during normal business hours copies of all documents required to be so available by the Conditions of any Covered Bonds or the rules of any stock exchange on which such Covered Bonds are, from time to time, or are intended to be, listed or admitted to trading (or any other relevant authority) (a "**relevant Stock Exchange**"). For these purposes, the Issuer shall provide the Paying Agents with sufficient copies of each of the relevant documents.

Pursuant to the provisions of the Agency Agreement, the Fiscal Agent and the Issuer may agree, without the consent of the Covered Bondholders or the Couponholders, to:

- (a) any modification to any of the provisions of the Conditions of any Series, the Deed of Covenant, the Agency Agreement or any other Transaction Document, which modification is: (i) made while no Covered Bonds are outstanding; or (ii) in the opinion of the Issuer, either: (A) of a formal, minor or technical nature or that is made for the purpose of curing or correcting any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained in the Conditions of any Series, the Deed of Covenant, the Agency



Agreement or any other Transaction Document; or (B) not materially prejudicial to the interests of the Covered Bondholders and/or the Hedging Counterparties (in each case, considered: (I) as a whole and not individually; *it being understood* that individual circumstances might differ; and (II) from a contractual perspective, without consideration of any regulatory or other unique circumstances that might apply to any one or more Covered Bondholders and/or Hedging Counterparties);

- (b) any modification to a Hedging Agreement that is requested by the Issuer or the relevant Hedging Counterparty in order to enable the Issuer and/or the relevant Hedging Counterparty to comply with any requirements that apply to it under the European Market Infrastructures Regulation (EU 648/2012) (“**EMIR**”), the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“**Dodd-Frank**”), Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU and relevant regulations made under it (as amended, “**MiFID II**”) or the applicable laws of Turkey (or other hedging-related applicable law in any jurisdiction to which the Issuer or the relevant Hedging Counterparty is subject), including any New EMIR Requirements, New Dodd-Frank Requirements, or New MiFID II Requirements or New Turkish Law Regulatory Requirements (or other hedging-related applicable law in any jurisdiction to which the Issuer or the relevant Hedging Counterparty is subject), as applicable, in relation to such Hedging Agreement, subject to the Issuer and/or the relevant Hedging Counterparty, as applicable, providing the Fiscal Agent and the Security Agent with written certification that the Issuer and/or the relevant Hedging Counterparty is only seeking to implement changes it considers appropriate to comply with EMIR, Dodd-Frank, MiFID II or the applicable law of Turkey (or other hedging-related applicable law in any jurisdiction to which the Issuer and/or the relevant Hedging Counterparty is subject), including or to meet the New EMIR Requirements, New Dodd-Frank Requirements, New MiFID II Requirements or New Turkish Law Regulatory Requirements, as applicable, together with any modification to any other Transaction Document(s) that may be necessary as a consequence of such modification to the relevant Hedging Agreement; provided that any modification or change to the payment instructions (i.e., the account to which payment is to be made by the Hedging Counterparty) contained in such Hedging Agreement shall require the consent of the Security Agent (as directed by the Covered Bondholder Representative) and *provided further* that the consent of the Security Agent (as directed by the Covered Bondholder Representative) shall not be required in respect of any modification or change to such payment instructions following the appointment of a successor or replacement Security Agent or Offshore Account Bank, including any delegation, transfer or assignment of the rights or obligations of the Security Agent and/or Offshore Account Bank, in each case in accordance with the provisions of the Transaction Documents (subject to the additional requirement that the account to which such payment instructions relate is at all times a trust account held for the benefit of the Secured Creditors);
- (c) amendments to any of the Transaction Documents (including a change in the definitions of Cover Pool, Cover Pool Asset, Individual Asset Eligibility Criteria, Substitute Asset Limit, Programme Overcollateralisation Percentage and Statutory Test (and their corresponding subsidiary definitions)) (to the extent not otherwise permitted by the Transaction Documents), including per paragraphs (a) and (b) above as a result of any amendment, restatement, modification or other change to the Turkish Covered Bonds Legislation; provided that: (i) the Issuer provides the Security Agent and the Fiscal Agent with written certification that the Issuer is only seeking to implement mandatory provisions of the Turkish Covered Bonds Legislation applicable to the Programme; and (ii) each Relevant Rating Agency has been notified

in writing in respect of such amendment not less than five London Business Days prior to the proposed amendment; and

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

Any such amendment or modification shall be binding on the Covered Bondholders, Couponholders and other Secured Creditors and, unless the Fiscal Agent agrees otherwise, any such modification shall be notified by the Issuer to the Covered Bondholders and Couponholders as soon as practicable thereafter in accordance with Condition 16 (*Notices*). Notwithstanding the above, such amendment and modification provisions do not apply to any Series Reserved Matter or Programme Reserved Matter.

Notwithstanding anything in the above to the contrary, any amendment or modification that may decrease the rights of any Agent or the Security Agent (in their respective individual capacities), as applicable, or may increase the obligations and/or liabilities of any Agent or the Security Agent, as applicable, including any amendment or modification to the definition of Reserve Fund Secured Creditor, shall require the consent of such Agent or the Security Agent, as applicable, which shall be in its sole discretion.

Any amendments, modifications or waivers in relation to the Conditions or the other Transaction Documents which are not covered by the above are, subject to the requirements for Programme Reserved Matters and Series Reserved Matters, required to be effected by Extraordinary Resolution (through substituting the phrases “not less than 75%” with “more than 50%” in the definition of Extraordinary Resolution) in respect of the Covered Bonds for the time being outstanding (or, if applicable, a Series of Covered Bonds) and (except for waivers of compliance by the Issuer) require the consent of the Issuer.

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

A “**Series Reserved Matter**” means, with respect to any Series:

- (a) modification of the Final Maturity Date or Extended Maturity Date of the relevant Series of Covered Bonds or reduction or cancellation of the Principal Amount Outstanding of such Series payable at maturity;
- (b) reduction or cancellation of the amount payable or modification of the payment date in respect of any interest in respect of the relevant Series of Covered Bonds or variation of the method of calculating the rate of interest in respect of the relevant Series of Covered Bonds;
- (c) reduction of any Minimum Rate of Interest and/or Maximum Rate of Interest specified in the applicable Final Terms;

- (d) modification of the currency in which payments under the relevant Series of Covered Bonds (and its related Coupons) are to be made;
- (e) modification of the Deed of Covenant;
- (f) modification of the majority required to pass an Extraordinary Resolution;
- (g) the sanctioning of any scheme or proposal for the exchange or sale of the Covered Bonds for, or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities as stated above and partly for or into or in consideration of cash; or
- (h) alteration of this definition or the proviso that sets out the quorum required at any adjourned meeting the business of which includes any Series Reserved Matter or Programme Reserved Matter.

A Series Reserved Matter is required to be passed by an Extraordinary Resolution of the relevant Series of Covered Bonds. For the purposes of a Series Reserved Matter, the quorum shall be one or more eligible person(s) present and holding or representing in the aggregate not less than two-thirds in Principal Amount Outstanding of the relevant Series of Covered Bonds for the time being outstanding.

An “**Extraordinary Resolution**” when used:

- (a) in respect of the Covered Bonds for the time being outstanding means: (i) a resolution passed at a meeting of the Covered Bondholders duly convened and held in accordance with the provisions of Schedule 3 (*Provisions for Meetings of Covered Bondholders*) of the Agency Agreement by a majority consisting of not less than 75% of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, by a majority consisting of not less than 75% of the votes given on the poll; (ii) a resolution in writing signed by or on behalf of the holders of not less than 75% in Principal Amount Outstanding of the Covered Bonds, which resolution in writing may be contained in one document or in several documents in similar form each signed by or on behalf of one or more of the Covered Bondholders; or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Fiscal Agent) by or on behalf of the holders of not less than 75% in Principal Amount Outstanding of the Covered Bonds for the time being outstanding; *it being understood* that the resolutions in writing and consents given pursuant to sub-paragraphs (ii) and (iii) above shall be combined in calculating the level of approval; and
- (b) in respect of a Series of Covered Bonds means: (i) a resolution passed at a meeting of the Covered Bondholders of the relevant Series duly convened and held in accordance with the provisions of Schedule 3 (*Provisions for Meetings of Covered Bondholders*) of the Agency Agreement by a majority consisting of not less than 75% of the persons voting on the resolution upon a show of hands or, if a poll was duly demanded, by a majority consisting of not less than 75% of the votes given on the poll; (ii) a resolution in writing signed by or on behalf of the holders of not less than 75% in Principal Amount Outstanding of the Covered Bonds of the relevant Series, which resolution in writing may be contained in one document or in several documents in similar form each signed by or on behalf of one or more of the Covered Bondholders of the relevant Series; or (iii) consent given by way of electronic

consents through the relevant clearing system(s) (in a form satisfactory to the Fiscal Agent) by or on behalf of the holders of not less than 75% in Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding; *it being understood* that the resolutions in writing and consents given pursuant to sub-paragraphs (ii) and (iii) above shall be combined in calculating the level of approval.

A “**Programme Reserved Matter**” means:

- (a) a modification that would have the effect of altering the majority required to pass a specific resolution or the quorum required at any Programme Meeting;
- (b) an amendment of this definition or the definition of Programme Meeting; and
- (c) a modification which would have the effect of altering the requirements to declare an Event of Default under Condition 12 (*Events of Default*) or the taking of enforcement action under Condition 12.2 (*Enforcement*) of the Covered Bonds.

A Programme Reserved Matter is required to be passed by a Programme Resolution.

A “**Programme Resolution**” means: (a) a resolution in writing signed by or on behalf of holders of a majority of the Principal Amount Outstanding of all Covered Bonds; (b) a resolution of a Programme Meeting duly convened and held in accordance with the provisions of Schedule 3 (*Provisions for Meetings of Covered Bondholders*) of the Agency Agreement that has been passed by a majority of votes cast at such Programme Meeting; or (c) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Fiscal Agent) by or on behalf of the holders of a majority of the Principal Amount Outstanding of all Covered Bonds; *it being understood* that the resolutions in writing and consents given pursuant to sub-paragraphs (a) and (c) above may be combined in calculating the level of approval.

A “**Programme Meeting**” means a meeting of all Covered Bondholders (whether originally convened or resumed following an adjournment) that has been convened to consider a Programme Reserved Matter.

The Agency Agreement is governed by the laws of England and Wales.

## **Deed of Covenant**

Under the terms of the Deed of Covenant, the Issuer covenants with accountholders holding interests in the Covered Bonds while in global form through a depositary for one or more Clearing Systems that such accountholders will acquire direct rights of enforcement against the Issuer if the relevant Global Covered Bond becomes void.

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

## **Hedging Agreements**

To provide a hedge against possible variances in the rates of interest payable on or currency risks associated with the Mortgage Assets/and or the Covered Bonds, the Issuer may enter into one or more interest rate hedge(s) with one or more interest rate hedge provider(s) and/or one or more currency hedge(s) with one or more currency hedge provider(s) under one or more interest rate hedge agreement(s) and/or currency swap agreement(s), respectively (collectively, the “**Hedging Agreements**”).

With respect to Tranches not denominated in Turkish Lira, the Issuer would likely enter into a currency swap. Each such currency swap would likely provide that: (a) on or about the Issue Date of the applicable Tranche of Covered Bonds, the Issuer would pay to the applicable Hedging Counterparty an amount equal to the relevant portion of the amount received by the Issuer in respect

of the aggregate Principal Amount Outstanding of such Tranche and in return the Hedging Counterparty would pay to the Issuer the Turkish Lira Equivalent of such amount; and (b) thereafter: (i) the Hedging Counterparty would pay to the applicable Non-TL Hedge Collection Account on each Interest Payment Date an amount equal to the relevant portion of the amounts that are payable by the Issuer in respect of interest and principal payable under such Tranche; and (ii) the Issuer would periodically pay to the applicable Hedging Counterparty an amount in Turkish Lira calculated by reference to the applicable floating rate or fixed rate, as applicable, specified in the relevant Hedging Agreement plus a spread and, where relevant, the Turkish Lira Equivalent of the relevant portion of any principal due to be repaid in respect of such Tranche.

A Hedging Agreement might, in the event that the Issuer does not pay the principal amount payable to the Covered Bondholders in respect of a Tranche on the applicable Final Maturity Date (or, with respect to Instalment Covered Bonds, on an applicable Interest Payment Date) of such Tranche and, where an Extended Maturity Date is applicable to such Tranche, on such Extended Maturity Date, provide for payments to be made to and by the Hedging Counterparty on a different basis and timing.

The terms of a Hedging Agreement might provide that, in the event that the relevant rating of the relevant Hedging Counterparty or any guarantor of such Hedging Counterparty's obligations is downgraded below a rating specified in such Hedging Agreement, such Hedging Counterparty will be required to take certain remedial measures, which might include (without limitation) providing Hedge Collateral for its obligations under such Hedging Agreement, arranging for its obligations under such Hedging Agreement to be transferred to an entity with sufficient ratings or procuring another entity with sufficient ratings to become co-obligor or guarantor in respect of its obligations under such Hedging Agreement. A failure to take such steps within the time periods set out in a Hedging Agreement would likely, subject to certain conditions, allow the Issuer to terminate such Hedging Agreement.

A Hedging Agreement might also provide that the applicable Hedging Counterparty might transfer all of its interest and obligations in and under such Hedging Agreement to a transferee that satisfies minimum ratings without any prior written consent of the Issuer or the Security Agent.

It is important to note that while a Hedging Agreement might be entered into in connection with the issuance of a new Tranche of Covered Bonds, payments by the corresponding Hedging Counterparty under such Hedging Agreement are not allocated solely to the Covered Bondholders of such Tranche but rather become part of the overall Cover Pool that is applied to make payments generally, including to pay the Issuer's obligations to the Covered Bondholders of all Tranches and the Hedging Counterparties.

### **Cover Monitor Agreement**

The Cover Monitor has agreed to be appointed by the Issuer in accordance with the Covered Bonds Communiqué to carry out any and all assessments, checks and notification duties specified in the cover monitor agreement dated 6 April 2016 between the Cover Monitor and the Issuer (the "**Cover Monitor Agreement**") (including those referenced in the form of the Cover Monitor Report set out in the appendices to the Cover Monitor Agreement), including in relation to the checks and calculations performed by the Issuer on the Cover Pool in relation to the Individual Asset Eligibility Criteria and the Statutory Tests subject to and in accordance with the Covered Bonds Communiqué and the terms of the Cover Monitor Agreement.

The Issuer shall, among other things:

- (a) keep the Cover Register pursuant to the Covered Bonds Communiqué, keep such Cover Register up-to-date and make such Cover Register available to the Cover Monitor on demand during normal business hours;

- (b) monitor compliance with the Statutory Tests at every change to the Cover Register (meaning removal of a Cover Pool Asset or addition to the Cover Pool Assets) and, in any case, at least once per calendar month;
- (c) to the extent not contrary to applicable law (including with respect to customer data protection), submit the information and documents that are required by the Cover Monitor in accordance with the Covered Bonds Communiqué and provide such information as is in the Issuer's knowledge and/or possession that the Cover Monitor reasonably requests in respect of the Cover Pool;
- (d) demonstrate to the Cover Monitor upon detection of a Potential Breach of Statutory Test or an Issuer Event that all collections of interest and principal on the Cover Pool Assets flagged as General Account Cover Pool Collections ("**General Account Cover Pool Collections**") (being all collections of interest and principal and any other amounts the Issuer receives on the Cover Pool Assets denominated in Turkish Lira which are required to be deposited to the credit of the Collection Account pursuant to the Transaction Documents) or on deposit in the Collection Account have been transferred to the TL Designated Account; and
- (e) demonstrate to the Cover Monitor, within one month of its detection of a Potential Breach of Statutory Test or an Issuer Event, that (until the Issuer has cured all Potential Breach of Statutory Tests and Issuer Events): (i) any and all present and future payments due under the Cover Pool Assets are being accumulated in the applicable Designated Account (whether by an obligor thereof paying the sums due directly to the applicable Designated Account, by the Issuer's redirecting amounts that it receives from an obligor (including by way of set-off from an account such obligor maintains with the Issuer) or otherwise); and (ii) all such amounts will be dedicated exclusively to the payment of the Total Liabilities, which have become due and payable, unless otherwise agreed with the CMB.

The Cover Monitor Agreement confirms that the Issuer shall be entitled, in accordance with the Covered Bonds Communiqué and subject to making any Security Update Registrations, to reduce the Cover Pool by removing one or more Cover Pool Asset(s); provided that: (a) any Cover Pool Asset Substitution must comply with the Individual Asset Eligibility Criteria; (b) any asset removals or Cover Pool Asset Substitution must not cause the Substitute Assets in the Cover Pool to exceed the Substitute Asset Limit; (c) neither any Potential Breach of Statutory Test nor any Issuer Event of the type described in any of paragraphs (a) to (f) of the definition thereof would occur as a result of such removal or Cover Pool Asset Substitution; and (d) any collections in respect of any such removed Cover Pool Assets will no longer be flagged as General Account Cover Pool Collections.

At the discretion of the CMB, all removals of Cover Pool Assets from the Cover Pool and all deletions of entries from the Cover Register may require the consent of the Cover Monitor.

The Issuer shall notify the Cover Monitor of the occurrence of any Potential Breach of Statutory Test or Issuer Event of the type described in any of paragraphs (a) to (f) of the definition thereof promptly after its detection of such occurrence indicating whether any such event(s) included a failure to fulfil its payment obligations under the Total Liabilities either partially or fully.

Subject to the terms of the Cover Monitor Agreement, the Cover Monitor shall, among other things: (a) verify that the Cover Register has been created and is maintained and preserved in accordance with the provisions of the Covered Bonds Communiqué; (b) analyse and confirm whether the Cover Pool Assets meet the Individual Asset Eligibility Criteria based on a sampling basis; (c) in the event that the Cover Register is kept in electronic form, inspect that the necessary cross checks, automations and authorisations have been set up; (d) reconcile the entries in the Cover Register with any additions of Cover Pool Assets made by the Issuer to the Cover Pool and review the related credit documents and other information and documents that it deems necessary; and (e) analyse and verify

whether the Statutory Tests set forth in the Covered Bonds Communiqué are satisfied (including whether the Stress Test measurements are accurate) as of the relevant Cover Monitor Calculation Date.

Other than in relation to the checking by the Cover Monitor of the arithmetic or other accuracy of the checks and calculations performed by the Issuer in accordance with the provisions of the Cover Monitor Agreement, the Cover Monitor is entitled to assume that all information provided to it by the Issuer pursuant to the Cover Monitor Agreement is true and correct and is not misleading, and the Cover Monitor is not required to conduct an audit or other similar examination in respect of or otherwise take steps to verify the accuracy or non-misleading nature of such information. On completion of its calculations and procedures in respect of a Cover Monitor Calculation Date, the Cover Monitor will deliver a cover monitor report, in the form set out in the Cover Monitor Agreement (the “**Cover Monitor Report**”), to the CMB, the Issuer, the Security Agent, the Dealers, the Arrangers and the Relevant Rating Agencies and to the potential investors of the Covered Bonds that are notified by the Issuer to the Cover Monitor.

The Issuer shall pay to the Cover Monitor a fee for its services in the amount and at the times set out in a separate fee letter between the Issuer and the Cover Monitor.

The Cover Monitor may, at any time, subject to the reasons of such resignation being submitted to the CMB in writing and its approval being obtained, resign from its appointment under the Cover Monitor Agreement upon providing the Issuer with 30 Istanbul Business Days’ prior written notice and in any event, prior to the Cover Monitor’s application to the CMB in that respect (the Issuer shall provide a copy of such notice to the Relevant Rating Agencies and to the Security Agent); provided that such termination may not be effected unless and until a replacement has been found for the Cover Monitor by the Issuer, which replacement agrees to perform the duties (or substantially similar duties) of the Cover Monitor set out in the Cover Monitor Agreement, and the agreement appointing such replacement (“**Replacement Cover Monitor Agreement**”) is approved by the CMB.

The Issuer may, at any time, terminate the appointment of the Cover Monitor under the Cover Monitor Agreement upon providing the Cover Monitor with prior written notice; provided that such termination may not be effected: (a) unless the reasons of such termination are submitted to the CMB in writing and its approval is obtained; and (b) until a replacement has been found by the Issuer, which replacement (in a Replacement Cover Monitor Agreement that is approved by the CMB) agrees to perform the duties (or substantially similar duties) of the Cover Monitor set out in the Cover Monitor Agreement.

The Cover Monitor Agreement is governed by Turkish law.

## **USE OF PROCEEDS**

The Bank will incur various expenses in connection with the issuance of each Tranche of the Covered Bonds, including (as applicable) underwriting fees, legal counsel fees, rating agency expenses and listing expenses. The net proceeds from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes.



## SELECTED FINANCIAL INFORMATION

The following tables set forth, for the periods indicated, selected consolidated financial information of the Bank and its subsidiaries derived from the Annual BRSA Financial Statements as of and for the years ended 31 December 2018, 31 December 2017 and 31 December 2016, respectively, and Interim BRSA Financial Statements as of and for the nine-month period ended 30 September 2019 (with 30 September 2018 comparatives) incorporated by reference in this Base Prospectus.

Prospective investors should read the following information in conjunction with “*Presentation of Financial and Other Information*”, the Annual BRSA Financial Statements as of and for the years ended 31 December 2018, 31 December 2017 and 31 December 2016, respectively, and the Interim BRSA Financial Statements as of and for the nine-month period ended 30 September 2019 (with 30 September 2018 comparatives).

## Balance Sheet Data

	As of 30 September 2019		As of 31 December 2018	
	(U.S.\$, thousands) <sup>(1)</sup>	(TL, thousands)	(U.S.\$, thousands) <sup>(2)</sup>	(TL, thousands)
<b>Assets</b>				
<b>FINANCIAL ASSETS (Net)</b> .....	<b>19,274,564</b>	<b>109,076,683</b>	<b>18,685,311</b>	<b>98,301,554</b>
<b>Cash and cash equivalents</b> .....	<b>13,558,526</b>	<b>76,729,057</b>	<b>11,804,394</b>	<b>62,101,734</b>
Cash and balances at Central Bank .....	8,285,667	46,889,416	10,802,583	56,831,308
Banks .....	4,873,528	27,579,781	1,001,661	5,269,640
Receivables from Money Markets .....	427,419	2,418,805	22,283	117,231
Provisions for Expected Losses (-) .....	28,087	158,945	22,134	116,445
<b>Financial assets at fair value through profit or loss</b> .....	<b>115,493</b>	<b>653,587</b>	<b>47,170</b>	<b>248,156</b>
Government debt securities .....	37,582	212,680	12,991	68,342
Equity instruments .....	76,646	433,746	33,675	177,162
Other financial assets .....	1,265	7,161	504	2,652
<b>Financial assets at fair value through other comprehensive income</b> .....	<b>4,682,864</b>	<b>26,500,797</b>	<b>5,110,091</b>	<b>26,883,680</b>
Government debt securities .....	4,311,328	24,398,235	4,744,099	24,958,228
Equity instruments .....	14,162	80,144	12,696	66,794
Other financial assets .....	357,374	2,022,418	353,297	1,858,658
<b>Derivative financial assets</b> .....	<b>917,680</b>	<b>5,193,242</b>	<b>1,723,656</b>	<b>9,067,984</b>
Derivative financial assets at fair value through profit or loss .....	811,566	4,592,735	1,121,272	5,898,898
Derivative financial assets at fair value through other comprehensive income .....	106,114	600,507	602,385	3,169,086
<b>FINANCIAL ASSETS MEASURED AT AMORTISED COST (Net)</b> .....	<b>46,512,345</b>	<b>263,218,013</b>	<b>48,989,845</b>	<b>257,730,674</b>
<b>Loans</b> .....	<b>42,145,432</b>	<b>238,505,213</b>	<b>44,314,660</b>	<b>233,134,994</b>
<b>Receivables From Leasing Transactions (Net)</b> .....	<b>1,917,801</b>	<b>10,853,028</b>	<b>2,428,380</b>	<b>12,775,463</b>
<b>Factoring Receivables</b> .....	<b>543,897</b>	<b>3,077,966</b>	<b>682,215</b>	<b>3,589,067</b>
<b>Financial assets measured at amortised cost</b> .....	<b>4,811,974</b>	<b>27,231,440</b>	<b>4,334,939</b>	<b>22,805,679</b>
Government debt securities .....	4,625,344	26,175,283	4,190,281	22,044,650
Other financial assets .....	186,630	1,056,157	144,658	761,029
Provisions for Expected Losses (-) .....	2,906,758	16,449,634	2,770,349	14,574,529
<b>ASSETS HELD FOR RESALE AND RELATED TO DISCONTINUED OPERATIONS (Net)</b> .....	<b>61,095</b>	<b>345,741</b>	<b>56,734</b>	<b>298,470</b>
Held for sale Purposes .....	61,095	345,741	56,734	298,470
Related to Discontinued Operations .....	—	—	—	—
<b>INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES</b> .....	<b>204,933</b>	<b>1,159,736</b>	<b>205,560</b>	<b>1,081,433</b>
<b>Investments in associates (Net)</b> .....	<b>199,918</b>	<b>1,131,356</b>	<b>200,150</b>	<b>1,052,968</b>
Consolidated based on Equity Method .....	198,840	1,125,255	198,990	1,046,867
Unconsolidated .....	1,078	6,101	1,160	6,101
<b>Subsidiaries (Net)</b> .....	<b>1,290</b>	<b>7,300</b>	<b>1,388</b>	<b>7,300</b>
Unconsolidated Financial Subsidiaries .....	—	—	—	—
Unconsolidated Non-Financial Subsidiaries .....	1,290	7,300	1,388	7,300
<b>Joint Ventures (Net)</b> .....	<b>3,725</b>	<b>21,080</b>	<b>4,023</b>	<b>21,165</b>
Consolidated based on Equity Method .....	3,725	21,080	4,023	21,165
Unconsolidated .....	—	—	—	—
<b>PROPERTY AND EQUIPMENT (Net)</b> .....	<b>766,702</b>	<b>4,338,843</b>	<b>629,583</b>	<b>3,312,175</b>
<b>INTANGIBLE ASSETS (Net)</b> .....	<b>332,047</b>	<b>1,879,086</b>	<b>345,399</b>	<b>1,817,112</b>
Goodwill .....	173,083	979,493	186,184	979,493
Other .....	158,964	899,593	159,216	837,619
<b>INVESTMENT PROPERTY (Net)</b> .....	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>CURRENT TAX ASSETS</b> .....	<b>1,814</b>	<b>10,265</b>	<b>1,807</b>	<b>9,504</b>
<b>DEFERRED TAX ASSETS</b> .....	<b>356,241</b>	<b>2,016,002</b>	<b>135,507</b>	<b>712,891</b>
<b>OTHER ASSETS</b> .....	<b>2,618,034</b>	<b>14,815,715</b>	<b>1,922,188</b>	<b>10,112,441</b>
<b>TOTAL ASSETS</b> .....	<b>70,127,774</b>	<b>396,860,084</b>	<b>70,971,935</b>	<b>373,376,254</b>

### Notes:

- (1) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL 5.6591 = U.S.\$1.00, which corresponds with the Bank's Published Exchange Rate on 30 September 2019. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to BRSA. The average and period end exchange rates for the nine months ended 30 September 2019, based on the Bank's Published Exchange Rates and the rates published by the Central Bank, are set out in "Exchange Rates".
- (2) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL 5.2609 = U.S.\$1.00, which corresponds with the Bank's Published Exchange Rate on 31 December 2018. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to BRSA. The average and period end exchange rates for the year ended 31 December 2018, based on the Bank's Published Exchange Rates and the rates published by the Central Bank, are set out in "Exchange Rates".

	As of 30 September 2019		As of 31 December 2018	
	(U.S.\$, thousands) <sup>(1)</sup>	(TL, thousands)	(U.S.\$, thousands) <sup>(2)</sup>	(TL, thousands)
<b>Liabilities</b>				
<b>DEPOSITS</b>	<b>38,608,285</b>	<b>218,488,148</b>	<b>39,972,528</b>	<b>210,291,473</b>
<b>BORROWINGS</b>	<b>7,844,443</b>	<b>44,392,488</b>	<b>8,947,519</b>	<b>47,072,002</b>
<b>MONEY MARKETS</b>	<b>753,088</b>	<b>4,261,798</b>	<b>669,128</b>	<b>3,520,213</b>
<b>MARKETABLE SECURITIES ISSUED (Net)</b>	<b>4,669,963</b>	<b>26,427,785</b>	<b>4,075,767</b>	<b>21,442,203</b>
Bills	667,128	3,775,342	261,077	1,373,498
Asset backed Securities	652,027	3,689,885	729,098	3,835,712
Bonds	3,350,808	18,962,558	3,085,592	16,232,993
<b>FUNDS</b>	—	—	—	—
Borrower Funds	—	—	—	—
Other	—	—	—	—
<b>FINANCIAL LIABILITIES FAIR VALUE THROUGH PROFIT AND LOSS</b>	<b>2,076,165</b>	<b>11,749,226</b>	<b>1,514,076</b>	<b>7,965,404</b>
<b>DERIVATIVE FINANCIAL LIABILITIES</b>	<b>1,450,409</b>	<b>8,208,011</b>	<b>1,385,267</b>	<b>7,287,749</b>
Derivative Liabilities at Fair Value Through Profit and Loss	945,275	5,349,406	1,269,050	6,676,343
Derivative Liabilities at Fair Value Through Other Comprehensive Profit	505,134	2,858,605	116,217	611,406
<b>FACTORING PAYABLES</b>	—	—	—	—
<b>LEASE PAYABLES (Net)</b>	<b>162,306</b>	<b>918,508</b>	—	—
<b>PROVISIONS</b>	<b>643,652</b>	<b>3,642,493</b>	<b>657,527</b>	<b>3,459,185</b>
Provisions for Restructuring	—	—	—	—
Provisions for Employee Rights	126,025	713,186	129,687	682,268
Insurance Technical Provisions (Net)	—	—	—	—
Other Provisions	517,628	2,929,307	527,841	2,776,917
<b>CURRENT TAX LIABILITIES</b>	<b>205,191</b>	<b>1,161,197</b>	<b>213,354</b>	<b>1,122,432</b>
<b>DEFERRED TAX LIABILITIES</b>	<b>4,750</b>	<b>26,881</b>	<b>2,027</b>	<b>10,666</b>
<b>LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)</b>	—	—	—	—
Held for Sale	—	—	—	—
Related to Discontinued Operations	—	—	—	—
<b>SUBORDINATED DEBT</b>	<b>3,094,763</b>	<b>17,513,575</b>	<b>2,576,965</b>	<b>13,557,153</b>
Loans	858,994	4,861,134	1,059,652	5,574,724
Other Facilities	2,235,769	12,652,441	1,517,312	7,982,429
<b>OTHER LIABILITIES</b>	<b>3,509,218</b>	<b>19,859,015</b>	<b>3,543,214</b>	<b>18,640,496</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>7,105,540</b>	<b>40,210,959</b>	<b>7,414,564</b>	<b>39,007,278</b>
Paid in Capital	1,492,649	8,447,051	1,605,629	8,447,051
Capital Reserves	351,342	1,988,277	377,341	1,985,153
Share premium	98,414	556,937	105,863	556,937
Share Cancellation Profits	—	—	—	—
Other Capital Reserves	252,927	1,431,340	271,478	1,428,216
Other accumulated comprehensive income that will not be reclassified in profit or loss	295,307	1,671,174	317,251	1,669,027
Other accumulated comprehensive income that will be reclassified in profit or loss	(235,912)	(1,335,051)	152,629	802,965
Profit Reserves	4,322,623	24,462,155	3,762,681	19,795,091
Legal Reserves	194,869	1,102,781	165,259	869,410
Statutory reserves	—	—	—	—
Extraordinary Reserves	4,126,437	23,351,922	3,595,937	18,917,867
Other Profit Reserves	1,317	7,452	1,485	7,814
Profit or loss	879,414	4,976,694	1,198,917	6,307,380
Prior years' profits or losses	289,791	1,639,954	311,725	1,639,954
Current period net profit or loss	589,624	3,336,740	887,192	4,667,426
Minority interest	116	659	116	611
<b>TOTAL LIABILITIES</b>	<b>70,127,774</b>	<b>396,860,084</b>	<b>70,971,935</b>	<b>373,376,254</b>

Notes:

- (1) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL 5.6591= U.S.\$1.00, which corresponds with the Bank's Published Exchange Rate on 30 September 2019. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to BRSA. The average and period end exchange rates for the nine months ended 30 September 2019, based on the Bank's Published Exchange Rates and the rates published by the Central Bank, are set out in "Exchange Rates".
- (2) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL 5.2609 = U.S.\$1.00, which corresponds with the Bank's Published Exchange Rate on 31 December 2018. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to BRSA. The average and period end exchange rates for the year ended 31 December 2018, based on the Bank's Published Exchange Rates and the rates published by the Central Bank, are set out in "Exchange Rates".

The format of the Group's balance sheets changed starting in 2019 in accordance with the "Communiqué amending the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks" published in the Official Gazette dated 1 February 2019 with No. 30673. Its 2018 financials have been updated in accordance with these formatting changes. The 2016 and 2017 balance sheet data below is provided for historical purposes, but care should be exercised in comparing the data below with the 2018 and 2019 balance sheet data above. In addition, the 2019 financials above reflect the application of IFRS16. See the section entitled "*Explanations on basis of presentation*" in the Annual BRSA Financial Statements as of and for the year ended 31 December 2018 and the Interim BRSA Financial Statements as of and for the nine-month period ended 30 September 2019 for additional details.

	As of 31 December	
	2017	2016
	(TL, thousands)	
<b>Assets</b>		
Cash and balances with Central Bank.....	42,451,970	33,083,295
Financial assets at fair value through profit or (loss) (net) .....	4,230,080	3,040,830
Deposits with banks .....	4,837,212	3,448,966
Money markets.....	817,005	252
Financial assets available for sale (net) .....	24,496,524	18,386,109
Loans and receivables .....	201,998,787	178,664,422
Factoring receivables .....	3,843,167	2,894,279
Held to maturity investments (net) .....	14,197,066	11,588,890
Investment in associates (net) .....	776,528	669,117
Subsidiaries (net) .....	7,300	7,300
Joint ventures (net).....	18,386	18,114
Lease receivables .....	10,311,724	8,304,486
Derivative financial assets held for hedging .....	1,756,611	1,209,712
Property and equipment (net).....	2,611,849	2,713,047
Intangible assets (net) .....	1,682,226	1,566,864
Investment property (net).....	—	—
Tax asset.....	68,080	179,391
Assets held for resale and related to discontinued operations .....	209,854	166,183
Other assets .....	5,751,749	5,193,333
<b>Total assets.....</b>	<b>320,066,118</b>	<b>271,134,590</b>
<b>Liabilities</b>		
Deposits.....	173,383,633	157,088,195
Derivative financial liabilities held for trading <sup>(2)</sup> .....	3,820,705	2,578,679
Funds borrowed .....	42,350,053	30,508,774
Money markets.....	16,056,140	9,205,029
Marketable securities issued (net).....	23,277,871	18,080,467
Miscellaneous payables .....	12,754,229	11,162,787
Other liabilities.....	1,941,826	1,956,404
Factoring payables .....	—	—
Lease payables (net).....	—	—
Derivative financial liabilities held for hedging .....	312,778	89,296
Provisions.....	5,482,503	4,694,072
Tax liability.....	865,750	581,841
Liabilities for property and equipment held for sale and related to discontinued operations (net).....	—	—
Subordinated loans.....	9,718,804	9,067,893
<b>Total Liabilities .....</b>	<b>289,964,292</b>	<b>245,013,437</b>
Paid in capital.....	4,347,051	4,347,051
Capital reserves .....	2,803,181	2,661,627
Profit reserves .....	17,697,018	14,539,224
Income or (loss) .....	5,254,035	4,572,749
Minority interest.....	541	502
<b>Total Shareholders' equity.....</b>	<b>30,101,826</b>	<b>26,121,153</b>
<b>Total liabilities and shareholders' equity .....</b>	<b>320,066,118</b>	<b>271,134,590</b>

## Income Statement Data

	For the nine months ended 30 September 2019	
	(U.S.\$, thousands) <sup>(1)</sup>	(TL, thousands)
<b>Income Statement Data:</b>		
Interest income .....	5,219,827	29,407,653
Interest expense .....	(3,160,013)	(17,802,996)
<b>Net interest income.....</b>	<b>2,059,814</b>	<b>11,604,657</b>
Fees and commissions received .....	953,442	5,371,535
Fees and commissions paid .....	(253,712)	(1,429,370)
<b>Net fees and commissions income .....</b>	<b>699,730</b>	<b>3,942,165</b>
Dividend income .....	2,812	15,840
Trading profit/(loss) (net) .....	(211,573)	(1,191,966)
Other operating income .....	178,331	1,004,690
Provision for impairment of loans and other receivables .....	(1,068,777)	(6,021,315)
Other operating expenses <sup>(2)</sup> .....	(938,042)	(5,284,773)
<b>Net operating profit/loss .....</b>	<b>722,296</b>	<b>4,069,298</b>
Profit/Loss from equity method applied subsidiaries .....	12,107	68,211
Tax provisions for continuing operations (+/-) .....	(142,118)	(800,671)
<b>Net profit/loss from continuing operations .....</b>	<b>592,285</b>	<b>3,336,838</b>
<b>Net profit/loss from discontinued operations.....</b>	<b>—</b>	<b>—</b>

### Notes:

- (1) For the convenience of the reader, these figures have been translated into U.S. dollars at the average rate of TL 5.6338 = U.S.\$1.00, which corresponds with average of the Bank's Published Exchange Rate for the nine months ended 30 September 2019. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to the requirements of BRSA.
- (2) Includes personnel costs.

	For the nine months ended 30 September 2019		For the year ended 31 December		
	(U.S.\$, thousands) <sup>(1)</sup>	(TL, thousands)	2018	2017	2016
			(TL, thousands)		
<b>Income Statement Data:</b>					
Interest income .....	5,219,827	29,407,653	35,508,387	22,985,702	19,109,871
Interest expense .....	(3,160,013)	(17,802,996)	(21,011,923)	(13,250,685)	(10,889,187)
<b>Net interest income .....</b>	<b>2,059,814</b>	<b>11,604,657</b>	<b>14,496,464</b>	<b>9,735,017</b>	<b>8,220,684</b>
Fees and commissions received .....	953,442	5,371,535	5,630,813	4,250,423	3,732,653
Fees and commissions paid .....	(253,712)	(1,429,370)	(1,394,469)	(935,114)	(759,769)
<b>Net fees and commissions income .....</b>	<b>699,730</b>	<b>3,942,165</b>	<b>4,236,344</b>	<b>3,315,309</b>	<b>2,972,884</b>
Dividend income .....	2,812	15,840	14,567	10,726	6,173
Trading gain/(loss) (net) .....	(211,573)	(1,191,966)	(81,168)	(512,878)	187,323
Other operating income .....	178,331	1,004,690	1,255,118	1,143,615	550,841
Provision for impairment of loans and other receivables .....	(1,068,777)	(6,021,315)	(7,304,266)	(3,358,109)	(2,955,042)
Other operating expenses .....	(938,042)	(5,284,773)	(6,684,981)	(5,819,966)	(5,315,318)
<b>Net operating income/loss .....</b>	<b>722,296</b>	<b>4,069,298</b>	<b>5,932,078</b>	<b>4,513,714</b>	<b>3,667,545</b>
Profit/Loss from equity method applied subsidiaries .....	12,107	68,211	115,817	87,612	85,361
Tax provisions for continuing operations (+/-) .....	(142,118)	(800,671)	(1,380,357)	(987,168)	(820,046)
<b>Net profit/loss from continuing operations .....</b>	<b>592,285</b>	<b>3,336,838</b>	<b>4,667,538</b>	<b>3,614,158</b>	<b>2,932,860</b>
<b>Net profit/loss from discontinued operations .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

### Notes:

- (1) For the convenience of the reader, these figures have been translated into U.S. dollars at the average rate of TL 5.6338 = U.S.\$1.00, which corresponds with average of the Bank's Published Exchange Rate for the nine months ended 30 September 2019. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to the requirements of BRSA.

## Key Ratios

The following table provides certain of the Group's key ratios as of and for the nine months ended 30 September 2019, and as of and for the years ended 31 December 2018, 2017 and 2016. The basis for calculation of ratios that are non-GAAP financial measures is set out in the notes below. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with BRSA Principles. See "*Presentation Of Financial And Other Information—Non-GAAP Measures of Financial Performance*".

	As of and for the nine months ended 30 September 2019	As of and for the year ended 31 December		
		2018	2017	2016
		(%)		
Return on average shareholders' equity excluding minority interest <sup>(1)</sup> .....	11.8	14.2	13.6	12.7
Net interest margin <sup>(2)</sup> .....	4.4	4.5	3.5	3.4
Capital adequacy ratio.....	16.7	14.8	13.4	13.2
Cost to income <sup>(3)</sup> .....	34.2	33.4	42.2	44.2
Free capital ratio <sup>(4)</sup> .....	4.0	5.3	6.6	7.8
Non-performing loans to total cash loans <sup>(5)</sup> .....	6.7	5.3	4.3	4.8
Cost to average total assets <sup>(6)</sup> .....	1.8	1.9	2.0	2.1

### Notes:

- (1) Annualised return on average shareholders' equity excluding minority interest, calculated based on the average of shareholders' equity (less intangible assets) at the end of the current period and shareholders' equity (less intangible assets) at the end of the previous period.
- (2) Net interest income divided by average interest earning assets (based on Bank-only).
- (3) Represents non-interest expenses divided by total operating income before provisions and non-interest expense.
- (4) Total shareholders' equity excluding investment in associates, property and equipment, intangible assets, tax assets, deferred income tax assets, other assets, (NPLs-provisions) divided by total assets.
- (5) Total non-performing loans divided by total cash loans.
- (6) Operating costs divided by the average of assets at the end of the current period and assets at the end of the previous period.

## EXCHANGE RATES

The following table sets forth, for the periods indicated, information concerning the period average and period end buying rates for U.S. dollars for the periods indicated. The rates set forth below are provided solely for convenience and were not used by the Group in the preparation of the Group's consolidated financial statements incorporated by reference in this Base Prospectus. No representation is made that Turkish Lira could have been, or could be, converted into U.S. dollars at that rate or at any other rate.

<b>Period Average<sup>(1)</sup></b>	<b>TL per U.S.\$</b>	<b>Period End<sup>(2)</sup></b>	<b>TL per U.S.\$</b>
December 2019 (to 18 December 2019) .....	5.7706	18 December 2019 .....	5.8558
November 2019 .....	5.6559	30 November 2019 .....	5.7403
October 2019 .....	5.7786	31 October 2019 .....	5.7363
For the nine months ended 30 September 2019 .....	5.6197		
September 2019 .....	5.7066	30 September 2019 .....	5.6591
August 2019 .....	5.6138	31 August 2019 .....	5.8140
July 2019 .....	5.6722	31 July 2019 .....	5.5709
June 2019 .....	5.8119	30 June 2019 .....	5.7551
May 2019 .....	6.0494	31 May 2019 .....	5.9235
April 2019 .....	5.7358	30 April 2019 .....	5.9282
March 2019 .....	5.4419	31 March 2019 .....	5.6284
February 2019 .....	5.2621	28 February 2019 .....	5.2905
January 2019 .....	5.3694	31 January 2019 .....	5.2781
2018 .....	4.8301	31 December 2018 .....	5.2609
2017 .....	3.6445	31 December 2017 .....	3.7719
2016 .....	3.0180	31 December 2016 .....	3.5192
2015 .....	2.7191	31 December 2015 .....	2.9076
2014 .....	2.1872	31 December 2014 .....	2.3189
2013 .....	1.8931	31 December 2013 .....	2.1343
2012 .....	1.7474	31 December 2012 .....	1.7380
2011 .....	1.6700	31 December 2011 .....	1.8889
2010 .....	1.5004	31 December 2010 .....	1.5376
2009 .....	1.5471	31 December 2009 .....	1.4873
2008 .....	1.2929	31 December 2008 .....	1.5218
2007 .....	1.3015	31 December 2007 .....	1.1593
2006 .....	1.4311	31 December 2006 .....	1.4056

Source: Central Bank of Turkey

- (1) For the periods between 2000 and 2008: Represents the arithmetic average of the month end closing rates of the TL/U.S.\$ exchange rates.  
For the periods after 2008: Represents the arithmetic average of the monthly averages, where monthly averages were calculated by taking the daily average of the TL/U.S.\$ exchange rates.  
Amounts in Turkish Lira with respect to periods before 2005 have been translated into New Turkish Lira at an exchange rate of TL 1Million = TL 1.00.
- (2) Represents the TL/U.S.\$ exchange rates for the purchase of U.S. dollars determined by the Central Bank on the previous working day. Amounts in Turkish Lira with respect to periods before 2005 have been translated into New Turkish Lira at an exchange rate of TL Million = TL 1.00.

## CAPITALISATION OF THE BANK

The following table sets forth the consolidated capitalisation of the Group as of 30 September 2019. The information in this table has been extracted from the Group's Interim BRSA Financial Statements as of and for the nine-month period ended 30 September 2019 without material adjustment. This table should be read in conjunction with "Use of Proceeds" and the Interim BRSA Financial Statements as of and for the nine-month period ended 30 September 2019 (with 30 September 2018 comparatives) incorporated by reference in this Base Prospectus.

	<b>As of 30 September 2019</b>	
	<i>(U.S.\$, thousands)<sup>(1)</sup></i>	<i>(TL, thousands)</i>
<b>Indebtedness</b>		
Subordinated debts borrowings .....	3,094,763	17,513,575
Debt securities in issue .....	4,669,963	26,427,785
Other borrowings .....	8,597,531	48,654,286
<b>Total Indebtedness</b>	<b>16,362,257</b>	<b>92,595,646</b>
<b>Equity</b>		
Paid in capital and share premium .....	1,591,064	9,003,988
Other reserves .....	5,224,569	29,566,358
Retained earnings .....	289,791	1,639,954
<b>Equity attributable to equity holders of the Parent</b> .....	<b>7,105,423</b>	<b>40,210,300</b>
Minority interests .....	116	659
<b>Shareholders' equity</b> .....	<b>7,105,540</b>	<b>40,210,959</b>
<b>Total capitalisation</b> .....	<b>23,467,796</b>	<b>132,806,605</b>

Note:

- (1) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL 5.6591 = U.S.\$1.00, which corresponds with the Bank's Published Exchange Rate on 30 September 2019. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to the requirements of the BRSA. The average and period end exchange rates for the nine month period ended 30 September 2019, based on the Bank's Published Exchange Rates and the rates published by the Central Bank, are set out in "Exchange Rates".

There has been no material change in the Bank's capitalisation since 30 September 2019.



## BUSINESS OF THE BANK

### Overview

Yapı ve Kredi Bankası A.Ş. is a full service bank with its headquarters in Istanbul, Turkey. It was established on 7 July 1944 and is incorporated with limited liability under the Turkish Commercial Code, the Banking Law and the Capital Markets Law for a period of 100 years.

According to BRSA statistics, as of 30 September 2019, the Bank was the third largest private bank in Turkey by total assets and ranked third among private banks in total cash loans (loans other than letters of guarantee, letters of credit and acceptances) with a 16.9% market share among private banks and an 8.8% market share in the overall banking sector (compared with a market share of 9.2% as of 31 December 2018, 9.5% as of 31 December 2017 and 10.2% as of 31 December 2016), and third among private banks in total deposits with a 9.2% market share (compared with a market share of 10.0% as of 31 December 2018, 10.0% as of 31 December 2017 and 10.6% as of 31 December 2016). As of 30 September 2019, the Bank had 854 branches covering all regions of Turkey (including one branch in Bahrain). It maintains market leading positions in key segments and products supported by its strong franchise, large network and leading brand. The Group is organised into three segments: (i) retail banking; (ii) corporate and commercial banking; and (iii) private banking and wealth management. The Bank's service model is supported by its domestic and international subsidiaries. The Bank's shares are listed on the Borsa Istanbul.

As of 30 September 2019, the Bank held leading market positions in Turkey in credit cards (19.4% market share in credit card outstanding volume according to the BRSA statistics). As of 30 September 2019, the Bank also had strong positions in mutual funds (ranked third, with a 13.6% market share, according to Rasyonet), and non-cash loans (ranked first among private banks with a 19.6% market share, as of 30 September 2019, according to the BRSA statistics).

The Bank has a strong presence in retail banking. As of 30 September 2019, the Group had TL 77.5 billion (U.S.\$13.4 billion) of assets in its retail banking segment (including card payment systems, SME banking, individual banking as well as private banking), amounting to 20% of the Group's total assets. Retail banking products and services offered to customers include card payment systems, consumer loans (including general purpose loans, auto loans and mortgages), commercial instalment loans, SME loans, SME banking packages, time and demand deposits, gold banking, investment accounts, life and non-life insurance products and payroll services. In addition, the Bank offers privileges to customers who receive their monthly salary or SSI payments through the Bank. Card payment systems include the management of products, services, campaigns for member merchants as well as the sales and activities for a variety of customer types. The Bank's "World" brand and shopping and marketing platform of the Bank includes card brands known as "Crystal", "Play", "Adios" and "Taksitçi" that provide services for the Bank's different segments. Through its private banking activities, the Bank serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to Private Banking customers are time deposit products, mutual funds, derivative products – such as forwards, futures and options – in domestic and international markets, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products and 7/24 safe deposit boxes and e-banking services. Also, personal advisory services (for example, with respect to art, inheritance, real estate, tax, education and philanthropy) are offered within the private banking and wealth management activities. Customers are also provided with investment advisory and portfolio management services through the Group's portfolio management and brokerage subsidiaries.

The corporate and commercial banking segment is organised into three subgroups: corporate banking for large-scale companies, commercial banking for medium-sized enterprises and multinational companies banking for multinational companies. In corporate and commercial banking, the Bank is focused on higher yielding mid-commercial and project finance loans. The Bank provides a wide range of financial products and services to corporate and commercial customers, which include large Turkish corporates and trade companies. As of 30 September 2019, the Bank had 43.7 thousand

corporate and commercial customers. Corporate and commercial banking has a product range of working capital, finance, trade finance, project finance, domestic and international non-cash loans, such as letters of credit and letters of guarantee, cash management and internet banking.

The Bank also conducts treasury operations, covering Turkish Lira and foreign currency fixed income, money market instruments and currency and interest rate swaps and other derivatives, both for its own account and for the account of its customers.

As of 30 September 2019, the Bank had the sixth largest branch network in Turkey (third largest among private banks) according to the Turkish Banking Association with 854 branches spread throughout Turkey, including one branch in Bahrain (representing an 8.3% market share). While the Bank's branch network covers all regions in Turkey, as of 30 September 2019, most of the branches were in the larger cities, with 67% of the Bank's branches being located in the ten largest cities (including Istanbul, Ankara, Izmir, Antalya, Bursa, Konya and Adana). According to BRSA statistics, the Bank's market share in the ten largest cities in Turkey as of 30 September 2019 in terms of branches was 9.5% compared with 9.3% for 31 December 2018, 9.2% for 31 December 2017 and 9.6% for 31 December 2016.

In addition to its branch network, the Bank offers products and services through a wide array of alternative distribution channels ("ADCs") including 4,352 ATMs, 100% of which are "advanced" ATMs with cash deposit functionality (the fifth largest ATM network in Turkey with an 8.6% market share according to the Interbank Card Centre), award winning digital banking with 6.1 million customers as of 30 September 2019, a leading position in mobile banking with 5.5 million customers as of 30 September 2019, as well as three award winning call centres, according to the Turkish Banking Association. See "*—Distribution Network—Alternative Channels*". As of 30 September 2019, the Group had 17,798 employees, of which 16,950 were employees of the Bank (representing on 8.9% market share). This compares to 18,448, 18,839 and 19,419 employees as of 31 December 2018, 31 December 2017 and 31 December 2016, respectively, of which 17,577, 17,944 and 18,366 were employees of the Bank. Internationally, the Group carries out business through subsidiaries in the Netherlands, Azerbaijan, Malta and a branch in Bahrain.

The Group had total assets of TL 397 billion (U.S.\$70.1 billion) as of 30 September 2019, compared with TL 373 billion as of 31 December 2018, TL 320.1 billion as of 31 December 2017 and TL 271.1 billion as of 31 December 2016.

According to the consolidated Interim BRSA Financial Statements for the nine-month period ended 30 September 2019, the Group had an operating income of TL 10,159 million (U.S.\$1,795 million), compared to TL 13,352 million for the year ended 31 December 2018, TL 7,959 million for the year ended 31 December 2017 and TL 7,092 million for the year ended 31 December 2016. For the period ended 30 September 2019, the Group's cost to income ratio was 34% and operating cost growth was 13% year-over-year. For the year ended 31 December 2018, the Group's cost to income ratio was 33% compared to 42% in 2017. As of 30 September 2019, the Group's costs divided by average assets ratio realised at 1.4% versus 1.9% as of 31 December 2018. The Group's fees divided by operating costs ratio reached 75% in the period ended 30 September 2019.

The Group aims to be a customer-centric commercial bank driven by cutting edge technology and a committed workforce, delivering responsible growth. A main strategy of the Group is achieving best-in-class profitability, backed by a strong balance sheet, resulting in enhanced and sustainable shareholder returns.

The Group's net profit realised at TL 3,337 million and its return on average tangible shareholders' equity (excluding intangible assets) was 11.8% for the nine months ended 30 September 2019, compared with TL 4,668 million and 14.2% for the year ended 31 December 2018, TL 3,614 million and 13.6% for the year ended 31 December 2017 and TL 2,933 million and 12.7% for the year ended 31 December 2016. The banking sector's return on average tangible shareholders' equity was 10.8%, 13.8%, 15.1% and 14.2% for the nine months ended 30 September 2019 and for the years

ended 31 December 2018, 31 December 2017 and 31 December 2016, respectively. As of 30 September 2019, the Group's return on average assets ratio was at 1.2%, compared to 1.4% as of 2018 and 1.2% as of both 2017 and 2016 year-end.

As of 30 September 2019, 31 December 2018, 31 December 2017 and 31 December 2016, the Bank's capital adequacy ratio was 17.8%, 16.1%, 14.5% and 14.2%, respectively, on a Bank-only basis. As of 30 September 2019, 31 December 2018, 31 December 2017 and 31 December 2016, the Bank's common equity tier-1 ratio was 14.5%, 12.4%, 10.9% and 10.6%, respectively, on a Bank-only basis. On a consolidated basis, the Group's capital adequacy ratios stood at 16.7%, 14.8%, 13.4% and 13.2% as of 30 September 2019, 31 December 2018, 31 December 2017 and 31 December 2016, respectively, while common equity Tier-1 ratios were 13.6%, 11.4%, 10.0% and 9.7% as of the same dates. The banking sector's capital adequacy ratios stood at 18.0%, 16.9% and 16.5% as of 30 September 2019, 31 December 2018 and 31 December 2017, respectively.

### ***Key Competitive Advantages***

The Group's management believes that the Group has a number of key competitive advantages that enable it to compete effectively in the Turkish banking sector, including:

- **Leading market positions in key segments and products.**

The Bank is the second largest privately owned bank in Turkey by assets, with leading market positions in Turkey in credit cards (with a market share of 19.4% in credit card volume as of 30 September 2019).

- **Robust and customer-oriented balance sheet.**

The Group has total assets that incorporate a high proportion of loans and receivables (56% as of 30 September 2019) and a low proportion of securities (14% as of 30 September 2019).

The Group aims to reduce the concentration in lending and deposits and spread out with smaller tickets. The Group is focused on improving its loan book mix towards more value generating areas. In this respect the Bank maintains a balanced growth mix among lower value lending, while lowering the share of larger (corporate and commercial) lending on its loan book.

- **Large network and leading brand.**

As of 30 September 2019, the Bank had 854 branches (including one branch in Bahrain, but excluding its international presence through its overseas subsidiaries: the Group had 886 branches including its international presence). As of 30 September 2019, the Group had a solid distribution platform, including the sixth largest branch network in Turkey according to the Banks Association of Turkey, with a market share of 8.3% (as compared to 8.2% as of 31 December 2018, 8.2% as of 31 December 2017 and 8.8% as of 31 December 2016). As of 30 September 2019, the Group had innovative ADCs including 4,352 ATMs, 100% of which are "advanced" ATMs with cash deposit functionality (the fifth largest ATM network in Turkey with an 8.6% market share according to the Interbank Card Centre (BKM) (8.6% as of 31 December 2018, 8.6% as of 31 December 2017 and 8.9% as of 31 December 2016)). Digital banking with 6.1 million active customers, a leading position in mobile banking with 5.5 million active customers according to the Banks Association of Turkey as of 30 September 2019, as well as three award-winning call centres. The Group's share of main banking products sold through digital platforms is 96% as of 30 September 2019.

- **Strong commitment to risk management.**

The Group has a conservative risk management strategy with solid credit risk infrastructure, underwriting and monitoring systems. The Group avoids speculative open foreign exchange positions and maintains liquidity ratios well above the regulatory levels. As of 30 September 2019, 31 December 2018, 31 December 2017 and 31 December 2016, the Bank's capital adequacy ratio according to the BRSA statistics was 17.8%, 16.1%, 14.5% and 14.2%, respectively, on a Bank-only basis. As of 30 September 2019, the Group had limited intragroup exposure at 10.5% of its capital, as compared with the 20% regulatory limit. The Group's loan book is diversified with its top 20 clients' loans amounting to only 15.2% of its loan book as of 30 September 2019.

- **Diversified, high quality revenue mix.**

The Group believes it has a sustainable revenue base, with a high share of fees in total revenues amounting to 26% for the nine months ended 30 September 2019, and that it has the capacity to effectively manage net interest margin through dynamic pricing. The Group aims to reduce its concentration in lending and deposits spreading out with smaller tickets and focus on transaction banking and commission generation.

- **Strong and committed shareholders.**

Support from Koç Holding and UniCredit provides stability and helps to maximise the Bank's growth potential. The UniCredit Group, with roots dating back to 1473, is a simple, successful, pan-European commercial bank with a unique Western, Central and Eastern European network in 14 core markets. The Group benefits from UniCredit's know-how and expertise in risk management, internal audit, financial planning and control as well as from the UniCredit Group's experience in implementing efficiency improvements and cost management. Koç Holding, established in 1926, is the largest conglomerate in Turkey. It has strong positions in the energy, automotive and finance sectors in Turkey as well as in consumer durables both domestically and internationally, enabling potential synergies with the Group. As of 30 September 2019, the Group had limited intragroup exposure, at 10.5% of its capital, compared with the regulatory limit of 20%.

On 30 November 2019, UniCredit and the Koç Group announced an agreement to change the Bank's ownership structure. According to the agreement, UniCredit's stake in the Bank is to reduce to 31.93% (held directly by UniCredit) while the Koç Group's stake is to increase to 49.99% (9.02% to be held directly and 40.95% indirectly). The remaining approximately 18% stake is to continue to trade on the Borsa Istanbul.

## **Strategy**

As a fully integrated banking and financial services group, the Bank is working towards its mission to ensure long-term sustainable growth and value creation for all stakeholders and to become the first choice for customers and employees.

### ***Principles***

The Bank's strategy is structured around three main principles:

### *Healthy and consistent growth*

- Focus on core banking activities, growth in value generating segments and products, continuous improvement in commercial effectiveness, expansion of market presence and funding diversification to sustain long-term performance.

### *Strong and sustainable profitability*

- Address specific customer needs via segment-based service model, optimise cost to serve to improve competitiveness and maintain effective cost, risk and capital management.

### *Superior and long-lasting customer satisfaction*

- Enhance an easy to work with approach through continuous investments in technology and delivery channels while maintaining focus on innovation, employee satisfaction and loyalty.

### ***Key strategic objectives***

The Bank aims to achieve a sustainable performance through sustained customer orientation. The Bank expects to continue its strong performance through the following key long-term strategic pillars:

#### *Growth and Commercial Effectiveness*

- Value generating loan growth with a focus on general purpose loans, mortgages and SMEs in retail lending, together with selective growth in corporate/commercial lending with a focus on higher yielding mid-commercial and project finance.
- Improvements in efficiency and cost containment alongside significant investments.
- Fee generation and customer penetration through continued focus on retail business and cross-selling.

#### *Funding and Capital*

- Emphasis on further strengthening deposit base and diversifying funding sources.
- Effective loan/deposit ratio management.
- Efficient capital utilisation with a focus on targeted growth in value generating segments and capital strengthening actions.

#### *Efficiency and Cost Optimisation*

- Disciplined cost approach and lower cost to serve.
- Optimisation of physical presence.
- Multi-channel approach and continuation of investments in growth initiatives with increased development of ADCs as sales channels.

#### *Risk Management*

- Dynamic and proactive portfolio management.
- Investments/enhancements to maintain cost of risk through the cycle levels.

- Early collections via capacity increase.
- Continuous enhancements of risks systems, especially in consumer and SME segments.
- Further improvements in quality of new loan generation.

#### *Sustainability*

- Customer/employee satisfaction and loyalty.
- Investments in technology and innovation.
- Enhancement of easy to work with approach.
- Acceleration of customer acquisition, penetration and activation.

#### **Business Plan**

The Bank's strategy is to be a customer centric commercial bank driven by cutting edge technology and a committed workforce, delivering responsible growth and achieving best-in-class profitability, backed by a strong balance sheet, resulting in enhanced and sustainable shareholder returns. On 26 April 2018, the Bank's Board of Directors approved the Bank's strategic business plan for the years 2018 to 2020, entitled "Yapı Kredi Vision 2020" (the "**Business Plan**"). Over the period of the Business Plan, the Bank is targeting strategic goals that build upon its existing business strategy to achieve an improvement in return on average assets and return on average tangible shareholders' equity.

#### ***Strengthen and optimise its capital position***

The Bank is targeting to maintain a 200 basis-points CET1 ratio buffer over the regulatory limits on an ongoing basis. Accordingly, based on macro scenario assumptions of the Business Plan, the Bank expects to have a CET1 ratio, a Tier 1 ratio and a capital adequacy ratio above 11.5%, 12.0% and 14.0% respectively, for the year ended 31 December 2020, primarily based on the execution of the Capital Strengthening Plan that was approved by the Bank's Board of Directors on 26 April 2018 (the "**Capital Strengthening Plan**"). The Capital Strengthening Plan included two components:

- A domestic rights issue at nominal value, without restricting the statutory pre-emption rights of its existing shareholders, in the amount of TL 4,100,000 thousand, which increased its issued share capital by 94.31680%, from TL 4,347,051 thousand to TL 8,447,051 thousand. The domestic rights issue was completed and registered with the İstanbul Trade Registry on 29 June 2018.
- An issuance of Perpetual Fixed Rate Resettable Additional Tier 1 notes eligible for inclusion as Additional Tier 1 capital of the Bank. For a description of regulatory requirements in relation to Additional Tier 1 capital requirements, see "*Turkish Regulatory Environment*".

On 30 April 2018, as part of the Capital Strengthening Plan, the Bank requested approval from the relevant authorities for a paid-in share capital increase, which was completed on 29 June 2018. As a result, the Bank's new issued share capital reached TL 8,447,051 thousand. The domestic rights issue was 94.3% subscribed.

In January 2019, the Bank raised U.S.\$650 million worth of additional Tier 1 capital. The transaction marked the first time additional Tier 1 capital was raised by a Turkish deposit bank through the issuance of USD-denominated bonds with market participation. The additional Tier 1

capital issuance, which is callable once every five years, was conducted in the international markets and also with the participation of Koç Holding and UniCredit. The coupon rate for the transaction was set at 13.87%.

The two transactions both confirmed the confidence of main shareholders and international investors in the Bank as well as strengthening the Bank's capital structure as aimed within the Capital Strengthening Plan announced in 2018. The Bank has successfully completed the Capital Strengthening Plan, an important medium-term goal of the Bank is to sufficiently strengthen its capital position to permit dividend payments while maintaining a sufficient capital buffer of at least 20 bps over CET1.

Additionally, in 2 July 2019, the Bank priced a floating rate Tier-2 issuance to qualified investors, with a coupon rate of 3M TRLIBOR + 100 bps (6.3647% for the first coupon payment on 2 October 2019) with a transaction size of TL 500 million and an initial maturity of ten years, callable at the end of the fifth year. In October 2019, the Bank issued Tier 2 notes totalling TL 300 million to investors in Turkey.

### ***Sustainable revenue generation by rebalancing business mix***

The Bank targets sustainable revenue generation through the rebalancing of the Bank's business portfolio. In relation to this target, the Bank is undertaking a number of strategic and operational steps:

- focusing on small ticket and higher value generating segments and products, with a focus on individuals and SMEs (including both loan and deposit initiatives, such as introducing individual consumer pricing, growing the number of payroll customers and targeting sub-segments within the SME sector). The Bank targets an increase in small ticket demand and individual deposits in order to control funding costs. In turn, the Bank also seeks to limit risk in its corporate portfolio by reducing concentration by borrower and sector;
- increasing the Bank's transactional banking and payment systems to strengthen fees by continuing to focus on growing all elements of the Bank's existing fee revenue streams (including both banking and non-banking services); and
- increasing the Bank's house-bank customer penetration together with ongoing new customer acquisition.

### ***Efficiency gains by streamlining operations***

Furthermore, the Bank is expecting to continue with a balanced approach in terms of revenues and cost management. In order to achieve its cost targets, as well as the above-mentioned revenue and profitability targets, the Bank is undertaking a number of operation improvements, including:

- continuing its investment in digital transformation, which would involve increasing IT investments through 2020 to offer most of the Bank's products via digital channels and further increase the number of customers and transactions using digital channels;
- streamlining its operations with process automation and centralisation where feasible; and
- improving operational processes through service-channel improvements through a new central service model for mass and micro customers with dedicated relationship managers for higher-value consumer and corporate customers.

As a result of these investments and initiatives, the Bank seeks to significantly improve its loans per branch, loans per employee, deposits per branch and deposits per employee.

### ***Asset quality optimisation***

The Bank is expecting to reduce its total cost of risk through a combination of operational improvements and asset quality optimisation, including the following:

- improving its underwriting approach for its customers and products (which involve automating individual and micro SME customers while tailoring underwriting for larger loans);
- centralising risk monitoring and improving the Bank's collection processes (including further sub-segmentation of customer segments less than 90 days overdue and introducing additional key performance indicators); and
- actively managing its non-performing loan stock (with a continuing focus on NPL loan sales where appropriate as well as a broader range of restructuring options).

The Business Plan (as defined in “—*Business Plan*”) includes, *inter alia*, targets and objectives in respect of most of the consolidated and divisional economic line items and indicators of the Bank's financial statements as well as statements with respect to its strategic goals and objectives. Although the Bank believes that the assumptions reflected in such forward-looking statements are reasonable, it does not provide any assurance with respect to such statements. The preparation of the Business Plan is based upon, *inter alia*, certain assumptions concerning future events that management expects to occur, and the actions management intends to take once the Business Plan is implemented. Such events and actions may not actually be realised, as they depend substantially on variables that management cannot control, and may involve situations that management cannot predict. As a result, the targets and objectives in the Business Plan, and the assumptions underlying those targets and objectives, are by definition uncertain and actual results or events may differ materially from, and be more negative than, those that are implied in the targets and objectives.

Data used in the Business Plan are based on assumptions regarding the Bank's operations and results that are based on its current expectations regarding future events and are therefore subject to significant uncertainties that could cause the Bank's actual results to differ. These uncertainties include, *inter alia*, the Bank's ability to grow in terms of operating profit and net profit and to carry out investments and other transaction provided for in the Business Plan, the assumptions about trends in macroeconomic indicators, political and regulatory developments and other objectives and targets in the Business Plan. Should any of these uncertainties be realised or any of the key assumptions prove to be inaccurate, the Bank's actual results or events would likely differ materially from those expressed or implied in the targets and objectives. Further, the targets in the Business Plan exclude any possible impact from IFRS 16 which entered into force on 1 January 2019 and the expected results assume the successful completion of the issuance of the Covered Bonds. In addition, the targets and objectives were derived in a modelling process based on certain further underlying assumptions, which may prove to be incorrect. Hence, there can be no assurance that the targets and objectives will eventually prove to be accurate and prospective investors should be aware that a number of factors, including factors beyond the Bank's control, might render achieving the targets and objectives set forth in the Business Plan difficult or impossible. Undue reliance should not be placed on the targets and objectives, which speak only as of the date that they were made.

These cautionary statements should be considered in connection with any written or oral forward-looking statements that the Bank may issue in the future. The Bank does not undertake any obligation to release publicly any revisions to such forward-looking statements after the date hereof to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

### **History**

The Bank in its present form results from the merger of Yapı ve Kredi Bankası A.Ş. and Koçbank in 2006. Yapı ve Kredi Bankası A.Ş. was established on 7 July 1944 as Turkey's first



retail-focused privately owned bank with a nationwide presence, and management believes it has played a pioneering role in the banking sector. Since its origins, the Bank has maintained a strong reputation in the banking sector leveraging on its customer-centric approach, dedication to innovation and contribution to the development of the financial sector in Turkey.

The following are a number of notable landmarks in the Bank's history:

- 1940s-1950s: The Bank gained a strong position as Turkey's first retail-focused private bank with a nationwide presence.
- 1960s: Introduced computerisation to the Turkish banking sector and played a pioneering role in developing long-term project finance lending.
- 1970s: Led the way in the development of financial and international subsidiaries and became the first bank to be authorised to hold a foreign currency position in Turkey.
- 1980s: Introduced individual loans, credit cards, debit cards, ATMs and online banking systems; laid the foundations for today's corporate banking; established the first Turkish offshore bank in the Middle East and became the first Turkish bank to issue bonds and certificates in the international capital markets.
- 1990s: Initiated the first telephone banking service, introduced an advanced credit card infrastructure with loyalty point awards and instalments and was the first bank in Turkey to receive the ISO 9001 quality certification. In addition, the Bank developed its services infrastructure and modernised its corporate structure, human resources, education systems and market strategies to better suit the requirements of an increasingly technology-driven environment.
- 2000s: Successfully completed its merger with Koçbank in October 2006, the largest merger in the Turkish banking sector, creating a strong retail franchise.
- 2014: Started a growth project to strengthen its market position through investments aimed at enhancing commercial effectiveness including an increase in headcount, ATMs and branches. In order to reach its objective, the Bank increased headcount by 1,850, opened 60 new branches and 606 new ATMs, introduced branchless service models, enhanced internet banking and undertook other projects to improve commercial effectiveness.
- 2015: Growth-oriented investment strategy continued with the bulk of the investments completed. In the context of this strategy, the Bank increased its headcount by 811 people and opened 17 new branches and 584 new ATMs during 2015.
- 2016: With the investment phase completed in 2015, the harvest phase of the growth strategy began in 2016, with a focus on strong growth in profitability, return on equity improvement and shareholders' equity. The Bank recorded profitability acceleration driven by its core business in 2016. The Bank's focus during the year was on maintaining scale with continuing remix, strong revenue generation via ongoing customer acquisition and disciplined cost control, heavily leveraging digitalisation as well as controlled asset quality.
- 2017: The Bank saw profitability to continue to improve, driven by a core banking focus, strict cost discipline, while heavily leveraging digitalisation and further improvement in asset quality. The Bank kept its market positioning stable compared with private banks, with a focus on a value generating mix. In terms of revenues, the Bank focused on ongoing outperformance supported by sustainable core banking

activity, while pursuing with strict cost discipline its process of leveraging heavily on digitalisation and efficiency. Meanwhile, the Bank continued with its conservative and proactive asset quality approach to ensure an improvement in the performance, and focused on maintaining solid capital and liquidity positions.

- 2018: The Bank saw profitability continue to improve, driven by improvements in core revenue areas resulting from wider net interest margins and higher fee generation, and supported by ongoing cost discipline and stable running costs. The Bank maintained a conservative and proactive approach to managing asset quality, classifying several large loans as NPLs during the period where macro volatility was evident. At the same time, the Bank increased the coverage of Stage 3 loans with the intention to further continue NPL stock management. Furthermore, the Bank successfully finalised a capital injection of TL 4.1 billion during this period, further supporting its liquidity and capital positions.
- 2019 (through June 2019): During the first half of 2019, the Bank continued to focus on reducing concentration in lending and deposits, focusing on granularity and small ticket individual deposits, improving core revenues through successful management of the asset liability mix and pricing as well as solid fee generation through focus on transactional banking and payment systems. Within the period, the Bank sustained a controlled cost management while continuing to implement a prudent asset quality approach in the challenging operating environment.

Following significant volatility in the Turkish currency and foreign exchange markets in 2001 and the collapse of several institutions, in 2002, the BRSA commenced an audit process that assessed the financial condition of all Turkish banks. Following this audit process, in January 2003 the BRSA, the SDIF and the Çukurova Group, which was then the Bank's largest shareholder, entered into an agreement under which the SDIF took certain protective measures and it was agreed that shares of Yapı ve Kredi Bankası A.Ş. previously owned or controlled by the Çukurova Group (57.4% in aggregate) would be sold within two years.

Koçbank was founded in 1981 as the American Express Bank, based in Istanbul. Koç Holding acquired a 51% stake in the American Express Bank in 1986, renaming it Koç American Bank, and, in 1992, the bank became a wholly owned subsidiary of Koç Holding and was renamed Koçbank A.Ş. KFS was established in March 2001 as a management company and all financial services companies owned by Koç Holding, including Koçbank, were united under KFS. In October 2002, Koç Holding and UniCredit signed a joint venture agreement and became joint shareholders in KFS (each with a 50% interest), making KFS the first foreign partnership to be established in the financial sector in Turkey.

Under the management of UniCredit and Koç Holding, Koçbank underwent a significant restructuring process and began a period of organic growth. By 2005, Koçbank had over 170 branches and had developed its own expertise in private banking, asset management and corporate and commercial banking, leasing and factoring companies.

In January 2005, pursuant to its agreement with the BRSA and the SDIF, Çukurova Group sold 57.4% of the Bank's shares to KFS. In April 2006, Koçbank acquired a further 9.9% of the Bank's shares, taking Koçbank's interest in the Bank to 67.3%.

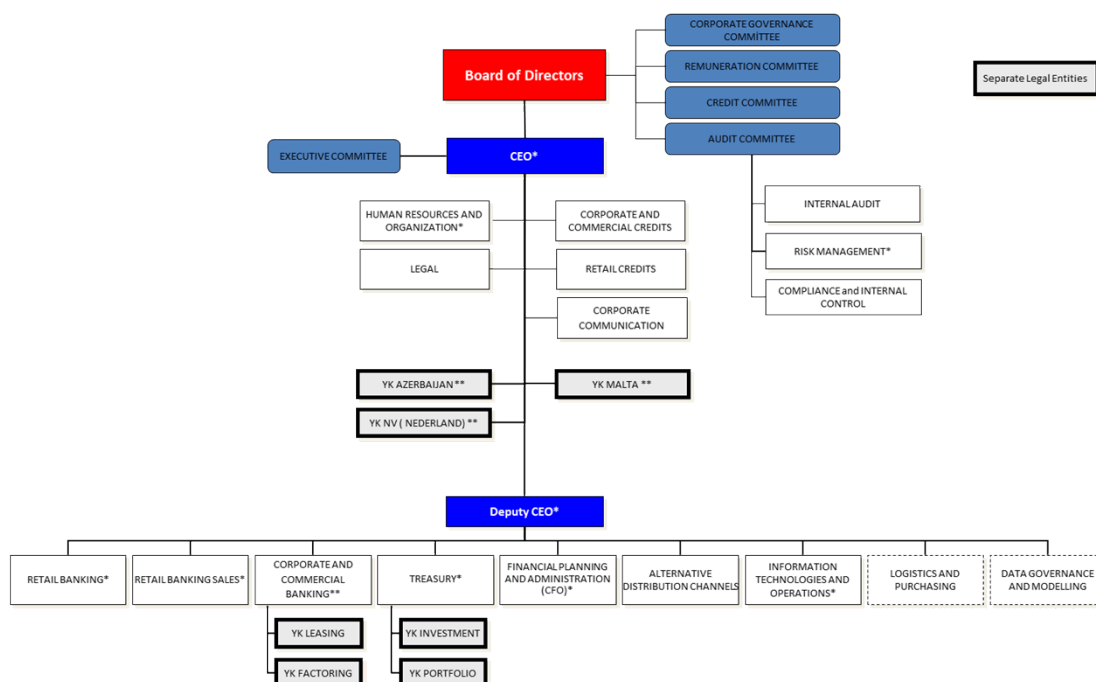
In October 2006, Yapı ve Kredi Bankası A.Ş. was merged with Koçbank, when Koçbank was dissolved and its rights, receivables, obligations and liabilities were transferred to Yapı ve Kredi Bankası A.Ş., with the combined legal entity continuing under the name Yapı ve Kredi Bankası A.Ş. The merger between Koçbank (eighth largest bank) and Yapı Kredi (seventh largest bank) formed the new Yapı Kredi, which became the fourth largest private bank.

## **Overview of Banking Products and Services**

The Bank's operations are carried out through three main segments: (a) retail banking, which includes the Bank's individual, card payment systems and SME business segments; (b) private banking and wealth management; and (c) corporate and commercial banking. The Bank's service model is supported by its domestic and international subsidiaries.

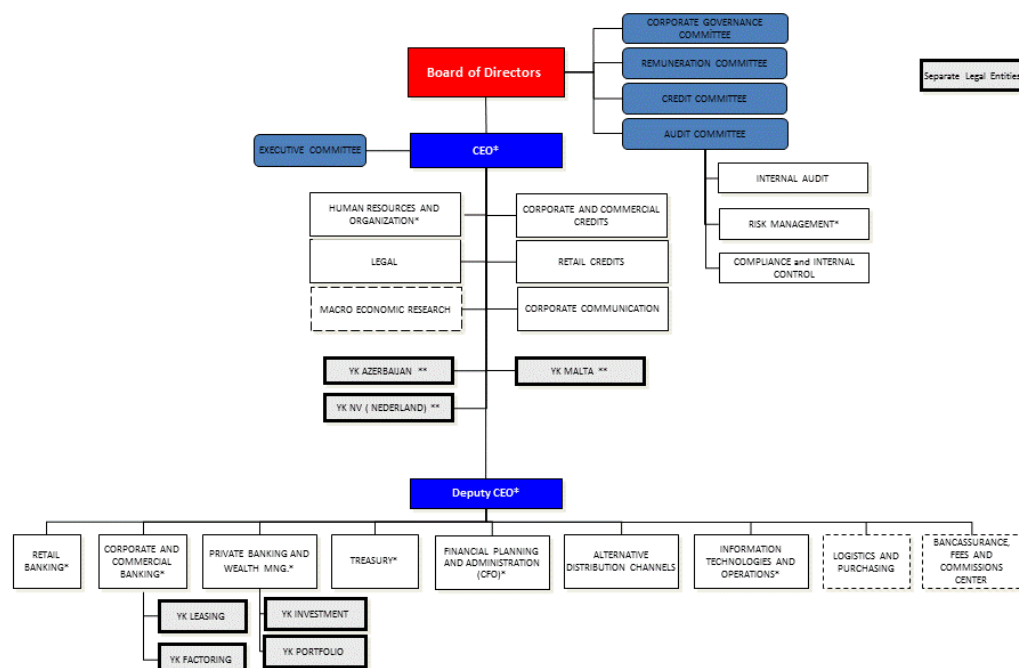
## Organisational structure

The following chart represents the Bank's organisational structure as of September 2018, including its subsidiaries' structure.



\* Executive Committee Permanent Member.

\*\* In YK NV, YK Azerbaijan and YK Malta Corporate and Commercial Banking Assistant General Manager to be Board Member and to be accountable for results to foster synergies.



\* Executive Committee Permanent Member.

\*\* In YK NV, YK Azerbaijan and YK Malta Corporate and Commercial Banking Assistant General Manager to be board member and to be accountable for results to foster synergies.

## **Retail Banking**

### ***Overview***

The Bank's retail banking division consists of the following segments: credit card, individual banking (and the mass and blue class sub-segments) and SME banking businesses.

As of the date of this Base Prospectus, retail banking was one of the key growth areas for the Bank, especially in general purpose loans, credit cards, mortgages, asset gathering (deposits and mutual funds) and pension funds. As of 30 September 2019, the Bank's retail banking division served approximately 10.1 million active retail customers, which were serviced by 2,330 retail relationship managers through 777 retail branches.

In the Turkish retail banking market, as of 30 September 2019, the Bank was the market leader in terms of credit card volume outstanding, number of credit cards and commercial cards volume outstanding, credit card issuing and credit card acquiring turnover. As of 30 September 2019, the Bank was the sixth largest bank in terms of consumer loan volume and the fifth largest bank in terms of deposit volume according to BRSA financials. Income from the Bank's retail banking activities comprises primarily interest income from loans to individuals and SMEs and commission income from loans, credit cards, point of sale business and other banking transactions. As of 30 September 2019, the Group had loans in its consumer segment (excluding credit cards) of TL 33,202,510 thousand (U.S.\$5,867,101 thousand) compared to TL 32,623,117 thousand (U.S.\$6,201,052 thousand) at 31 December 2018, TL 34,526,239 thousand (U.S.\$9,153,540 thousand) as of 31 December 2017 and TL 31,077,936 thousand as of 31 December 2016.

The Bank offers its retail customers a broad range of products and services, including general purpose loans, auto loans, credit, debit and prepaid cards, payment and collection services, deposit and overdraft accounts, asset management products, scrap gold collection, working account, platinum fund, ilk param, cross-sell screens, pre-approved loan, packages, ATMs, telephone banking, internet banking and mobile banking and life and non-life insurance products. The Bank introduced some of these products and services to the Turkish banking industry, including consumer loans, credit cards, overdraft accounts, telephone banking, ATMs and POS terminals, and the Bank's management believes that the Bank has been a pioneer in retail banking in Turkey.

### ***Retail Customer Segmentation***

Within the retail banking division, the Bank's customers are divided into three categories to facilitate customer management and to allow a clear and focused approach for responding to different groups' behaviours and needs. These three categories are: mass, mass affluent and blue, each a sub segment within individual banking and the SME segment (comprised of companies).

Individuals are segmented mainly by the value of their assets with the Bank and/or the amount of their monthly salary, while SME customers are segmented according to their annual turnover. Mass customers are individuals with total personal financial assets of up to TL 200,000 or a monthly salary below TL 20,000. Blue customers are individuals with total personal financial assets of TL 200,000 and above, a monthly salary of TL 20,000 and above or a credit card limit of TL 50,000 and above. SMEs are customers with annual turnover of less than U.S.\$10,000,000.

### ***Cards Payment Business***

The Bank was the first bank in Turkey to issue credit cards, starting in 1988. Since then, it has been one of Turkey's leading issuers and acquirers of credit cards and this remains an important focus for the Bank.

The Bank has maintained non-exclusive agreements with Visa International since 1981, Visa Europe since 2009 and MasterCard International since 1988.

The Bank has been the leader in credit cards for the last 31 years with strong brand recognition and a loyal customer base. The Bank's credit card programme, World, was the fifth largest in Europe and 53rd largest in the world according to the Nilson Report. According to the Nilson Report in 2018, the Bank's credit card programme, World, is the largest credit card programme in Turkey and in continental Europe in terms of outstanding volume.

### ***Card Payment Products***

As of 30 September 2019, the Bank maintained its leadership both in credit card stock and outstanding volume, which had approximately 12.0 million credit cards (including virtual cards) issued, representing market shares of 17.47% in Turkey by number of cards, according to the Interbank Card Centre, and 19.4% market share by outstanding balance, according to BRSA statistics, respectively. The Bank's outstanding credit card receivables (including commercial cards) amounted to TL 29.3 billion (U.S.\$5.2 billion) as of 30 September 2019.

The Bank focused on special campaign offers to commercial credit card customers to enhance cash flow management and synergies with SME banking. In terms of issuing volume, the commercial credit cards market grew from TL 115.6 billion (U.S.\$38.3 billion) as of 31 December 2016, to TL 144.5 billion (U.S.\$38.3 billion) as of 31 December 2017, to TL189.7 billion (U.S.\$36.1 billion) as of 31 December 2018, falling to TL 159.2 billion (U.S.\$ 28.1 billion) as of 30 September 2019. Moreover, in terms of outstanding volume, the commercial credit cards market grew from TL19.8 billion as of 31 December 2016, to TL 25.1 billion as of 31 December 2017, to TL 31.4 billion (U.S.\$6.0 billion) as of 31 December 2018 and further to TL 35.8 billion (U.S.\$ 6.3 billion) as of 30 September 2019. Meanwhile, the Bank maintained its leadership position in terms of commercial card turnover volume with 20.3% market share and commercial card outstanding volume with 23.9% market share as of 30 September 2019.

Credit card customers are an important source of new business for the Bank, as a credit card is often the first of the Bank's products acquired by a customer. The Bank endeavours to cross-sell its credit card customers other products and services utilising advanced marketing techniques, including customer relationship management programmes and database marketing systems with its merchant network to increase sales. As of 30 September 2019, the Bank's credit card division was served by a sales team comprising 225 sales people throughout various regions in Turkey.

The Bank's own credit card brand, Worldcard, was launched in 1991. In 2002, following changes in both card technology and customer preferences, the Bank re-launched the Worldcard brand by allowing the card to be used with merchants in the Bank's merchant network to purchase items on instalment plans and offered a new Worldcard loyalty programme. The Bank offers a wide variety of credit cards, each targeted at a specific range of customers. Listed below are some examples of the Bank's cards payment products and a brief description of their features:

- ***Worldcard***

Worldcard is the Bank's mass credit card with instalment, loyalty point and cash advance options.

- ***World Gold Card***

World Gold card is the second tier card in the World portfolio, offering the same benefits as the Worldcard but considered to be more prestigious. World Gold card provides purchase protection insurance and assistance services to cardholders such as medical consulting, homecare services, and an information line for social activities, restaurants and hotels.

- ***World Platinum Card***

World Platinum card is the most prestigious credit card in the World portfolio. Customers with a minimum monthly income of TL 5,000 can apply for a World Platinum card.

- ***adios Card***

adios card specifically targets customers who travel frequently. adios cardholders are able to redeem their loyalty points at a greater value to cover their travel expenses.

- ***adios Premium Card***

adios Premium card targets the platinum traveller segment with a minimum monthly income of TL 8,000. adios Premium cardholders are able to redeem their loyalty points at a greater value to cover their travel expenses.

- ***Crystal Card***

Crystal card is the most prestigious credit card in the Bank's credit card portfolio which is offered to a limited number of distinguished clients. Crystal cards offer several privileges to cardholders ranging from private concierge services to travel privileges, as well as other services such as insurance.

- ***Opet Worldcard***

Opet Worldcard is a co-branded credit card in cooperation with Opet Gas Distribution Company. Opet Worldcard targets customers that have regular fuel consumption. Besides including all the benefits of the Worldcard, customers are rewarded with fuel points that can only be redeemed at Opet Stations.

- ***Play Card***

Play card specifically targets the youth segment and university students can apply for Play cards without declaring income. Play card won the Best New Customer Proposition and The Best of The Best awards in the Visa Europe Member Awards 2009 held among all Visa Europe member banks. Play Card won three bronze awards in the Crystal Apple Turkish Advertisement Awards Competition media and digital categories for sponsorship projects.

- ***taksitçi Card***

The taksitçi card enables cardholders to take benefit from repaying in three instalments on purchases of TL 100 or above with merchants who are not members of the Bank's World network, as well as a further three instalments on purchases of TL 100 or above with merchants who are World members.

- ***World Eko Card***

The World Eko card has no annual card fee. World Eko cardholders are able to benefit from instalment, loyalty points and cash advance options.

- ***World Business Card***

The World Business card meets the purchasing and cash advance needs of companies, combined with the World system advantages. Cardholders can gain Worldpoints and make instalment purchases at member merchants.

- ***Turkish Airlines Corporate Club Card***

The Turkish Airlines Corporate Club Card provides generous benefits such as interest-free instalment plans, discounts for tickets, special baggage allowances and access to VIP lounges in airports for SME, commercial and corporate customers.

- ***Debit cards (TLcard, Platinum TLcard, Play TLcard and Business TLcard)***

TLcard is a debit card that can be used for banking transactions, cash withdrawals from ATMs and purchases at Visa or MasterCard merchants all over the world. TLcard collects Worldpoints from banking transactions and purchases at World merchants. Play TLcard is offered to customers aged 12-24 and Business TLcard is offered to all companies.

- ***KoçAilem Card and KoçAilem TLcard***

KoçAilem Card (credit card) and KoçAilem TLcard (debit card) is a co-branded card programme by the Bank and Koç Holding designed for and only available to Koç Group employees, their families, retirees, and Koç University students.

The card offers significant discounts at the Koç Group companies, such as Arçelik, Ford, and Koçtaş. Besides the financial benefits, cardholders are entitled to attend special, cardholder-only events, including film screenings and children's activities days.

- ***Prepaid Card (World Nakit, Play Nakit, World Nakit Sanal)***

World Nakit Sanal is a virtual prepaid card launched in November 2018, and World Nakit and Play Nakit are physical prepaid cards launched in June 2019 that allow customers to spend only a preloaded amount. Customers do not have to open a bank account to use World Nakit, which can also be used for cash withdrawals from ATMs, for purchases and for e-commerce.

The Bank offers an instalment payment programme on its credit cards in conjunction with certain members of its merchant network, whereby cardholders are able to make instalment payments for their purchases and, provided the instalment payments are paid over the agreed time period, interest will not accrue on the amount of the purchase. The programme is only available where the Bank's cardholders make a purchase through one of the Bank's participating merchants, except where customers have the taksitçi card, in which case a limited number of purchases may be made on an instalment basis, in applicable sectors.

The Bank's credit card business operates in accordance with the Bank Cards and Credit Cards Law enacted in 2006 (Law No. 5464), which requires that banks issue credit cards only upon request by a customer, either orally or in writing. Credit limits are set at an amount not exceeding twice the cardholder's average monthly salary for the first year the customer receives his first credit card from a Turkish bank, and an amount not exceeding four times the average monthly salary for the second year, if a sufficient limit is available. The Central Bank determines the maximum contractual and default interest rates of credit cards.

One of the Bank's major goals as a leading credit card platform in Turkey is to digitalise the credit card experience through the new "World Mobil" mobile application, which is transformed from the previous "Yapı Kredi Wallet" with a renewed user interface and user experience and new payment and card functions in January 2019. World Mobil is a marketing platform that provides an end-to-end digital card experience to its users through four main sections: Campaigns, Earnings, Yapı Kredi Pay, Card Management. Using the application, customers can view and enrol in promotional campaigns, access their shopping transactions, points, payment limits and cut-off dates for their accounts and payment deadlines.



Yapı Kredi Pay was designed to create a seamless payment experience without a physical or plastic card. This conversion started in 2015 with mobile payment solutions or near field communication (“NFC”) technology. In February 2018, the Bank launched quick-response code (“QR code”) payment in order to ease the payment experience for e-commerce. In-car payment was first offered to the Bank’s customers in May 2019 so they could make fuel payments without stepping out of their cars. In October 2019, the Bank launched a new QR code payment function at the point of service (“POS”) using terminals that allow the Bank’s card customers to pay with a QR code in physical stores as well as on e-commerce.

### ***Co-branding Partnerships***

The Bank has credit card co-branding partnership agreements with Vakıfbank, Anadolubank and Albaraka Turk. These partnerships have helped the Bank’s credit card brand World become Turkey’s largest credit card network and marketing platform, with approximately 17 million credit cards.

In September 2012, the Bank introduced its World credit card programme in Azerbaijan. In recognition of the Bank’s success in introducing the programme in Azerbaijan, it received the Best Marketing Campaign award from MasterCard. As of 30 September 2019, the Bank had issued over 78,702 World credit cards in Azerbaijan.

### ***Merchant Network***

The Bank has been a leader in total acquiring volume in the market over a number of years, with a market share of 18.8% as of 30 September 2019. The Bank’s acquiring volume as of 30 September 2019 was TL 131.7 billion, as compared to TL 158.0 billion as of 31 December 2018, TL 138.2 billion as of 31 December 2017 and TL 125.3 billion as of 31 December 2016. Additionally, as of 30 September 2019, the Bank’s market share in terms of total POS terminals amounted to 15.7%. The Bank’s number of POS terminals was a total of 726,000 as of 30 September 2019, compared to a total of 686,000, 532,000 and 554,000 as of 31 December 2018, 31 December 2017 and 31 December 2016, respectively.

Developing its relationships with merchants is a key priority for the Bank. The Bank’s large POS network enhances the Bank’s retail transactions volume and provides added value to the Bank’s cardholders through the various campaigns, promotions and loyalty programmes offered through the POS network and participating merchants.

In order to encourage customers to use the Bank’s cards and to attract merchants to enrol in the Bank’s World Platform, the Bank offers campaigns such as point rewards, discounts and other privileges to its customers. In order to digitalise the payment process between the Bank’s customers and merchants, the Bank enabled QR code payment at the physical POS, allowing customers to make payments with their World Mobile or Yapı Kredi Mobile applications even if they do not have their bank card or credit card with them.

### ***Individual Banking***

The Bank’s individual banking activities are organised under mass and blue class sub-segments to enable the Bank to differentiate its services and to provide the most suitable products to different customer groups. As of 30 September 2019, the Bank provided individual banking services to approximately 8 million mass customers and approximately 167,716 blue class customers, respectively.

The Bank’s product offering to its individual customers includes a full range of payment products (credited regular school payment product, bill/games/betting payments), overdraft and deposit accounts (time deposit, demand deposit, flexible time deposit, fund deposit, gold deposit, and 5D deposit, state supported dowry and housing deposits), scrap gold collection, investment products, mortgages, auto loans, general purpose loans, home improvement loans, education loans and auto

loans, Smart Broker, İlk Param, Kartopu, Foreign Exchange Saving and Gold Saving products, Smart Broker and Second Fund of Funds as well as health insurance products.

The Bank offers customers in its mass segment a wide variety of products and services through diverse delivery channels including branches and a variety of alternative distribution channels such as internet and mobile banking portals, ATMs and call centres. As of 30 September 2019, the Bank's loans and receivables in its mass segment constituted 60% of its total loans and receivables to its retail customers and the Bank's deposits from customers in its mass segment constituted 38% of its total deposits from its retail customers.

As of 30 September 2019, the Bank's blue class customers were served by 384 relationship managers and a wide distribution network. In addition to the standard individual banking products offered to all individual customers, the Bank's relationship managers for blue class customers have expertise in investment and mortgage products. Blue class customers also benefit from the Bank's asset management and brokerage services. As of 30 September 2019, the Bank's loans and receivables in its blue class sub-segment constituted 2% of its total loans and receivables to its retail customers.

### ***Mortgages***

Mortgage loans are an important part of the retail banking business in the Turkish banking sector. As of 30 September 2019, 31 December 2018, 2017 and 2016 mortgage loans amounted to 7.2%, 7.6%, 8.8% and 9.1%, respectively, of aggregate loans in the Turkish banking sector, according to BRSA weekly data.

The Group's mortgage loan portfolio decreased slightly to TL 10,501,377 thousand as of 30 September 2019, compared to TL 12,468,234 thousand as of 31 December 2018, TL 13,913,407 thousand as of 31 December 2017 and TL 12,586,075 thousand as of 31 December 2016.

As of 30 September 2019, the Bank's mortgage loans represented 4.7% of the Group's total loans, compared to 5.7%, 7.0% and 7.1% as of 31 December 2018, 2017 and 2016, respectively.

The Bank's mortgage loan strategy is based on providing service to customers through the Bank's mortgage experts, developing dedicated branch and non-branch delivery channels and offering innovative mortgage products. The Bank's mortgage experts provide customers with mortgage products and provide consultancy for all aspects of mortgages including financial, legal, technical and tax related issues at branches.

The Bank has established a dedicated team within the mortgage department to work with real estate developers and improve the flow of new individual mortgage applications to the Bank. This programme has helped the Bank to strengthen its mortgage services through its relationships with real estate developers for 131 projects and 2,938 realtors.

### ***Payroll Services***

The Bank had 30,883 payroll companies and 2,192,587 payroll customers as of 30 September 2019 as compared to 30,781 payroll companies and 2,104,604 payroll customers as of 31 December 2018, 27,267 payroll companies and 2,096,708 payroll customers as of 31 December 2017 and 27,320 payroll companies and 1,845,362 payroll customers as of 31 December 2016. The Bank has established limited service branches in the locations where its payroll services customers work in order to provide convenient service. The Bank's management believes that the Bank enjoys a strategic strength in this area, which it intends to continue to develop and grow through cross selling of its products and services. In order to further increase its market share in this area, the Bank launched the Salary Customer Strategy Project in 2013, led by consultant firm BCG, which aims to develop a comprehensive payroll structure and growth strategy for the Bank. Payroll services have been an area of the Bank's focus as part of its strategy to focus on small ticket, retail and demand deposits and create cross sale opportunities.

### ***Auto loans***

The Group's auto loans (including both commercial instalment car loans and consumer car loans) comprised 0.5%, 0.6%, 0.8% and 1.0% of the Group's total gross loans as of 30 September 2019, 31 December 2018, 31 December 2017 and 31 December 2016, respectively.

The Bank has had an exclusive agreement with Ford Otosan since December 2007, which allows the Bank the exclusive right to provide FordFinans branded auto loans for Ford automobiles in Turkey and allows customers to apply for an auto loan directly from a dealership through an online application system. In 2016, the Bank started to utilise individual and, in 2018, commercial auto loans at Ford Otosan dealers through the online system. The agreement excludes heavy commercial vehicles, fleet sales and sales for car rental companies.

### ***Bancassurance***

In 2013, Allianz bancassurance partnership combined the Bank's customer focused leading retail franchise with Allianz's global experience in developing and managing insurance products.

The Bank considers bancassurance an area with strong growth potential. As a bank with a significant retail market share, the Bank has a large base of potential customers for both insurance and pension products. In 2015, the Bank integrated all its bancassurance products to its core IT system, which is expected to boost sales via branches while facilitating digital channel insurance sales (including sales via internet banking, mobile banking and call centres). As a result of the integration, time to market duration for new product developments is expected to diminish and the system's flexibility when adapting to new conditions is expected to increase. As the market initiator, the Bank offers its customers a life insurance bundle with credit via mobile banking. Online life insurance sales via mobile banking are a pioneer process for the bancassurance business in Turkey.

As of 30 September 2019, the Bank had 33.0% market share in health insurance, 9.9% in life, 3.7% in property and casualty insurance and 13.2% in pension.

### ***Business Banking, Small Enterprises and Medium Enterprises***

SMEs (corporate customers with an annual turnover of less than U.S.\$4,500,000) are an important segment for the Bank. As of 30 September 2019, 31 December 2018, 31 December 2017 and 31 December 2016, the Bank had over 2.0 million, 1.9 million, 1.6 million and 1.5 million SME clients, respectively.

In 2017, the Bank restructured its segmentation approach to serve the Bank's SME customer base more efficiently. Customers were segmented based on their size and diverse financial needs. Under the new segmentation criteria, the SME segment is divided into three sub-segments: (i) customers with an annual turnover of less than U.S.\$175,000 are segmented as business banking; (ii) customers with an annual turnover between U.S.\$175,000 and U.S.\$520,000 are segmented as Small Enterprises; and (iii) customers with an annual turnover of more than U.S.\$520,000 are segmented as Medium Enterprises and served accordingly in the Bank's branches.

Customer acquisition activities are supported by dedicated relationship managers for customer acquisition teams, namely "hunters", and Direct Sales Force ("DSF") teams whose sole purpose is to acquire new customers and create sales leads. The hunter teams act as key customer acquisition engines for the Bank, focusing on unique product bundles designed for SME customers.

As of 30 September 2019, the Bank's SME customers were served through a network of 1,822 dedicated relationship managers in the Bank's branches, 64 hunters and 211 DSFs in the Bank's SME banking centres, and are encouraged to utilise the Bank's alternative distribution channels such as internet banking, ATMs and operating out of call centres. The Bank also provides SME customers a similar range of products to those provided to corporate customers, as well as commercial purchasing cards specifically designed for SMEs.

In the first nine months of 2018, the Bank took part in three loan programmes in conjunction with supranational organisations to provide longer maturity and discounted interest rate funding for its SME customers. During this period, the Bank continued to cooperate with the Small and Medium Industry Development Organization (“KOSGEB”) and with the CGF to provide government subsidised loans to small businesses. The Bank also took part in a new loan programme through the Turkish Residential Energy Efficiency Financing Facility, providing financing for vendors of energy-efficient white goods and renewable energy equipment vendors.

The Bank has named agricultural banking as a strategic sector and has developed various strategies and action plans during the last seven years. For example, a new agricultural marketing and sales team has been established under the SME and agricultural banking group and a new agricultural loan evaluation system was announced in January 2012. In addition, agricultural experts have been located throughout the Bank’s regions, and the agricultural loan product range has been expanded by establishing specific loan types. Verimli Card, which is a special credit card for farmers, was relaunched in May 2014. In 2015, the ‘agricultural value chain’ was introduced as a business model aimed at obtaining the cash flow between food processor or agricultural product producer companies and farmers and traders. As of 30 June 2017, with the Bank’s new segmentation structure, agricultural clients have started to be segmented within all SME sub-segments (micro-small-large) according to their annual turnovers. In 2017, 2018 and in the nine months ended 30 September 2019 the Bank utilised CGF guaranteed loans to agricultural customers. Yapı Kredi Agricultural Banking has focused on both mass customer and big customer acquisition through selling its products from huge product range to the Bank’s customers as a main strategy.

SMEs globally encounter difficulties to access the financial services they require. To address this issue, the CGF was established as a joint-stock company in accordance with Turkish Commercial Code in 1994. Its shareholders are banks, KOSGEB and The Union Chambers and Commodity Exchanges of Turkey. The CGF provides access to finance for SMEs that are not eligible for bank loans due to insufficient collateral, by acting as a joint guarantor. Although the CGF’s priority is to support SMEs, non-SMEs can also apply for CGF guarantees for certain programme.

There are two types of evaluation systems for CGF guaranteed loans:

- Portfolio Limit System: The CGF evaluates the credit worthiness of SMEs through its own specialists in addition to the Bank’s process. In this system, in addition to the CGF’s evaluation, the Bank may ask the SME for more information; and
- Portfolio Guarantee System: In this system, the CGF does not take part in the decision-making process. The CGF bases its evaluation on the credit worthiness rating done by the Bank and does not conduct any further evaluation. In this system, the Bank has complete autonomy to extend loans with a CGF guarantee.

The scope of the guarantee differs according to the source of the guarantee. The source of the guarantee can be either the CGF’s equity or treasury supported funds. Until 2017, the CGF had limited impact on the Bank’s lending. In February 2018, a cabinet decree was enacted allowing the CGF to provide Turkish Treasury guarantees up to TL 55 billion. This guarantee covers 80% of each loan granted to SMEs, 75% of each loan granted to non-SMEs, and 100% of each loan granted to exporters of each loan granted by a bank and is valid as long as the total NPL rate of the portfolio does not exceed a cap of 7%. In May 2018, an updated protocol was signed providing for a new TL 32.5 billion tranche, with guarantee coverage on loans of between 80 to 100%, subject to the same NPL rate portfolio cap of 7%. Under the updated protocol, the limit on the total value of guarantees that could be provided was lowered to TL 52.5 billion. The Bank continued to use the CGF programme in the nine months ended 30 September 2019 as well. In January 2019 and March 2019, a total of TL 40 billion in loans were granted with an 80% guarantee limit. In June 2019, a new project with an 80% guarantee limit of TL 20 billion was launched.

Furthermore in mid-February 2017 the BRSA decided that the treasury supported CGF guarantees shall be considered a direct guarantee from the Turkish treasury. Following this decision, the risk of the portion of the loans covered by CGF guarantees will be calculated with the same risk weight as the Turkish treasury (or 0%), while the risk of the remaining portion of the SME loans with CGF guarantees (the portion not covered by the CGF guarantees) is calculated based on the client's segment information.

### ***Private Banking and Wealth Management***

The private banking division serves the Bank's high net worth and ultra-high net worth customers. The Bank's wealth management services are carried out by its subsidiaries, Yapi Kredi Invest and Yapi Kredi Asset Management, providing asset management and brokerage services to the Bank's clients.

#### ***Private Banking***

The Bank has a leading position in the private banking market in Turkey both in terms of total asset size, which amounted to TL 64 billion as of 30 September 2019 (including equity balance), and distribution network, private banking centres, branches, as well as remote services. Customers with personal financial assets in excess of TL 500,000 are serviced by the Bank's private banking division. The Bank considers a private banking customer to be active if they meet the active customer criteria (i.e., having actual funds on the account and carrying out any transaction) at least once and are assigned to a portfolio within the last 1.5 years. As of 30 September 2019, 31 December 2018, 31 December 2017 and 2016, the Bank had 19,106, 18,908, 22,589 and 22,525 active private banking customers, respectively.

As of 30 September 2019, private banking customers were served by 139 private banking relationship managers through 21 private banking centres/branches. ADCs for the private banking segment also include a dedicated call centre team and a separate private banking web page on the Bank website.

The total volume of deposits managed by the private banking business amounted to TL 41.1 billion as of 30 September 2019, TL 41.1 billion as of 31 December 2018, TL 30.5 billion as of 31 December 2017 and TL 32.5 billion as of 31 December 2016. In assets under management in the mutual fund business, the Bank has 12.52%, 16.57%, 18.89% and 17.09% of the Turkish market, as of 30 September 2019, 31 December 2018, 2017 and 2016, respectively, according to Rasyonet statistics.

As of 30 September 2019, the private banking division provided a wide range of products and services, including 35 different types of mutual funds such as hedge funds, bonds and bill funds, variable funds, equity funds, a fund of funds, a precious metals fund, a participation fund, a mixed fund and a money market fund. The Bank launched a new FX hedge fund which customers can invest in USD for a certain maturity to gain fixed return. The Bank uses customer relationship management ("CRM") modelling tools in order to define eligible customers for different types of products such as securities, derivative products (forwards, futures and options), foreign exchange, gold and equity trading, insurance products, safe deposit boxes and e-banking services. The Bank also has affiliates and subsidiaries, which provide investment, advisory and portfolio management services, supported by the Bank's relationship with UniCredit and its subsidiaries. The Bank also offers various advisory services through different and specialised business partners such as Tax Advisory, Art Advisory, Inheritance Advisory, Real Estate Advisory, Philanthropy Advisory, and Educational Advisory. Private banking customers are also entitled to a number of services such as ATM cash withdrawals up to five times the normal daily withdrawal limit, invitations to events and concerts, a dedicated call centre line, customised internet and mobile tablet banking services, 24 hour emergency ambulance service and have access to seminars on pertinent issues relevant to their financial interests, including investments, financial markets and taxation and are kept informed on the economy and capital markets through daily emails.

### *Yapı Kredi Invest (Yapı Kredi Yatırım)*

Yapı Kredi Invest provides institutional and individual investors with investment and advisory solutions, with strategies spanning asset classes, industries, and geographies. Yapı Kredi Invest's investment product range includes fixed income, public equities, commodities, derivatives and leveraged foreign currency trading operations. Additionally, it provides corporate finance advisory services with a dedicated team.

Yapı Kredi Invest has established one of the widest branch networks in Turkey, with a presence in nine cities in Turkey. It has three sales desks in İstanbul and eight branches in the cities of Adana, Ankara, Antalya, Balıkesir, Bursa, Denizli, İzmir, Kayseri, and Samsun.

As of 30 September 2019, Yapı Kredi Invest was the top domestic brokerage house in Turkey, with a 12.78% market share in the equity market. Additionally, as of 30 September 2019, Yapı Kredi Invest had a 15.43% market share in the derivatives market.

### *Yapı Kredi Asset Management (Yapı Kredi Portföy)*

Established in 2002, Yapı Kredi Asset Management provides customers with mutual funds, private pension funds and discretionary portfolio management products, together with portfolio advisory and private fund establishment services. Yapı Kredi Asset Management provides services throughout the country through its head office in Istanbul and the Bank's branch network. It had 59 employees as of 30 September 2019.

As of 30 September 2019, Yapı Kredi Asset Management offered 34 mutual and hedge funds and had total assets of approximately TL 11.2 billion. Its total market share for mutual funds stood at 13.61% as of 30 September 2019.

Yapı Kredi Asset Management also provides management services to 30 private pension funds. It had approximately 12.61% market share of the pension fund market in Turkey, with assets under management of approximately TL 14.5 billion as of 30 September 2019.

### ***Corporate and Commercial Banking***

As of 30 September 2019, the Bank served its corporate clients via three branches and 25 relationship managers, and it served its commercial clients via 46 branches and 364 relationship managers. Corporate and commercial customers are segmented mainly by the value of their annual turnover. Commercial customers are companies with an annual turnover of between TL 25 million to TL 500 million, while corporate customers are companies with an annual turnover of more than TL 500 million. Companies with turnover of less than TL 25 million are considered to be part of the Bank's SME segment and are managed within the retail banking division.

Recently, the Bank introduced new segmentation criteria for its corporate and commercial clients to better address their needs and provide tailored, client-specific services more efficiently. These criteria are based on the company's size and behaviour benchmarks such as the company's turnover (for potential client value), its international dimension (in order to assess the complexity of the relationship with the client), outstanding systems (to assess the size and complexity of the client's financial needs) and trade finance (as an indicator of the complexity and size of the client's business needs).

As of 30 September 2019, the Group's lending to the corporate and commercial sector comprised 63% of its total loan portfolio, while deposits from corporate and commercial customers comprised of 36% of the Group's total deposits.

The Bank provides additional services to its corporate customers, including working capital financing, foreign trade finance, project finance, a variety of domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management, investment banking

and brokerage, factoring, leasing and insurance services. In addition, in non-cash loans, the Bank provides both domestic and foreign currency facilities to its customers, principally comprising guarantees in relation to imports and letters of credit in respect of trade financing activities.

The primary business lines in the commercial banking segment are working capital, financing, foreign trade finance, project finance, leasing and factoring, domestic and international non-cash credit line facilities, cash management and e-banking services to mid-size and large corporates.

Net operating income for the corporate and commercial banking segment amounted to TL 4,419,172 thousand for the nine months ended 30 September 2019, as compared with TL 6,318,472 thousand for the year ended 31 December 2018, TL 3,816,064 thousand for the year ended 31 December 2017 and TL 1,785,585 thousand for the year ended 31 December 2016. These increases were the result of:

- a focus on high margin foreign currency project finance loans driven by selective loan growth and a disciplined pricing approach in corporate banking; and
- a focused approach on mid commercial sub-segment driven by upward loan re-pricing initiatives in commercial banking.

#### *Project Finance*

The Bank has been active in the provision of project finance loans and syndicated loans in Turkey since 1999. As of 30 September 2019, its project finance team comprised 19 staff members specialising in infrastructure energy (mainly renewable), commercial real estate and acquisition projects.

For the nine months ended 30 September 2019, the Bank had underwritten TL 747 million (U.S.\$131 million) of project finance loans, compared to approximately TL 5,881 million (U.S.\$982 million) for the year ended 31 December 2018, to approximately TL 3,353 million (U.S.\$889 million) for the year ended 31 December 2017 and TL 8,740 million (U.S.\$ 2,484 million) for the year ended 31 December 2016. The maturity of project finance loans typically ranges from five to 15 to 18 years, with a maximum grace period of four years.

#### *Global Transaction Banking*

The product range of the global transaction banking department covers all traditional products in addition to structured products, which are customised for client needs. One of the Bank's competitive advantages is to provide multinational solutions to its local clients in relation to the UniCredit Group's product scheme.

The cash management and trade finance teams have product development and sales departments which serve the Turkish Lira and foreign currency cash flow needs of the Bank's clients. As of 30 September 2019, the sales team's 31 staff were divided among the head office, 11 commercial regions, 22 retail regions, three corporate branches and one international branch in order to provide support and keep close contact with both clients and branches. The sales team also focuses its coverage on the digitalisation of the clients, the network and the complete product range.

The Bank has become the leader in cheque clearing (according to the Central Bank statistics as of 30 September 2019), with a market share of approximately 11.2% and maintained its strong industry position with 15.0% in import flows and 16.2% in export flows (according to the Turkish Statistical Institute as of 30 September 2019). In the nine-month period ended 30 September 2019, the number of clients utilising the Bank's cash management and trade finance products increased by 15.4% to approximately 272,456 companies as compared to the same period in 2018.

### *Cash Management*

The Bank has further strengthened its market leading e-banking position, with particular high turnover performance in direct debit and the BANKOTM OHES bulk payment system, while maintaining its leading position in traditional collection systems such as domestic cheque clearing in the Central Bank. The Bank's cash management services include a broad variety of products, including all countywide collection and payment services, cash transfer services, electronic banking and operational services. In addition, the Bank offers a variety of data integration and reconciliation solutions related to its products. In the nine months ended 30 September 2019, the Bank's bulk payment transactions increased by 12% to 8.7 million as compared to the same period of 2018.

### *Trade Finance*

The Bank provides a variety of support services and payment management mechanisms to Turkish companies engaging in international trade transactions. These include advance payments, letters of credit (sight, deferred and acceptance), cash against documents, cash against goods, standby letters of credit, export financing (pre- and post-shipment), import financing (promissory note discount), forfaiting and export credit insurance and transferable letters of credit. In addition to traditional import and export products, the Bank offers its customers innovative and alternative foreign trade products and structured solutions.

The Bank has created a special team that is responsible for expanding its structured trade finance business through export credit agencies and export-import banks of other countries, as well as originating short-term and long-term financing through correspondent banks for the investment needs of the clients.

### *International Banking*

The Bank was one of the first Turkish banks to establish correspondent banking relationships and to undertake foreign business. The relationship management function for foreign financial institutions for the Bank is conducted by the financial institutions team. The financial institutions team also carries out functions including the following:

- provides presentations and insight on developments on the Bank and the Turkish economic and political environment to correspondent banks;
- discusses new products with correspondent banks and implements them within the Bank, in collaboration with the Trade Finance department, in order to gain access to new markets and improve service quality;
- engages in the international marketing of the Bank and its products;
- analyses the financial situation of banks and applies for credit lines on their behalf; and
- arranges long-term structured borrowings in accordance with the Bank's projected borrowing needs.

### *Treasury*

The Bank's treasury department consists of five major groups: Fixed Income Securities; Money Markets and Balance Sheet Management; Foreign Exchange and Derivatives; ALM Planning and Financial Monitoring; and Treasury Marketing. It manages the Bank's ongoing liquidity needs, interest rate risks, foreign exchange rates and controls its proprietary investment portfolio.



### *Fixed Income Securities*

The Fixed Income group is primarily in charge of managing the Bank's local and foreign currency fixed income portfolios. As of 30 September 2019, the Bank was one of the 12 primary dealers accepted by the Ministry of Treasury and Finance in Turkey. The Fixed Income group also manages local and foreign currency deposits. As of 30 September 2019, the Group's securities portfolio amounted to 13.70% of its total assets.

As of 30 September 2019, the Bank had a 19.65% market share in securities trading on the Borsa Istanbul compared with 14.89% as of 31 December 2018, 17.1% as of 31 December 2017 and 19.86% as of 31 December 2016, according to the Borsa Istanbul.

### *Money Market and Balance Sheet Management and Foreign Exchange and Derivatives*

This group is primarily involved in asset and liability management activities, interbank money market transactions and foreign exchange trading, including derivatives. For the nine months ended 30 September 2019, the Bank's trading volume was U.S.\$662 billion, compared to U.S.\$780 billion for the year ended 31 December 2018, U.S.\$723 billion for the year ended 31 December 2017 and U.S.\$658.8 billion for the year ended 31 December 2016. The Bank's interbank foreign exchange trade volume was approximately U.S.\$178.7 billion for the nine months ended 30 September 2019, U.S.\$316.5 billion for the year ended 31 December 2018, U.S.\$301.4 billion for the year ended 31 December 2017, U.S.\$335.8 billion for the year ended 31 December 2016. Foreign exchange volume for client transactions denominated against the Turkish Lira was U.S.\$39.1 billion in the nine months ended 30 September 2019, U.S.\$72.8 billion in the year ended 31 December 2018, U.S.\$66.6 billion in the year ended 31 December 2017, U.S.\$56.3 billion in the year ended 2016. As of 30 September 2019, the Bank also held 11.05%, 9.98% and 7.07% market shares (customer transactions against the Turkish Lira) in the domestic spot trading, forward and swap markets, respectively.

This group is also responsible for stabilising the interest income on the balance sheet and creating necessary funding for targeted asset growth purposes.

### *ALM Planning and Financial Monitoring*

The ALM Planning and Financial Monitoring group is primarily responsible for monitoring the treasury department's performance and activities. This group also assists other groups within the treasury department with introducing new products.

### *Treasury Marketing*

The Treasury Marketing group is the contact point for large scale corporate, commercial and private customers. The group advises and assists customers with managing risk exposures and hedging opportunities. The group completed transactions worth approximately U.S.\$47.5 billion for customers in the nine months ended 30 September 2019, U.S.\$104 billion for customers in the year ended 31 December 2018, U.S.\$113 billion for customers in the year ended 31 December 2017 and U.S.\$98 billion for customers in 2016.

### **Distribution Network**

The Bank offers its banking products and services through an extensive distribution network, which includes branches as well as advanced ADCs such as ATMs, call centres, internet banking and mobile banking.

### ***Branches***

As of 30 September 2019, the Bank had 854 branches covering all regions of Turkey (including one branch in Bahrain). While the Bank's branch network covers all regions in Turkey, most of the branches are in the largest cities, with 66.9% of the Bank's branches being located in the

ten largest cities (including Istanbul, Ankara, Izmir, Antalya, Bursa, Konya and Adana) as of 30 September 2019. According to BRSA statistics, the Bank's market share in the ten largest cities in Turkey as of 30 September 2019, 31 December 2018, 31 December 2017 and 31 December 2016 in terms of branches was 9.5%, 9.3%, 9.2% and 9.6%, respectively, compared to 8.3%, 8.2%, 8.2% and 8.7%, across Turkey as of 30 September 2019, 31 December 2018, 31 December 2017 and 31 December 2016, respectively. The Bank has a number of different types of branches, including standard, satellite and mobile, which provide customers with a wide range of services. As of 30 September 2019, 777 of the Bank's branches were retail related, demonstrating the retail market orientation of the Bank. As of 30 September 2019, the Bank's corporate commercial branch network consisted of 50 branches (including one international branch) and the Bank's private banking network comprised 21 private banking centres.

### ***Alternative Channels***

The Bank uses three main ADCs: ATMs, digital banking and a 24-hour call centre, all of which rely upon the Bank's information technology platform. These channels allow customers to access services 24 hours a day and seven days a week. The cost of processing transactions through ADCs is lower than processing them through branches. Therefore the Bank encourages its customers to utilise ADCs by offering promotions and reduced fees in return for customers using these channels instead of the branches. As of 30 September 2019, the Bank handled 93.7% of all its transactions through non-branch channels and the remaining 6.3% through branches. Of the 83.0% handled through ADCs, 39.9% were via ATMs, 43.0% via digital banking (composing internet and mobile banking), 0.1% via its four call centres and the remaining 10.7% via other channels including post office and centralised automated transaction channels.

#### ***ATMs***

As of 30 September 2019, the Bank had the fifth largest ATM network in Turkey, with 4,352 ATM machines and nearly 6.4 million ATM users. As of the same date, 89.4% of the cash transactions of the Bank was performed at the ATMs. The Bank continues to grow its ATM network throughout Turkey.

All of the Bank's ATMs can accept cash deposits. At the beginning of the 2005, 'Recycle ATMs' (where the banknotes deposited can also be used for withdrawal) were deployed in order to reduce the bank's operational cost and to optimise the efficiency of its ATM network. As of 30 September 2019, 82% of the Bank's ATMs were Recycle ATMs.

The Bank's ATM infrastructure, interface and transaction flows have been renewed to provide unique customer experience in line with the Bank's digital channels strategy.

To achieve the aim of digitalising the ATM channel, the Bank has started to focus on innovative projects such as, "Sending Transaction Receipt by E-mail", which launched at the end of May 2015.

Customers can now receive email receipts for all of their transactions at the Bank's ATMs. To improve digital convergence, in addition to "Cash Withdrawal and Cash Deposit via QR Code" transactions, "Cash Advance and Cash Advance with Instalment via QR Code" were also implemented in March 2018, and the Bank continues to be a pioneer in this sector. As a result, digital banking customers who prefer ATMs for cash transactions can easily withdraw or deposit in TL, USD or EUR currencies via QR Code and use cash advance and cash advance with instalment without using a card and without touching the ATM. The Bank will continue to increase the number of transactions performed via QR Codes. As of September 2019, one out of every five cash withdrawal transactions were made via QR code.

As of 30 September 2019, the Bank earned TL 102.2 million in banking commissions from the Bank's customers, and other banks' domestic and foreign based customers.

In addition to being the most frequently visited high volume transaction processing channel, the Bank continued its focus on sales offers at ATMs. New products such as general purpose loans and flexible accounts have started to be offered from the Bank's ATMs in order to meet customers' cash needs instantly. In the nine months ended 30 September 2019, over 2.8 million products were sold from the Bank's ATMs, as compared to over 2 million products in 2018. As of 30 September 2019, 72% of cash advance/cash advance with instalment sales were made via ATMs.

### *Digital Banking*

As of 30 September 2019, digital banking had 5.8 million individual customers and 309 thousand corporate and commercial customers. On the mobile banking side, the Bank had 5.5 million active mobile banking customers including 5.3 million "Individual Mobile Banking" customers and 217 thousand "Corporate Mobile Banking" customers. The Bank's number of active digital banking customers has increased 18% from September 2018 to September 2019. The number of Mobile Banking active customers has increased 22% from September 2018 to September 2019. The share of non-cash transactions executed through digital banking as a percentage of all non-cash transactions had increased to 96% as of 30 September 2019. The Bank has experienced increasing numbers of transactions and transaction volumes in recent years, mainly due to higher internet penetration rates globally and in Turkey, and significant marketing of the Bank's internet banking services.

As of 30 September 2019, 54% of GPL sales were made via digital banking channels (4% through internet, 50% through the mobile application). Additionally, 20% of total GPL sales were made through call centres. The Bank first launched internet banking with Teleweb in 2000. Digital banking services are currently provided through internet banking and mobile banking applications. Mobile banking applications can be installed on mobile devices on all native platforms by visiting [yukle.yapikredi.com](http://yukle.yapikredi.com) or can be used as html without installation necessary by visiting [m.ykb.com](http://m.ykb.com).

Following an exhaustive renewal of its mobile banking app with a view to offering customers an even faster and more effective experience, the Bank plans to deliver further innovation for the banking sector with its eye scan technology (Eyeprint-ID), also a first in Europe. This function allows users to log in via their smartphones in a faster, easier and more secure manner, without having to enter their password. The renewed Yapı Kredi Mobile also enables swift contactless money withdrawal and deposit from ATMs via QR code and direct access to the call centre. Initially marketed on the iOS platform, the Bank's mobile banking apps received 20.9 million downloads in total as of September 2019.

The Bank launched "digital onboarding via video assistants" on its mobile banking app, as a first in Turkey. Users can easily and quickly become a Yapı Kredi customer without having to visit a branch by downloading the Yapı Kredi Mobile app on mobile phones and contacting the "Video Assistants". The digital onboarding feature is available on both iOS and Android platforms.

The Bank launched the first smart keyboard for money transfer in Turkey, and one of the first ones in the world. Yapı Kredi Banking Keyboard enables customers to switch from the standard keyboard in messaging applications to a smart keyboard for money transfers. It works on any instant messaging applications including but not limited to: Whatsapp, Facebook Messenger, Skype, Snapchat, Instagram, SMS. The Bank's customers can also send money by voice or texting, via Siri and iMessage.

The Bank's customers can now see if a branch is busy or not on the Bank's branch density map and book a prioritised appointment before visiting the branch. Furthermore, the "Don't Panic Button" helps customers manage their cards anytime, anywhere via Yapı Kredi Mobile. With this feature, users can lock their card(s) temporarily for 24 hours and cancel their cards instantly. When customers lock their cards, they can still withdraw money via QR code or pay credit card bills.

The Bank launched a mobile payment feature on the Yapı Kredi Mobile app beside its card branded app Yapı Kredi Wallet. This way, users can make contactless payments with their NFC

supported Android Mobile phones by simply tapping their smart phones on a POS machine. Another convenient payment option the Bank has launched is payment via QR code. Customers can now shop online by scanning a QR code via Yapı Kredi Mobile. Primarily launched on Biletix.com, leading ticketing company in Turkey, the feature will be integrated into several e-commerce websites.

The Bank has also launched an in-car payment system, with which customers can pay for fuel via Yapı Kredi Mobile from the comfort of their car. Furthermore, the Bank is in the process of developing additional features for Yapı Kredi Pay, including systems to streamline the payment experience for online shopping and reduce the need to duplicate the entry of card information across multiple websites and apps.

Additionally, the Bank launched a “Jet Transactions” menu to make transactions quicker and easier for users. Three main transactions of an ordinary user are moved to a semi-secure area to create a more seamless experience. These transactions are cash transfer, cash withdrawal/deposit with QR code, Yapı Kredi Pay.

Furthermore, the Bank facilitates user identification with the help of NFC technology. Now, the Bank’s customers can contactlessly login to Yapı Kredi Mobile by approaching their credit card to the NFC reader field on the back of their phone and entering their card password.

With the “One Pin” integration, the Bank enables its customers to use their internet/mobile banking password on telephone banking as well. In addition, the Bank also enables its customers to approve loan agreements with their Yapı Kredi Mobile password without the need to sign documents in branches.

In 2016, the Bank laid the foundations of a free and open source software platform, Code.YapıKredi, which is open to everyone who wishes to learn software development and use their knowledge to contribute to productivity. Code.YapıKredi is a comprehensive platform that covers programming tutorials and financial guidance. Following the incubation programme that was implemented during 2017, the Bank launched its comprehensive acceleration program in 2018. During the Code.YapıKredi accelerator programme, participants were provided with support to develop their businesses and the opportunity to obtain investment. In the ‘demo day’ at the end of the program, participants had the opportunity to present their pitches to investors. Through Code.YapıKredi, the Bank aims to contribute to the development of the startup & fintech ecosystem, while also paving the way for young entrepreneurs.

Aiming to be accessible to customers at any time or anywhere; the Bank has become the first in Turkey to provide service via a verified corporate WhatsApp account. This feature enables customers to instantly text their requests via their mobile devices and get prompt information about services and products they need. Depending on their needs, customers may be served by artificial intelligence-powered chat bot or live customer representatives.

Furthermore, the Bank broke new ground with its Facebook chatbot (messaging robot) service which is the first in the Turkish banking sector. By using Yapı Kredi BankacıBot (BankerBot), customers can access a variety of operations such as applications, bill payment and information enquiries via Facebook Messenger.

The Bank developed an Apple Watch app before the watch was released and became the first company to provide such an app to its customers in Turkey. The Bank also has a mobile banking app compatible with Samsung Gear S2 and Google Glass. Moreover, the Bank released a smart TV application which provides an uninterrupted TV experience and market information tracking at the same time. The Yapı Kredi Smart TV Finance application can be downloaded on Arcelik, Beko, Grundig TV’s Appstore. Furthermore, the Bank launched Ford SYNC3 integration on Yapı Kredi Mobile. With Yapı Kredi Mobile SYNC3 developments, customers can receive market information, call Yapı Kredi Call Centre, see a list of the nearest Yapı Kredi branches/ATMs and receive

navigation from their vehicle's dashboard. They can also access Exchange Rates and BIST Information by voice.

To ensure secure internet connections, the Bank offers One Time Password (“**OTP**”) products through OTP Mobile (a JAVA application operating on mobile phones), OTP SMS (one time passwords sent via SMS), Mobile Signature and Smart Banking (for corporate internet banking). The Bank's internet banking system provides 24 hour customer service through live chat, call centres and email enquiries.

Moreover, the Bank focused on increasing the direct sales capability of digital channels as a way to ensure sustainable growth. The Bank offers branchless GPL product which provides customers with a convenient way to meet their financial needs as well as boosts bank revenues. Customers can apply for a loan on the internet and mobile banking and the approved credit amount is sent directly to customer's account, even on weekends. It also provides access to more products such as flexible account, credit card application and life insurance sales on internet banking. The Bank has also e-Government Gateway integration which enables customers to make over 1,200 transactions related to public institutions with their internet banking password without needing any other credentials.

The Bank utilises BehaviorPad, a behavioural targeting tool designed for proposing the most relevant offers to customers on yapikredi.com.tr. Furthermore, thanks to the Web Payment Center (a first in the banking sector), users can make bill payments even if they are not the Bank's customers and can also pay MVT (motor vehicle tax) on yapikredi.com.tr. The Bank also provides an Application Centre, which involves credit card, GPL, mortgage, SME loan, education loan and private pension functions.

The Bank has recently started to provide “Auto Enrolment In Private Pension System” and offers this product both via corporate internet banking and yapikredi.com.tr.

The Bank also provides an alarm and reminder service (Smart Assistant) that notifies customers instantly via SMS, e-mail or push notification.

The Bank developed “Self Service World”, which enables corporate internet banking members to create campaigns on their own for Yapı Kredi individual customers. Self Service World is the first campaign generation application provided by a bank in Turkey. The Bank is continuing to develop innovative ways to improve its customer experience. The Bank added the login with QR code feature to corporate internet banking, the first bank to do so in Turkey. The Bank's customers can login to corporate internet banking by scanning a QR code on the internet login screen with their mobile phone.

Furthermore, the World Mobil app aims to digitalise card customers' end-to-end shopping experience. World Mobil offers special discounts, loyalty points, instalments and postponement benefits to its wide network of more than 300,000 stores. In order to provide this experience, World Mobil presents its customers after shopping functions of reviewing earned benefits, several digital payment solutions such as QR and NFC payments and card management and control functions.

#### *Customer Relations Centre*

The Bank's Customer Relations Centre has positioned itself to set the standards in this sector in Turkey. The Bank's award winning call centre is one of the largest financial call centres in Turkey in terms of agents and number of calls received. The call centre deals with a wide range of the Bank's services including credit cards, merchants, retail, SME, corporate, commercial and private banking, serving both individual and corporate customers. As of 30 September 2019, the call centre had 1,405 employees. In addition to being one of the most important service channels, the Bank's contact centre has a significant role as a sales hub. In the nine months ended 30 September 2019, the contact centre carried out approximately 42 million contacts, 1,104,000 credit card retention calls, 764,537

customers retained and 5.1 million product sales. Approximately 65% of the call centre activities are carried out via an interactive voice recognition system which allows self-service usage.

## **Corporate Structure**

The following chart presents the corporate structure of the Group and its shareholders as of the date of this Base Prospectus.

### **Subsidiaries**

Following the merger of Yapı ve Kredi Bankası A.Ş. and Koçbank in October 2006, certain financial subsidiaries of KFS and the Bank were rationalised and merged. Below is a description of the Bank's primary operating subsidiaries.

#### ***Domestic Subsidiaries***

##### ***Yapı Kredi Leasing***

Yapı Kredi Leasing was established in 1987 and, as of the date of this Base Prospectus, is 99.99% owned by the Bank. Yapı Kredi Leasing has been listed on the Borsa İstanbul since 1994. However, in accordance with Article 25 of the ISE Listing Regulation and the CMB's Principle Decision on De Listing, dated 30 July 2010 and numbered 22/675, Yapı Kredi Leasing was delisted following the second session of 20 July 2012. As of 30 September 2019, Yapı Kredi Leasing had shareholders' equity of TL 2.5 billion. As of 30 September 2019, Yapı Kredi Leasing had 139 employees. The key role of Yapı Kredi Leasing is to develop and provide customers with leasing products through the Bank's wide branch network as well as 14 Yapı Kredi Leasing branches.

##### ***Yapı Kredi Faktoring***

Yapı Kredi Faktoring was established in 1999 and is 99.95% owned by the Bank as of the date of this Base Prospectus. Yapı Kredi Faktoring provides factoring services in Turkey via: its head office in İstanbul, branches in Beyoğlu, Güneşli, Kartal, Kadıköy, İzmir, Ankara, Bursa, Antalya and Adana. The company had 126 employees as of 30 September 2019. Yapı Kredi Faktoring offers its customers monitoring and collection of short-term domestic or international receivables from product or service sales, guarantees for receivables against payment defaults and flexible financing through early payment before the due date of the receivables. Yapı Kredi Faktoring is a member of Factors Chain International.

#### ***International Subsidiaries***

##### ***Yapı Kredi Bank Nederland***

Yapı Kredi Bank Nederland N.V., a wholly owned subsidiary of the Bank, is active in the Netherlands and subject to the supervision of De Nederlandsche Bank (the Dutch Central Bank) as well as the Netherlands Authority for the Financial Markets. The bank was established in May 1996

and changed its name from Koçbank Nederland N.V. to Yapı Kredi Bank Nederland N.V. upon acquiring the latter in 2007. The bank operates through its head office in Amsterdam and offers a wide range of retail, corporate and private banking services. Its main objective is to provide banking solutions to domestic customers and also to the Bank's customers from abroad. The focus of its corporate services varies and covers a wide range such as transactional trade finance, ship finance, Islamic finance and project finance. In terms of retail banking, Yapı Kredi Bank Nederland N.V. provides saving and deposit products in the Dutch retail market to more than 12,309 customers as of 30 September 2019. As of 30 September 2019, the total assets of Yapı Kredi Bank Nederland N.V. were U.S.\$1.9 billion.

#### *Yapı Kredi Bank Azerbaijan*

Koçbank Azerbaijan was established as a joint venture between Koçbank (80%) and the IFC (20%) in 2000. In 2006, KFS became the sole owner acquiring IFC's share. Since early 2007, following the merger of Yapı Kredi and Koçbank, the Bank has continued functioning under the "Yapı Kredi Bank Azerbaijan" brand. Yapı Kredi Bank Azerbaijan provides retail and corporate banking services to its customers, including loans, deposits, project finance, domestic and international money transfers, trade finance, equity market and securities transactions, credit card transactions, safe deposit box and travel cheques. As of 30 September 2019, Yapı Kredi Bank Azerbaijan operated through seven branches, one central customer office, plus one satellite branch, it had 252 employees and 5,091 corporate customers, 10,839 SME customers and 299,034 retail customers, 29 ATMs and 1,873 POS terminals. In September 2012, Yapı Kredi Bank Azerbaijan also launched credit card sales alongside its retail operations. As of 30 September 2019, the total assets of Yapı Kredi Bank Azerbaijan were U.S.\$253 million.

#### *Yapı Kredi Malta*

In October 2014, the Bank received from Malta Financial Services Authority a banking licence to establish a new banking subsidiary in the Republic of Malta under the name of "Yapı Kredi Bank Malta Ltd." following the necessary permission by the BRSA. Yapı Kredi Bank Malta Ltd. is controlled by Yapı Kredi Holding BV whose share capital is fully owned by the Bank.

Yapı Kredi Malta started its operations in 2015 with a share capital of EUR 60 million. In order to fulfil this capital requirement, the share capital of Yapı Kredi Holding BV was increased by the Bank to EUR 102 million from EUR 59 million. As of 30 September 2019, the total assets of Yapı Kredi Malta were U.S.\$172 million (€157 million).

#### **Associates**

##### ***Banque de Commerce et de Placements S.A.***

Banque de Commerce et de Placements S.A. ("BCP") is a Swiss bank established in 1963 and is 30.67% owned by the Bank. BCP has been an affiliate of the Bank since 1996. BCP operates in the areas of trade finance, wealth management, treasury services, and correspondent banking. BCP is rated as investment grade by Fitch. Headquartered in Geneva, the bank also operates through its branches in Luxembourg and Dubai.

##### ***Yapı Kredi Insurance (Yapı Kredi Sigorta) and Yapı Kredi Pension (Yapı Kredi Emeklilik)***

On 26 March 2013, the Group agreed to sell its non-life and life insurance businesses to Allianz and to establish a 15-year strategic distribution partnership for non-life insurance, life insurance and pension products in Turkey. Following regulatory approvals, the transaction was finalised on 12 July 2013.

As the first component of this transaction, the Group sold its 93.94% stake in Yapı Kredi Insurance, including Yapı Kredi Pension, to Allianz for total cash consideration of TL 1,790 million (of which TL 1,410 million will accrue to the Bank). As the second component of the transaction, the



Group then bought back and retained a total 19.93% stake in Yapı Kredi Pension for a cash consideration of TL 188 million in order to benefit from the expected strong growth in the life insurance and pension business in Turkey.

As the third component of the transaction, the Group also entered into the 15-year bancassurance agreement with Allianz for the marketing and distribution of non-life insurance, life insurance and pension products through the Group's retail network and other alternative delivery channels. The partnership combines the Group's customer-focused leading retail franchise in Turkey with Allianz's global experience and leadership in developing and managing insurance products. Throughout the duration of the bancassurance agreement, the Bank is to receive a commission flow for the distribution services as well as a profit share from its life insurance sales.

## Joint Venture

### *Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.*

Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş. is a real estate investment trust established in 1996. The trust is 30.45% owned by the Bank, 25% owned by the Koray Group and 44.55% publicly quoted. The trust is headquartered in Istanbul.

## Competition

In recent years, the banking sector has become increasingly important to the Turkish economy and foreign banks have become increasingly involved in the sector.

According to the Turkish Banking Association, as of 30 September 2019, there were a total of 47 banks licensed to operate in Turkey (excluding six participation banks). According to BRSA, as of 30 September 2019, the five largest banks in Turkey held approximately 53% of the banking sector's aggregate loan portfolio and approximately 54% of aggregate banking sector assets in Turkey. Among the ten largest banks, there are three state owned banks: Ziraat (ranked first), Halkbank (ranked second) and Vakıfbank (ranked fourth), which constituted approximately 36.1% of the total banking sector assets as of 30 September 2019. Foreign banks have shown an increased interest in the banking sector in Turkey in recent years. Foreign banks such as BNP Paribas, Burgan Bank, ING, Qatar National Bank, Commercial Bank of Qatar, UniCredit, Sberbank, Commercial Bank of China and Odeabank have all acquired interests in Turkish banks. Additionally, Emirates NBD entered into a definitive agreement in May 2018 to buy 99.85% of Denizbank from its parent Sberbank. The sale was completed on 31 July 2019 following the Competition Board's approval in June 2019.

According to BRSA statistics, as of 30 September 2019, 31 December 2018, 31 December 2017 and 31 December 2016, the Bank's market share in loans, deposits and assets were as follows:

	As of 30 September	As of 31 December		
	2019	2018	2017	2016
			(%)	
Loans .....	8.8%	9.2%	9.5%	10.2%
Deposits .....	9.2%	10.0%	10.0%	10.6%
Assets .....	9.3%	9.5%	9.6%	9.7%

Source: Banking Regulatory and Supervisory Agency (BRSA)

As of 30 September 2019, according to BRSA statistics, the Bank was the third largest private bank in Turkey by total assets. According to BRSA statistics, as of 30 September 2019, the Bank ranked fifth in terms of cash and non-cash loans (including letters of guarantee, letters of credit and acceptances) with a 9.6% market share, and had a market share of 8.1% in consumer loans (ranking

sixth) including mortgages, general purpose and auto loans, 5.8% in commercial instalment loans (ranking fifth) and 8.4% in company loans (ranking fifth). As of 30 September 2019, the Bank's market share in total deposits among private banks was 15.3% (compared to 16.1% as of 31 December 2018, 15.6% as of 31 December 2017 and 16.0% as of 31 December 2016) according to BRSA statistics.

As of 30 September 2019, the Bank's market share in total cash loans among private banks was 17.1% (compared with a market share of 16.6% as of 31 December 2018, 16% as of 31 December 2017 and 16.4% as of 31 December 2016) according to BRSA statistics. As of 30 September 2019, the Bank ranked fourth, with a revenue market share of 13.9% for the nine months ended 30 September 2019 according to BRSA statistics. The Bank's management views Garanti Bank, Akbank and İşbank as the Bank's main competitors.

As of 30 September 2019, the Bank was a Turkish market leader in credit cards (19.8% market share in credit card outstanding volumes (ranking first) according to BRSA statistics, 18.5% market share in credit card issuing volumes (ranking second) and 17.5% market share in number of credit cards (ranking first), according to the Interbank Card Centre's data). As of 30 September 2019, the Bank has strong positions in asset management (ranked third, with a 14.2% market share according to Rasyonet). As of 30 June 2019, the Bank was ranked second among private banks with a 12.2% market share in non-cash loans according to the BRSA statistics.

## Employees

As of 30 September 2019, 31 December 2018, 31 December 2017 and 31 December 2016, the Group had 17,798, 18,448, 18,839, 19,419 employees, respectively, of whom 16,950, 17,577, 17,944, 18,366, respectively, were employees of the Bank. The following table sets out the number of employees of the Group and the Bank as of 30 September 2019, 31 December 2018, 2017, and 2016:

	As of 30 September	As of 31 December		
	2019	2018	2017	2016
Bank.....	16,950	17,577	17,944	18,366
Head office and operations.....	8,268	8,484	8,413	8,157
Branches.....	8,682	9,093	9,531	10,209
Subsidiaries.....	848	871	895	1,053
<b>Total Group.....</b>	<b>17,798</b>	<b>18,448</b>	<b>18,839</b>	<b>19,419</b>

The Bank's management believes that the Bank has a qualified workforce with appropriate educational backgrounds. All employees are trained in customer-oriented service principles and are considered competent in technical banking applications. Women represented 63% of total employees, and the proportion of university graduates was 80% as of 30 September 2019. As part of the Bank's training strategy, the Bank employs new graduates and prepares them through its institutional culture for managerial positions.

Within the Bank, there are unionised employees, for whom a collective bargaining agreement (the "CBA") applies, in addition to Turkish labour laws and the Bank's personnel regulations, which apply to all of the Bank's employees. In total, 9,575 of the Bank's employees were members of the Union, amounting to 56% of all employees as of 30 September 2019.

With respect to Union employees, the Bank's management and Union officials meet regularly to exchange information on working conditions. The Bank and the Union agree and sign new protocols to the CBA every two years and the latest agreement covers the period from 1 April 2019 to 31 March 2021. The Bank also provides additional benefits to its employees including a group retirement plan, health insurance and welfare fund.

## Information Technologies

The Group's information technology and operations departments are integrated in order to provide better service internally and improve the efficiency of core banking activities.

The Group maintains its information technology and operations infrastructure in order to support its growing business and minimise operational risk and business interruption. The Bank operates a 2,000 square metre information technology centre in Gebze, Kocaeli (43 kilometres from Istanbul), which deals with all of the Bank's technology functions and initiatives. The fully operational information technology centre provides services to the Bank's headquarters, branches and customers. The Bank has developed much of its software in-house, including its internet banking software, through its software development department.

The Group has developed and implemented procedures for emergency systems and data restoration and maintains a separate disaster recovery centre in Ankara, which has been in place since 1998. The disaster recovery site contains all key applications, such as Core Banking, Internet Banking, Workflow Systems, Credit Card Systems, ATMs, electronic fund transfer ("EFT"), SWIFT and Treasury. Data is transferred online as defined in the disaster recovery procedures. The Group maintains a remote online real-time disaster recovery system, which is operated when the main production system or main data centre is not available. The Group can transfer operations and reroute data lines through the disaster recovery system within 30 minutes. The disaster recovery centre is tested on a bi-annual basis. This has enabled the Bank to be in full compliance with Basel II requirements for systems and data.

In 2011, it was decided to increase IT capacity to enable better service to the business. The IT project development capacity has been increased by 50% since 2011 to a target of more than 125,000 man days in 2014. In 2018, the IT project development capacity target is about 198,000 man days. In 2011, the Bank completed 178 IT projects. This number increased to 207 in 2012, 213 in 2013, 245 in 2014, 334 in 2015, 263 in 2016, 281 in 2017 and 208 in 2018. For 2019, an IT master plan has been approved with a total of 328 projects.

Major ongoing programmes cover the following areas:

- The Treasury and Investment Strategies Programme aims to enhance the Bank's technical capabilities in treasury systems and investment products, in order to strengthen its competitive position in the market. In order to adapt to the rapidly evolving market trends, a new business model supported by a flexible technical structure is to be implemented with the collaboration of IT and related business units. The programme started on 28 February 2013 and completed in 2016, except for the Fixed Income Project, which is expected to be completed in April 2020.
- The Data Transformation Management Programme was initiated in 2016 with the aim of setting up an enhanced data governance model that would support the organisation and enable it to extract more benefits from data. The programme will cover data management and data quality, including designing the governance structure. The programme also includes the data warehouse modernisation initiative. A key objective of the data warehouse modernisation initiative is to renew the Bank's data warehouse to effectively organise, store, analyse and extract data. At the end of the programme, the renewed data warehouse will be more available and show improved performance, have a simpler and completely integrated data model to address changing business needs, have less time and cost to market and will be able to deliver more analytics capability due to the renewed modernised architecture. The Data Transformation Management Programme was completed in 2019.
- The NBA (Next Best Action) Programme was initiated in 2016 and is currently ongoing. NBA is a direct marketing paradigm that aims to capture opportunities with

inbound contacts, increase the business intelligence of outbound offers and orchestrate CRM in an omni-channel environment. The campaign management tool Chordiant will be replaced with Pega, a next generation campaign tool. It is planned to be completed in Q1 2020.

- The Digitalisation Programme is an initiative to increase the digitalisation index of Yapı Kredi. The programme started in 2016 and is currently ongoing.
- Digital Investment Programme (INDIGO) focuses on the investment needs of the customers in line with the target of being Turkey's first and best digital bank. The programme includes product enhancements, customer experience improvements, performance and wealth traceability and enriched reporting developments on digital channels. The programme started in 2018 and is currently ongoing.
- The Target Operating Model aims to maximise the front-to-back office ratio of the Bank via optimisation and standardisation of operation activities with branch and centre splits while increasing the control focus of operations. Accordingly, target services models in the branches have been redefined and these models are being put in place through the launch of included IT and non-IT initiatives. Initiatives consist of subprojects to eliminate, automate, centralise and transform operation activities. Preparations started in 2015 and these models were completed by the end of 2018.
- TOM Wave 4 is the next generation central operations model being designed for the Bank. The programme started in 2019 and aims to complete in 2021. Key enablers of the project are:
  - building proximity model for branch operations and positioning branch operations as controller rather than executor;
  - developing system supported smart controls driven by analytics and artificial intelligence;
  - boosting migration via middle office acting migration officer and strategic business unit involvement with solid targets;
  - designing leaner, intelligent processes leveraging on digital insights; and
  - optimising workforce management via outsourcing and choreography design for synchronisation of demand and supply.

In addition, the following programmes have been completed which aim to strengthen the Bank's market position in the following key areas:

- **The ATM Re-platforming Programme** was started in 2015 to renew the ATM network of the Bank and with the objectives of creating a more flexible and effective infrastructure with respect to software, monitoring and package distribution and enabling an integrated and singular customer experience with an omni-channel approach. The new ATM system will support multiple vendors, multiple currencies and multiple languages, and have enhanced content management and commercial capabilities. The programme was completed in December 2017.
- **The One Direction Programme** was initiated in January 2016 and completed in August 2017. The programme aimed to develop a new system for the call centre which:
  - improved opportunities for increased sales and retention effectiveness;

- decreased average handling time and increased quality significantly in each call; and
- completed contact history of the customer through all channels (aligning omni-channel strategy).
- **The Credit Underwriting Redesign Programme** aims to create more flexible, automated and user-friendly underwriting and disbursement systems. The programme was started in 2013 and completed in the first quarter of 2016 with gradual deliveries. In addition to first deliveries, new functionalities and enhancements were completed in 2017.
- **Open World Programme**  

This programme was started in May 2009 and involved the transporting of the mainframe system to “open system” with the aim of strengthening the Bank’s leading position in the credit card market and further differentiating the Bank from its competitors by creating a credit card system suitable for simple, quick and flexible improvement and delivering structural enhancements. In particular, open system aimed to reduce credit card maintenance, development and transaction costs, improve the Bank’s disaster recovery system, and adopt new functionalities including credit limit management and card differentiation. This programme was completed in the second quarter of 2014.
- **Harmoni**  

The Bank’s other primary initiative was started in 2011 and involved the migration to a new front-end platform called Harmoni. The programme used a process-based approach for maximising business efficiency and system performance. 696 reports, 1,101 screens, 736 types of transactions and 151 types of workflow management forms have been migrated to the Harmoni platform. The programme was completed in the fourth quarter of 2013.
- **MCM Programme**  

In 2011, a set of new projects as initiated in parallel with the Bank’s new strategies to develop “multichannel banking” (e.g., mobile banking, centralised customer service call centres, ATM management and marketing optimisation). A number of strategic projects have been launched within the programme. Yapı Kredi Mobile Banking was launched in 2011 for various mobile platforms and new functionalities are being added continuously. The Branch Call Diversion Project was completed in the third quarter of 2013 for efficient and high quality call management in branches. The new Yapı Kredi Internet Banking was launched in the first quarter of 2014, with new designs and new functionalities, including extended CRM features and security enhancements. The Bank’s website has been renewed for better customer communication. The website has received awards from “Communicator Awards” in three categories (Award of Excellence in Financial Services, Award of Distinction in Banking/Bill Paying category and Award of Distinction in Corporate Identity) and the Outstanding Achievement Award from “Interactive Media Awards” for its self-learning behaviour and simple design. The programme was completed in 2014.
- **Direct Banking**  

A new Direct Banking platform was launched in May 2014 with the brand name “Nuvo”. By offering a new direct banking platform, the programme aimed to acquire new customers, decrease the usage of high cost channels, such as branches, and

increase the usage of low cost channels, such as mobile branches and internet branches. The target model focused on students, young professionals and tech savvy seniors, who have basic banking needs and are sensitive to pricing.

- **Sales Force Automation and Credit Card Only Customer Acquisition Programme**

Retail banking management strategies were supported by giving automated and efficient processes to end-users. Simple product sales processes, more efficient disbursement processes, quick underwriting availability, one-click cross-sell interface and form-free sales availabilities aimed to increase sales capacity and productivity. Another aim of the programme was to move customers that only used credit cards to the retail segment through cross-selling activities. The programme has been completed and rolled out in all branches as of August 2014.

- **UPDM**

This project aimed to create a unified collection system for the Group which replaced the former distribution infrastructure. This project was initiated in the first quarter of 2013 and completed in June 2014.

- **Internet Banking Uplift and Mobile Banking Replatforming**

The main goal of this project was to renew the design, increase functionality and enhance usability, security and efficiency of digital channels. The project was completed in 2015.

- **The RRE (Retail Risk Excellence) Programme** aims to improve collection performance. The programme comprises three main projects:

- Retail Risk Excellence: Underwriting and Collection Systems and Processes improvements were studied within this project to maintain the Bank's profitability and increase collection performance. To achieve the project's goal, 14 actions have been implemented. The project has been completed.
- Improving the Bank's NPL Collection Performance: The scope of this project is to focus on improved legal collection and to form the ideal high-level NPL sales process. The project has been completed.
- Enhancements of Consumer Loan Underwriting System: Underwriting system infrastructure changes were delivered to simplify work streams and minimise process complexity for better customer management. The project has been completed.

- **SME Boosting** was initiated in November 2016. The project was completed in 2018. The programme aims to:

- develop a new service model for the SME segment to capture market growth and optimise risk adjusted returns;
- develop/enhance the commercial and risk tools to support the new service model and risk infrastructure; and
- improve the current risk management infrastructure to mirror the enhanced business/service model.

## Property

The Group owns or leases premises for its head office, branches and operations centres. As of 30 September 2019, the Group's fixed assets (comprising land, land improvements, buildings, computer hardware and other fixed assets) had a total net book value of TL 4,338,843 thousand (U.S.\$766,702 thousand) or 1.09% of the Bank's total assets. The Group owns its headquarters premises in Istanbul and its operations centre in Gebze. As of 30 September 2019, the Bank owned approximately 20.14% of its branch premises and the rest were leased.

## Insurance

The Group maintains insurance policies with levels of coverage it deems necessary given the nature of its business. The Group's fixed assets, cash in transit and cash in hand are covered by general insurance arrangements covering normal risks. The Bank generally requires that the real property assets owned by borrowers which form part of the collateral for loans the Bank makes are insured. The Bank does not have any credit risk insurance in relation to defaults by its customers as this type of insurance is generally not available in Turkey. The Group maintains insurance on its properties, including its head office, branches and personal property, with respect to such risks, including earthquakes and terrorist attacks, and in such amounts as the Group deems appropriate.

## Legal Proceedings

From time to time, in the ordinary course of its business, the Group is party to legal proceedings, either as plaintiff or defendant. There are no legal proceedings pending, or to the Group's knowledge threatened, that may materially adversely affect the Group's business, results of operations or financial condition. As of 30 September 2019, the Group recognised a provision of TL 128,812 thousand in respect of legal proceedings.

*On 12 December 2019, the Ministry of Treasury and Finance Insurance General Directorate imposed an administrative penalty on the Bank for violations of Article 32 of the Insurance Law No. 5684 and other relevant legislative provisions. According to the first paragraph of Article 24 of the Regulation on Insurance Agencies, the Bank was warned that its insurance brokerage activity may be temporarily suspended for up to six months. Following an evaluation of the Bank's public disclosures of the subject within the framework of article 29 of the regulations on the principles and procedures of the insurance and private pension sectors regarding supervision and control, an administrative penalty of TL 187,104,850 was imposed on the Bank on 24 January 2020. This administrative penalty will be paid in accordance with Article 17/6 of the Misdemeanours Law No. 5326, by using the 25% advance payment discount.*

## MORTGAGE ORIGINATION, APPROVAL AND SERVICING

The Bank's residential mortgage loan portfolio is almost entirely generated by the Bank, which also services its own residential mortgage loan portfolio. The following summarises the Bank's mortgage loan products, their origination process, the Bank's approval process and its servicing of the residential mortgage loan portfolio.

*Products.* The Bank only originates fixed rate residential mortgage loans, which the borrowers principally use for the purchase of new residential real estate. While the Bank offers payment plan-based products (i.e., loans with increasing or decreasing instalment payments), the Bank's clients primarily elect loans with equal instalment payments through the maturity date.

In addition to standard residential mortgage loans, the Bank offers its customers "transfer mortgage loans" and "restructuring mortgage loans." Transfer mortgage loans are offered to applicants who are transferring to the Bank a mortgage loan contracted with another bank, which a borrower principally does in order to obtain more attractive loan conditions. Restructuring mortgage loans are offered by the Bank to customers that have an outstanding mortgage loan with the Bank in order to prevent its customers from transferring its debt to another bank or to assist a borrower that is in financial difficulty. In restructuring loans, the Bank offers a lower interest rate and/or longer payment periods with lower instalment amounts compared to the then current loan.

All residential mortgage loans are secured by establishing a first ranking lien on the corresponding real property. In transfer mortgage loans, a second ranking lien is created initially but then becomes a first ranking lien upon payment of the outstanding amount of the mortgage loan that is being replaced.

The final maturity of residential mortgage loans made by the Bank is typically between five and ten years. The weighted average age of residential mortgage loans held by the Bank as of 4 December 2017 was approximately eight years.

*Origination.* All of the Bank's mortgage loans are provided through the Bank's branches; however, a customer may also submit an application through text messaging, the internet, third party web portals, a call centre or a real estate agent, which application is subsequently directed to a branch of the Bank to initiate the origination process.

The Bank's branches (together with the applications directed from call centres) initiated the origination process for residential mortgage loans representing 87% of the total principal amount of residential mortgage loans originated by the Bank in the first half of 2016. The Bank had 769 retail, 21 private and 46 commercial branches in Turkey as of 31 December 2019, all of which are eligible to originate mortgage loans. As of 31 December 2019, the Bank employed 1,510 retail relationship managers and 134 private banking relationship managers providing retail loans to its customers, including residential mortgage loans, which managers have direct contact with branch customers to answer questions, assist with their submission of a loan application and continue as the primary point of contact with the customer throughout the application process.

The remaining mortgage loans in the first half of 2017 were initiated through applications made by customers through the Bank's internet portal or real estate agencies. Supporting this and the Bank's other residential mortgage lending business, the Bank engages in both mass and targeted marketing in various media.

*Approval.* Upon submission of a mortgage loan application (and receipt of such application by a branch), the relevant branch initiates the "automatic appraisal" process by gathering information and documents from and about the applicant (e.g., identification cards, income statements, employment details and credit history) in order to start the approval process.

However, individual branches do not have authorisation to approve mortgage loan applications. Instead, the authorisation of mortgage loan applications is administered by the



centralised Consumer Loans Underwriting Department. All mortgage loan applications must go through the centralised process established by the Consumer Loans Underwriting Department which involves an automated search of all relevant internal and external databases to such application (including searches of the credit bureau, the Bank's internal records, loan history, assets, Central Bank negative reference, etc.).

An automated system (which makes determinations based on a score, legal and income based criteria) initially establishes whether a mortgage loan application should be rejected or subject to further review as follows:

*Reject:* The system will automatically reject a mortgage loan application if the relevant criteria have not been met. Where a mortgage loan application has been rejected, a branch may request a further evaluation of such application within one of the determination. Additional information and documents must be submitted for the decision to be reconsidered. Only the Consumer Loans Underwriting Department has the authority to approve an application in these circumstances.

*Manual Review:* Mortgage loan applications that are not rejected by the automated system will be subject to evaluation by the Consumer Loans Underwriting Department who will consider all relevant aspects of the application.

The above mentioned appraisal report is an important part of the approval process, with each appraisal report being prepared by an independent appraisal firm. Three independent regulatory institutions (the BRSA, the CMB and the Appraisers Association of Turkey (*Türkiye Değerleme Uzmanları Birliği*)) monitor and authorise real property appraisal businesses in Turkey and, as of 15 January 2020, there were 137 real estate companies licensed by the CMB and BRSA.

The appraisal companies each use three appraisal methodologies for each property: a comparison approach, an income approach and a cost approach. Upon receiving a mortgage loan application, the Bank initiates the valuation process by entering information regarding the applicable real property and its title to the Bank's internal valuation portal, which randomly selects an independent appraisal firm and forwards the request to the selected firm. Following receipt of an appraisal order, an appraiser will: (a) visit the relevant Land Registry Office, municipality and (for on-site measurements) the real property to be mortgaged; (b) conduct research regarding reference values; and (c) prepare and submit an appraisal report to the Bank. The technical staff at the Bank's real estate department reviews the report according to the Bank's internal rules and compares it with relevant precedents. Subsequently, such department submits the report to the relevant branch that initiated the valuation process.

The Bank undertakes an evaluation of the requested loan using an internally developed scoring process that rates applicants based upon various criteria and determines the maximum loan amount for the applicant. Where a co-signer or guarantor would be liable on the mortgage loan, the analysis of the application also takes their creditworthiness into account.

In this analysis, the Bank (upon receipt of all needed information) undertakes a credit assessment of the applicant using the same processes applicable to other potential credits to such an applicant and evaluates the credit application. Considerations in this analysis include whether the applicant is a private or public sector employee, a self-employed individual, a shareholder of a company, an individual receiving a pension from the social security institution of Turkey or the Bank, an individual with additional income such as rent or interest income or a payroll customer of the Bank. As of 30 June 2016, employed workers are the principal customers of the Bank's residential mortgage loan business and the average age of the Bank's residential mortgage loan borrowers was approximately 40 years old.

An employee of a branch collects various information about each applicant through the credit application system, including the following: (i) the profession, income and address of the customer;

(ii) the income of the applicant's family; provided that his/her spouse, parent(s) or children resides in the same house with the applicant and co-sign(s) or guarantee(s) the loan agreement to be liable on the mortgage loan; (iii) debt-to-income ratio, which reflects the ratio of the applicant and (if applicable) his/her family's monthly gross income to their overall debts; (iv) age of the applicant; (v) purpose, maturity and amount of the requested credit, which cannot exceed 80% of the appraised property value; (vi) age of the property; and (vii) the construction status of the property.

The Bank gathers certain information from third parties, such as the Central Bank or Turkey's credit bureaus, while other information comes directly from the Bank's history with the applicant (e.g., is he or she a payroll customer of the Bank or has he or she obtained loans from the Bank in the past?). The Bank also requests additional documents and information from the applicants to verify their income level, such as: (A) from an applicant declaring rental income, a related lease contract or bank account statement; (B) from a private sector employee, an income statement from the company, confirmation from the employer verifying such employment and verification from the online portal of the Social Security Institution of Turkey (*Sosyal Güvenlik Kurumu*); and (C) from a public sector employee, the most recent income statement of the employee signed by the employer and confirmation from the employer verifying any lien on the monthly income of the employee.

The repayment capacity and debt level of a residential mortgage applicant are the primary factors in determining the limit for any credit that might be provided to the applicant. The reasons that most frequently result in the rejection of a residential mortgage loan application include: (I) a history of non-payment, including any disclosed in the applicant's report from Turkey's credit bureau; (II) negative records of the applicant in the Bank's own database based upon the Bank's history with the applicant; (III) the appearance of the applicant in the blacklist of the Bank's fraud database; (IV) incomplete or false information in the application documentation; and (V) insufficient monthly income of the applicant.

The information and documents collected and verified during the credit application process are maintained in the Bank's internal systems and are used for control purposes. The credit utilisation documents are printed in the branch, while other documents are kept in the Bank's electronic archive system and may be accessed by the audit department or the credit approval authority online.

*Servicing.* Once a residential mortgage loan is funded, the relevant department of the Bank (e.g., commercial, retail or corporate) monitors and recovers the loan. The monitoring process aims to ensure that payments are made promptly and that any necessary evidence of insurance is delivered.

If a borrower misses a payment, then the Bank labels the loan as "delinquent" and the PI Individual Loans Monitoring Department monitors the loan until it is 90 days in arrears. If a customer does not make the necessary payments while its loan is delinquent, then the Bank tries to reach such customer through voice messages, phone calls or SMS messages and sends a warning letter via public notary. The PI Individual Loans Monitoring Department sends a list of delinquent (60 days past due and higher) loans to the branches periodically.

Following the submission of a warning letter to a delinquent customer, the Bank continues to monitor the loan until such customer makes the due payment. The Bank also provides a customer the option to restructure the delinquent loan.

Once a mortgage loan is in arrears for 91 days or more and the Bank has been unable to recover amounts due to it under the mortgage loan despite having given notice to the relevant borrower, a legal process for recovery of the amount due is initiated. The applicable loan file is assigned to an external lawyer and the legal process for foreclosure is initiated.

Where legal process is initiated, the Bank issues a warrant of execution and submits an application for the appraisal of the mortgaged property via the office of a Turkish bailiff. The bailiff commences a public auction for the mortgaged property and starts with a minimum bid price of 50% of the appraised value. If the property cannot be sold at the first auction, then a second public auction

is announced for a date at least 25 days after the first auction and the minimum bid price is again set at 50% of the appraised value. In both auctions, the Bank has the option to buy the property and terminate the loan. Following a legally required objection period provided to the debtor, the bailiff finalises the sale of the property to the winning bidder and transfers to the Bank the amount required to repay the mortgage loan in full (or as much thereof as possible). The period of collection may be extended due to: (x) the debtor making an objection to the appraisal value of the real estate (in which case the debtor must present a final decision of the enforcement court); and (y) the debtor initiating a lawsuit for cancellation of the auction; provided that the debtor deposits 20% of the winning auction price before initiating a lawsuit for cancellation of the auction (such deposit is retained by the court if the court does not decide in favour of the debtor). If the amount from the sale is not sufficient to repay the mortgage loan in full, then further legal process is pursued by the Bank against other assets of the borrower to ensure full recovery.

## **RISK MANAGEMENT**

### **Internal Audit Department**

The Bank's Internal Audit Department reports to the Audit Committee and utilises a risk-oriented approach to assess credit risk, operational and IT risk, and market risk, including within the Bank's subsidiaries. The department also performs investigations. The retail branches are audited based on the analysis of risk indicators, with between a one- and four-year audit cycle of the retail branches based on the risk classifications. Moreover, the risk trends of each branch are monitored quarterly through key risk indicators. A 12-month audit cycle is applied to the Corporate, Commercial and Private Banking branches. The head office departments are audited based on the risk assessments, while also considering the requests of shareholders, governing bodies, top management and regulators. The audit period for the head office departments may vary from between one to five years in accordance with the results of the risk assessments. Regular branch and process audits are scheduled based on an annual audit plan which is submitted to the Board of Directors for approval. In addition, significant internal audit results are submitted to the Board of Directors at least four times a year through the Audit Committee.

In addition, the BRSA requires a "management assertion" study of Banking processes and IT systems to be completed by the Internal Audit Department annually. The management assertion study was completed as of 31 December 2018 and the Board of Directors was informed of the results.

### **Risk Management Department**

The Bank's Risk Management department functions independently from its commercial operations. With the Credit Committee and the Asset and Liability Management function of the Executive Committee, the Risk Management department is an integral part of ensuring the Bank's compliance with the Banking Law, with respect to measuring, monitoring and managing credit, market and operational risks concerning the Bank's portfolio.

The basic functions of the Risk Management department are to measure and manage risks in a manner consistent with the Bank's risk appetite. The department is also responsible for: (a) maximising returns on invested capital and maintaining sustainable profit growth; (b) monitoring trends in risk exposures and communicating irregularities to senior management; (c) monitoring asset and liability profiles to allow the Bank to take rebalancing actions on a timely basis; (d) defining the risk structures of products, processes and services; (e) measuring the credit risk of the Bank's portfolio via rating models; and (f) ensuring the Bank's compliance with the Banking Law.

As of 30 September 2019, the Risk Management department had 106 employees. The main organisational segments of the department are Strategic Risk Control, Credit Risk Management and Market Risk Management.

### **Strategic Risk Control**

Risk control involves the following key roles and responsibilities in the Bank: (a) defining the optimum composition of the overall loan portfolio and identifying risk positions within legal and Group limitations; (b) preparing a credit risk budget in line with the Bank's risk appetite and lending targets; (c) monitoring the evolution of credit risk for all segments (including by industry, type and sector); (d) preparing and presenting strategic credit risk related reports to the senior management (including the evolution of loan provisioning and comparison with peer banks); (e) calculating cost of risk and related provisions by segments to assess the underlying risk of the loan portfolio and maintain asset quality; (f) preparing ICAAP Reports, stress tests and recovery and resolution plans; and (g) providing support to the Bank's subsidiaries while simultaneously coordinating their functions with the aim of achieving a loan portfolio with the best creditworthiness possible, as well as ensuring the proper implementation of their credit, credit risk cost and budgeting processes. This includes the preparation of action plans for such subsidiaries in order to align implementation processes across the Group.

The operational side of the Risk Management department encompasses responsibility for the following tasks: (i) defining the Group's operational risk policy covering IT risks; (ii) issuing guidelines for the measuring, evaluation and management of operational risks and IT risks, and ensuring correct implementation both at Bank and subsidiary levels; (iii) developing and regularly updating the operational risk measuring and monitoring systems and models at Group level; (iv) measuring and monitoring operational risks and IT risks at Group level; (v) carrying out "second level controls" for operational risks and IT risks at Group level; (vi) ensuring compliance with Basel II in the area of operational risk; (vii) managing the business continuity plan of the Bank with particular responsibility for assuring the establishment and maintenance of the plan, and controlling and coordinating the various entities involved in the process; (viii) preparing action plans for operational risk mitigation and coordinating the implementation of such plans; (ix) taking into account the significance of reputational risk and consequently setting and ensuring implementation of policies and strategies, which are assessed, quantified and managed with the overall intention of minimising such complications; and (x) establishing and reviewing the support services risk management programme and giving risk opinions for support service procurement requests.

### **Credit Risk Management**

The Credit Risk Management department coordinates the following: (a) measuring the credit risk of portfolios by developing Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) models, which are used to compute the Expected Loss (EL) of a subject if it were to default; (b) defining the business specifications of all information technology tools used throughout the credit processes and the information technology systems where information about credit risk is kept (e.g., limits, risks, collaterals and credit risk datamarts in the data warehouse); (c) evaluating new credit products and changes to existing credit products; (d) leading credit risk related Basel IRB preparations at a Group level in anticipation of approaches by the BRSA; (e) validating and monitoring the rating/scoring systems used by the Bank in daily business processes; (f) establishing, monitoring and coordinating studies related to the internal capital adequacy assessment process ("ICAAP") and economic capital calculations; (g) managing and monitoring rule sets used in retail portfolios for underwriting, monitoring and collection purposes; and (h) making economic calculations for the credit portfolio.

On 21 July 2016, the Turkish government declared a three-month state of emergency following the attempted coup. This state of emergency was then further extended for an additional three months. The state of emergency law allows for the removal of public employees and transfers of the assets of individuals and related companies to the Turkish Treasury. To comply with the state of emergency law, the Bank's legal department is in charge of monitoring the Government's declarations and reporting exposures of the Bank's customers on a daily basis. On 18 July 2018, the Government declared that the state of emergency had ended.

### ***Lending Policy***

#### ***Lending Limits***

The BRSA defines large exposure as an exposure exceeding 10% of the Bank's capital base in light of BRSA credit conversion factors. The Bank's total exposure to a single company or group cannot exceed 25% of the Bank's capital base. Total exposure to a risk group (comprising Koç Holding and UniCredit Group) cannot exceed 20% of the Bank's capital base. The total of the Bank's large exposures cannot exceed the Bank's capital base by more than eight times. To date, the Bank has never exceeded these ratios. Further description of the applicable regulatory requirements is set out in "*Turkish Regulatory Environment—Lending Limits*" in this Base Prospectus.

According to the Bank's credit policy, each individual sector should not exceed a targeted level of 10% of the total loan portfolio. Currently, the only industrial sectors that exceed this internal limitation are the energy sector and the construction sector (including infrastructure, real estate and construction), including non-cash lending. These sectors also include various subsectors, such as the

commercial real estate finance subsector, as well as various loan types, such as project finance loans that are supported by legal commitments and collateral from the treasury and public institutions, which subsectors and loan types constitute a significant share of these sectors.

#### *Limit Structure*

Since 2015, in respect of corporate and commercial clients, the Bank's credit underwriting divides commercial credit products into five risk categories: cash, payment guarantee, other non-cash, cash management and derivative.

#### *Approval Authorities*

In general, the lowest level of authoritative personnel for credit approval is the branch manager for corporate and commercial loans. Up to certain thresholds, there is no involvement of credit departments at either branch or regional level.

For corporate and commercial banking, at the level of the regional manager and above, the credit department will be involved and their credit opinion will be binding. If a credit opinion is negative, the credit proposal may either be passed onto a higher authority or be rejected.

The corporate and commercial banking credit department is authorised to approve loans above USD 250,000 or above the adjusted limit (after taking rating and product coefficients into account capped with a nominal limit of USD 500,000). There is no sales authority for SME and Medium Enterprises ("ME") customers.

There is no sales authority for business banking and SME/ME underwriting. The business banking credit underwriting department has authority and evaluates all credit decisions except those which are automated. The Bank's system is fully automated for business banking underwriting up to TL 150,000. For all other loans, the underwriting policy is applied.

For the SME, ME, commercial and international and multinational banking customers, the corporate and commercial credit underwriting department is organised into 22 regions (eight in Istanbul and 14 in Anatolia) and in the Bank's head office. The rating system, as well as the results from internal and external enquiries, are among the major parameters for credit decisions in underwriting. Relevant external and internal information is gathered and fed into the underwriting tools automatically. New and existing clients with bad ratings are rejected automatically for SME customers whereas clients with ratings that meet certain thresholds are approved automatically by the system in SME and ME segments. There is no automatic approval or rejection for corporate and commercial customers.

#### *Higher Credit and/or Reputation Risk Loans*

Certain types of transactions entail a higher credit and/or reputation risk for the Bank and are therefore either discouraged or require a higher level of approval. The Bank applies higher levels of approval and a prudent approach towards loans in other sectors, such as media, health and arms and weapons dealings.

#### ***Corporate and Commercial Lending***

Corporate and commercial underwriting is performed by three units: the corporate credit underwriting section, the commercial credit underwriting section and the specialised credit underwriting section. The corporate credit underwriting section considers credit applications of companies with an annual turnover above U.S.\$100 million, annual foreign trade volume above U.S.\$30 million or companies considered clients of the corporate strategic business unit. The commercial credit underwriting section reviews credit applications of companies with an annual turnover between U.S.\$10 million and U.S.\$100 million or annual foreign trade volume between U.S.\$1 million and U.S.\$30 million. The commercial credit underwriting section is organised on both

regional and head office levels. There are 22 regions (eight in Istanbul and 14 in Anatolia) in addition to the Bank's head office. The specialised credit and corporate credit teams are located in the head office. The specialised credit team analyses the credit requests for energy (hydro, wind, solar, thermal, biomass, distribution, etc.), real estate (shopping centres or mixed type projects), shipping (ship construction and ship operation) and mergers and acquisitions.

SME and ME lending is performed within the corporate and commercial credit department. The SME and ME segments consist of companies having turnover between TL 2 million to USD 10 million and total bank exposure between TL 0.5 million and 5 million.

### ***Retail Lending***

Retail underwriting utilises scorecards, decision trees and rule sets to evaluate the creditworthiness of applications. Once the data entry for credit card and individual loan applications is performed, enquiries to external sources (including the credit bureau and the Central Bank) and internal data sources (including customer information file and product performance) are run. Retail application scores are calculated through a computerised system. Once the enquiries are completed, the data is sent to the decision engine, where decision trees, data methods and rule sets are checked and the final decision is provided. Loan-to-value ("LTV") ratios are up to 80% for residential mortgage loans, 50% for working premises loans, 50% for home equity loans and 70% for car loans with a vehicle value of up to TL 100,000. If the invoice amount is greater than TL 100,000, the LTV ratios are up to 70% for the amount up to TL 100,000 and up to 50% for the remainder.

Credit card limits are calculated as twice the monthly net income of the customer for the first year. For the second and subsequent years, credit limits are calculated as four times the monthly net income of the customer.

The Bank's system is fully automated for business banking underwriting up to TL 150,000. For all other loans about which the system cannot make a credit decision, the underwriting policy is applied.

There is no sales authority for business banking. The business banking credit underwriting department has authority and evaluates all credit decisions except those which are automated.

### ***Rating Models***

For corporate and commercial clients, internal application rating models integrated within the underwriting process assign a probability of default to each borrower. The model is composed of various customer segments, including construction, production, trade, and services, as well as modules that encompass information domains. These domains include central bank data, balance sheet data, negative intelligence data, and Yapi Kredi behaviour data (including information on limit/risk utilisation and delinquency statistics). The categories stated above involve the quantitative side of the model; however, a module for the qualitative portion of assessment is also used.

Though independently rated, all four segments have been unified to establish a single rating system consisting of 16 different ratings.

The behavioural scorecards are rating models that are aimed at measuring the creditworthiness of existing clients. The behavioural scorecard for corporate and commercial clients was updated in January 2018. The model has the same structure (segments and module) as the application model.

For SME portfolios, the behavioural rating model was updated in January 2018 with the introduction of two submodels assigned to each of the segments described below. The rating model for clients belonging to the "Big" segment has 11 buckets while the model for clients belonging to the "Small" segment has 16 buckets.

The outcomes of rating models reflect the riskiness of each rated customer/credit, and generic provisions are set aside in accordance with each performing client's/credit's rating. These differentiated evaluation methodologies and processes are based on market segments and give the Bank the ability to measure, manage and monitor credit risk in a more accurate way.

### ***Loan Loss Provisioning Policy***

For purposes of loss provisioning, the loans are divided into five groups:

- first group: Includes standard loans and other receivables, reimbursement of which has been made within the specified periods or for which no reimbursement problems are expected in the future, and which can be fully collected. No deterioration in the credit risk of the debtor has been observed.
- second group: Includes closely monitored loans and other receivables with respect to which there is no problem at present but which the Bank believes should be more closely monitored for reasons such as decreasing solvency or cash flow problems of the debtor, significant financial risk carried by the debtor, or more generally for which capital sum and interest repayments are likely to fail and the persistence of such problems might result in partial or full non-payment risk.
- third group: Includes loans and other receivables with limited collection ability. These include loans with respect to which the collection of the principal sum and/or interest has been delayed for more than 90 days but less than 180 days from the due date.
- fourth group: Includes doubtful loans and other receivables with respect to which the collection of the principal and/or interest has been delayed for more than 180 days but less than one year from the due date.
- fifth group: Includes loans and other receivables, which are considered as a loss. These include loans that are deemed to be uncollectable, or where collection of principal and/or interest has been delayed by one year or more from the due date.

Starting from 1 January 2018, the Bank's classification of financial assets (especially in loans and receivables) and calculation of provisions changed according to TFRS 9.

In accordance with TFRS 9, the Bank's loan loss provisioning policy was replaced by the expected credit loss ("ECL") model. ECL estimates are required to be unbiased, probability-weighted, and should include supportable information about past events, current conditions and forecasts of future economic conditions. The ECL should reflect multiple macroeconomic scenarios and include the time value of money. The ECL model applies to all on-balance financial assets accounted for at amortised cost and fair value through other comprehensive income such as loans and debt securities, as well as to off-balance items such as certain loan commitments, financial guarantees, and undrawn revolving credit facilities.

These financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition. Impairment shall be recognised on outstanding amounts in each category, as follows:

- Stage 1: For financial assets at initial recognition or which do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded on the basis of 12-month expected credit losses.
- Stage 2: In the event of a significant increase in credit risk since initial recognition, the financial asset will be transferred to this category. Impairment for credit risk will be determined on the basis of the instrument's lifetime expected credit losses.



- Stage 3: Includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECLs are recognised and interest revenue is calculated on the net carrying amount.

### ***Exposure to Credit Risk***

The top 20 clients of the Bank mainly include leading conglomerates and state owned enterprises in Turkey. As of 30 September 2019, the share of the top 20 companies in terms of the total gross loans to companies amounted to 15.2%.

### **Market Risk Management**

As part of a financial group, the Bank is constantly exposed to interest rate, liquidity and foreign exchange risks. The Bank's market risk policy provides for guidelines with respect to the market risk management and binding limit structure and defines roles and responsibilities of the various teams involved. Market risk is managed based on the treatment of the Bank's banking and trading books. The banking book consists of all assets and liabilities arising from commercial activities, and is sensitive to interest rate and foreign exchange movements. The trading book includes positions held for trading, client servicing purposes or keeping the Bank's market making status. The Bank's market risk management strategy, policies and guidelines are based on UniCredit Group standards as well as on the Turkish regulatory rules and procedures.

The Bank's trading activity is realised on foreign exchange, securities and derivatives, which are tolerated within predefined limits. Risk limits are set in terms of end-of-day and intra-day position bases, as well as value at risk ("VaR"), monitored on a daily basis. Monitoring of trading activity is performed daily through reports prepared by the market Risk Management department, which show VaR positions and stop-loss limits, in addition to back testing profit and loss figures. These reports are then sent to the Bank's executive management, the Treasury department and the UniCredit risk management group.

The banking book's interest rate risk is measured daily on basis point sensitivity and monthly through the economic value perspective. The economic value sensitivity method calculates the potential change in fair value of the Bank's interest rate positions resulting from a parallel upward or downward shift of the yield curve. As outlined in Basel II, this interest rate fluctuation is to be maintained within 20% of the Bank's core Tier 1 and Tier 2 capital. Interest rate swaps are utilised to mitigate the banking book interest rate risk resulting from the maturity mismatch. Besides economic value sensitivity, an overall VaR, covering all on- and off-balance sheet items and basis point value methods are used to measure the structural interest rate risk. Structural foreign exchange position risk limits and VaR are also monitored daily and reported to the executive management.

The Bank monitors liquidity risk daily, paying particular attention to keeping enough cash and cash equivalent instruments to fund increases in assets, unexpected decreases in liabilities, as well as meeting legal requirements, while optimising the cost of carrying any excess liquidity. The liquidity policy provides guidelines to quantify the liquidity position and achieve a sound balance between profitability and liquidity needs. Liquidity risk limits are set both for short-term and structural long-term liquidity positions. The Bank has its own liquidity contingency plan on liquidity management. As part of the UniCredit Group, the Bank is included in the UniCredit Group liquidity contingency plan. Moreover, the Bank maintains the majority of its securities portfolio as marketable, thus facilitating access to the repo market as and when short liquidity is needed.

The Bank's market risk management procedures may be impacted by UniCredit's decision to reduce its stake in the Bank.

The Bank's derivative instruments are limited to financial instruments such as forwards, swaps, futures and options in foreign exchange and capital markets. These transactions are considered effective economic hedges under the Group's management policies.

As part of its market risk management, the Group undertakes various hedging strategies. The Group also enters into interest rate swaps to match the interest rate risk associated with the fixed rate long-term loans.

### ***Fair value hedges***

Since 1 March 2009, the Bank has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest Turkish Lira mortgage and car loan portfolios, as well as changes in foreign exchange rates on part of its foreign currency borrowed denominated funds, using cross currency rate swaps. The net carrying value of hedging instruments as of 30 September 2019 amounted to liabilities of TL 264,380 thousand compared with assets of TL 313,994 thousand as of 31 December 2018, TL 204,859 thousand as of 31 December 2017 and TL 205,519 thousand as of 31 December 2016. As of 30 September 2019, the mark to market difference of the hedging instruments since the inception date of the hedge relationship was a loss of TL 7,897 thousand compared with a gain of TL 20,740 thousand as of 31 December 2018, with a gain of TL 19,091 thousand as of 31 December 2017 and a gain of TL 14,710 thousand as of 31 December 2016. As of 30 September 2019, the fair value difference of the hedged item was TL 36,268 thousand compared with TL 44,165 thousand as of 31 December 2018, TL 23,425 thousand as of 31 December 2017 and TL (8,587) thousand as of 31 December 2016.

Their changes in fair value amounted to a decrease of TL 7,897 thousand as of 30 September 2019, a decrease of TL 20,740 thousand as of 31 December 2018, a decrease of TL 19,091 thousand as of 31 December 2017 and an increase of TL 14,710 thousand as of 31 December 2016.

### ***Cash flow hedges***

For the nine months ended 30 September 2019 and the years ended 31 December 2018, 2017 and 2016, gains of TL 324,607 thousand, TL 41,508 thousand, TL 6,987 thousand and TL 5,290 thousand, respectively, were recognised in the statement of income due to the ineffectiveness of cash flow hedges.

As of the 30 September 2019 and the years ended 31 December 2018, 2017 and 2016, net gains and losses arising from cash flow hedges recognised under equity, net of reclassification to statement of income and net of tax, were TL (2,837,331) thousand, TL 906,613 thousand, TL 457,541 thousand and TL 111,184 thousand, respectively.

### ***Net investment hedges***

The Group hedges part of the currency translation risk of net investments in foreign operations through currency borrowings.

The Group's euro denominated borrowing is designated as a hedge of the net investment in certain of the Group's euro denominated subsidiaries. The total amount of borrowing designated as a hedge of the net investment as of 30 September 2019 was EUR 447 million compared to EUR 430 million as of 31 December 2018, EUR 410 million as of 31 December 2017 and EUR 386 million as of 31 December 2016.

### ***Stress tests***

Stress tests provide an indication of the potential size of the losses that could arise in extreme conditions. The stress tests carried out by risk management, also indicated in the market risk policy of the Group, include foreign exchange and interest rate stress testing, where stress movements are applied to the foreign exchange position and to the banking book. The results of the stress tests are reviewed by the Asset and Liability Management function within the Executive Committee. Following the implementation of the ICAAP by the local regulator in Turkey, the Bank also calculates bank-wide stress tests.

### ***Foreign exchange risk***

Foreign exchange exposure is the result of the mismatch of foreign currency-denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-balance sheet foreign exchange derivative instruments. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The limits are set by the Board on the level of exposure in aggregate for both overnight and intra-day positions, which are monitored on a daily basis. The Bank performs periodic stress tests on foreign currency VaR by implementing different scenarios. These stress test scenarios are periodically renewed and monitored in accordance with market volatility.

### ***Interest rate risk***

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group is exposed to the effects of fluctuation in the prevailing levels of market interest rates in both its fair value and cash flow risks. Interest rate risk limits are set in terms of a total economic value sensitivity limit. Legal interest rate risk in the banking book is performed according to a scenario of 4% shift in Turkish Lira yield curve and 2% shift in foreign exchange yield curve. The resulting profit/loss should not exceed 20% of the Bank's capital. Moreover, the basis point value ("BPV") is applied for the banking book. The BPV limit restricts maximum interest rate risk position by currency and time buckets with valuation changes being based on an interest rate change of 0.01%.

In 2009, the Bank started to hedge a portion of its interest rate risk between its medium- and long-term fixed rate Turkish Lira loans (such as mortgages) and its Turkish Lira deposits, which have a relatively short maturity when compared to the Bank's assets. The Bank hedged this exposure by creating fixed rate medium/long-term Turkish Lira funding via cross currency interest rate swap contracts (U.S. dollars against Turkish Lira) and interest rate swaps.

The tables below set out the Group's exposure to interest rate risk as of 30 September 2019, 31 December 2018, 2017 and 2016 in TL thousands. The tables include the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual re-pricing dates.

As of 30 September 2019							
	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 years and over	Non-interest bearing	Total
<b>Assets</b>							
Cash (cash in vault, effectives, cash in transit, cheque purchased) and balances with the Central Bank of the Republic of Turkey.....	18,951,642	—	—	—	—	27,937,774	46,889,416
Banks .....	15,646,960	1,626,794	526,395	60,466	—	9,719,166	27,579,781
Financial assets at fair value through profit/loss .....	—	31,298	93,390	14,340	73,654	440,905	653,587
Receivables from money markets .....	2,418,805	—	—	—	—	—	2,418,805
Financial assets whose fair value change is reflected in the other comprehensive income statement .....	5,133,646	2,402,153	9,856,161	6,863,437	2,165,256	80,144	26,500,797
Loans .....	35,522,356	33,635,297	72,125,899	81,716,077	12,500,152	532,322	236,032,103
Financial assets measured at amortised cost .....	1,302,562	1,441,068	10,798,222	3,406,871	10,282,717	—	27,231,440
Other assets .....	1,171,408	1,829,912	883,632	1,429,975	245,571	23,993,657	29,554,155
<b>Total assets .....</b>	<b>18,951,642</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>27,937,774</b>	<b>46,889,416</b>
<b>Liabilities</b>							
Bank deposits.....	3,215,601	108,304	42,370	—	—	747,259	4,113,534
Other deposits .....	123,575,924	29,915,200	10,392,835	2,497,506	246,013	47,747,136	214,374,614
Funds from money market.....	3,467,909	75,665	718,224	—	—	—	4,261,798
Miscellaneous payables .....	—	—	—	—	—	15,640,175	15,640,175
Marketable securities issued.....	8,386,233	7,829,442	10,212,110	—	—	—	26,427,785
Funds borrowed from other financial institutions .....	8,230,544	18,369,304	12,113,652	4,450,969	1,228,019	—	44,392,488
Other liabilities and shareholders' equity .....	1,532,495	12,590,898	4,794,589	13,943,007	5,491,731	49,296,970	87,649,690
<b>Total liabilities.....</b>	<b>148,408,706</b>	<b>68,888,813</b>	<b>38,273,780</b>	<b>20,891,482</b>	<b>6,965,763</b>	<b>113,431,540</b>	<b>396,860,084</b>
<b>Balance sheet long position .....</b>	<b>—</b>	<b>—</b>	<b>56,009,919</b>	<b>72,599,684</b>	<b>18,301,587</b>	<b>—</b>	<b>146,911,190</b>
<b>Balance sheet short position.....</b>	<b>(68,261,327)</b>	<b>(27,922,291)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(50,727,572)</b>	<b>(146,911,190)</b>
Off-balance sheet long position.....	12,004,484	35,101,908	—	—	—	—	47,106,392
Off-balance sheet short position .....	—	—	56,009,919	72,599,684	18,301,587	—	146,911,190
<b>Total position.....</b>	<b>(56,256,843)</b>	<b>7,179,617</b>	<b>49,184,136</b>	<b>38,001,341</b>	<b>12,452,204</b>	<b>(50,727,572)</b>	<b>(167,117)</b>

As of 31 December 2018							
	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 years and over	Non-interes t bearing	Total
<b>Assets</b>							
Cash (cash in vault, effectives, cash in transit, cheque purchased) and balances with the Central Bank of the Republic of Turkey .....	26,927,180	—	—	—	—	29,904,128	56,831,308
Banks .....	1,054,624	788,121	1,506,119	84,687	—	1,836,089	5,269,640
Financial assets at fair value through profit/loss .....	—	5	937	14,744	52,657	179,813	248,156
Money market placements.....	12,318	84,708	20,205	—	—	—	117,231
Available-for-sale financial assets.....	3,051,441	5,368,953	8,543,658	6,677,678	3,175,156	66,794	26,883,680
Loans .....	39,696,958	34,672,686	76,379,072	73,130,920	12,319,526	(1,231,206)	234,967,956
Held-to-maturity investments .....	4,328,097	2,591,160	2,419,269	3,586,492	9,880,661	—	22,805,679
Other assets.....	1,077,966	2,467,754	1,782,536	3,296,959	489,372	17,138,017	26,252,604
<b>Total assets .....</b>	<b>76,148,584</b>	<b>45,973,387</b>	<b>90,651,796</b>	<b>86,791,480</b>	<b>25,917,372</b>	<b>47,893,635</b>	<b>373,376,254</b>
<b>Liabilities</b>							
Bank deposits.....	8,826,637	337,899	230,691	—	—	1,012,074	10,407,301
Other deposits .....	115,485,681	36,179,812	10,339,682	2,577,490	195,126	35,106,381	199,884,172
Funds from money market.....	2,093,895	443,570	982,748	—	—	—	3,520,213
Miscellaneous payables .....	—	—	—	—	—	14,662,414	14,662,414
Marketable securities issued.....	680,654	5,088,792	3,257,971	9,870,672	2,544,114	—	21,442,203
Funds borrowed from other financial institutions.....	9,335,403	22,115,474	7,032,452	6,690,421	1,898,252	—	47,072,002
Other liabilities and shareholders' equity .....	1,692,331	17,375,026	7,193,432	1,938,715	604,114	47,584,331	76,387,949
<b>Total liabilities.....</b>	<b>138,114,601</b>	<b>81,540,573</b>	<b>29,036,976</b>	<b>21,077,298</b>	<b>5,241,606</b>	<b>98,365,200</b>	<b>373,376,254</b>
<b>Balance sheet long position .....</b>	<b>—</b>	<b>—</b>	<b>61,614,820</b>	<b>65,714,182</b>	<b>20,675,766</b>	<b>—</b>	<b>148,004,768</b>
<b>Balance sheet short position.....</b>	<b>(61,966,017)</b>	<b>(35,567,186)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(50,471,565)</b>	<b>(148,004,768)</b>
Off-balance sheet long position.....	13,237,750	31,963,808	—	—	—	—	45,201,558
Off-balance sheet short position .....	—	—	(3,722,500)	(33,959,108)	(7,726,791)	—	(45,408,399)
<b>Total position.....</b>	<b>(48,728,267)</b>	<b>(3,603,378)</b>	<b>57,892,320</b>	<b>31,755,074</b>	<b>12,948,975</b>	<b>(50,471,565)</b>	<b>(206,841)</b>

As of 31 December 2017							
	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 years and over	Non-interes t bearing	Total
<b>Assets</b>							
Cash (cash in vault, effectives, cash in transit, cheque purchased) and balances with the Central Bank of the Republic of Turkey .....	24,310,693	—	—	—	—	18,141,277	42,451,970
Banks .....	2,228,405	962,918	378,192	—	—	1,267,697	4,837,212
Financial assets at fair value through profit/loss .....	1,288,265	1,446,905	732,989	456,707	266,772	38,442	4,230,080
Money market placements .....	817,005	—	—	—	—	—	817,005
Available-for-sale financial assets .....	2,919,646	4,497,489	6,552,573	7,178,172	3,095,993	252,651	24,496,524
Loans .....	35,840,806	28,636,612	64,250,098	59,321,829	11,824,722	2,124,720	201,998,787
Held-to-maturity investments .....	1,274,198	1,617,022	2,551,131	1,166,133	7,588,582	—	14,197,066
Other assets .....	2,576,869	2,563,465	3,170,180	7,116,493	947,801	10,662,666	27,037,474
<b>Total assets .....</b>	<b>71,255,887</b>	<b>39,724,411</b>	<b>77,635,163</b>	<b>75,239,334</b>	<b>23,723,870</b>	<b>32,487,453</b>	<b>320,066,118</b>
<b>Liabilities</b>							
Bank deposits .....	7,323,732	918,218	374,006	180,657	—	636,676	9,433,289
Other deposits .....	100,218,389	21,934,939	8,864,874	1,495,220	168,085	31,268,837	163,950,344
Funds from money market .....	14,863,333	1,023,972	168,835	—	—	—	16,056,140
Miscellaneous payables .....	—	—	—	—	—	12,754,229	12,754,229
Marketable securities issued .....	1,020,721	9,701,148	3,222,011	7,399,208	1,934,783	—	23,277,871
Funds borrowed from other financial institutions .....	11,723,277	10,596,151	11,324,147	6,843,545	1,862,933	—	42,350,053
Other liabilities and shareholders' equity .....	1,191,465	860,765	982,538	4,694,916	6,131,340	38,383,168	52,244,192
<b>Total liabilities .....</b>	<b>136,340,917</b>	<b>45,035,193</b>	<b>24,936,411</b>	<b>20,613,546</b>	<b>10,097,141</b>	<b>83,042,910</b>	<b>320,066,118</b>
<b>Balance sheet long position .....</b>	<b>—</b>	<b>—</b>	<b>52,698,752</b>	<b>54,625,788</b>	<b>13,626,729</b>	<b>—</b>	<b>120,951,269</b>
<b>Balance sheet short position .....</b>	<b>(65,085,030)</b>	<b>(5,310,782)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(50,555,457)</b>	<b>(120,951,269)</b>
Off-balance sheet long position .....	12,080,130	24,294,289	—	—	—	—	36,374,419
Off-balance sheet short position .....	—	—	(3,383,971)	(27,300,898)	(7,175,587)	—	(37,860,456)
<b>Total position .....</b>	<b>(53,004,900)</b>	<b>18,983,507)</b>	<b>49,314,781</b>	<b>27,324,890</b>	<b>6,451,142</b>	<b>(50,555,457)</b>	<b>(1,486,037)</b>

As of 31 December 2016							
	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 years and over	Non-interest bearing	Total
<b>Assets</b>							
Cash (cash in vault, effectives, cash in transit, cheque purchased) and balances with the Central Bank of the Republic of Turkey .....	18,716,507	—	55,603	—	—	14,311,185	33,083,295
Banks .....	1,288,116	621,003	202,417	1,083	—	1,336,347	3,448,966
Financial assets at fair value through profit/loss .....	1,084,075	799,785	431,598	429,746	288,991	6,635	3,040,830
Money market placements .....	252	—	—	—	—	—	252
Available-for-sale financial assets .....	2,391,170	4,113,076	5,798,470	3,475,043	2,404,967	203,383	18,386,109
Loans .....	28,880,789	31,619,615	54,549,782	40,263,114	21,172,537	2,178,585	178,664,422
Held-to-maturity investments .....	11,601	868,075	1,505,914	1,645,515	7,557,785	—	11,588,890
Other assets .....	3,196,759	1,871,657	2,091,349	5,027,780	766,035	9,968,246	22,921,826
<b>Total assets .....</b>	<b>55,569,269</b>	<b>39,893,211</b>	<b>64,635,133</b>	<b>50,842,281</b>	<b>32,190,315</b>	<b>28,004,381</b>	<b>271,134,590</b>
<b>Liabilities</b>							
Bank deposits .....	6,263,450	598,498	696,516	—	—	613,650	8,172,114
Other deposits .....	87,315,238	25,054,236	8,862,812	981,506	133,683	26,568,606	148,916,081
Funds from money market .....	6,699,947	915,685	1,502,348	87,049	—	—	9,205,029
Miscellaneous payables .....	—	—	—	—	—	11,162,787	11,162,787
Marketable securities issued .....	598,290	10,802,731	1,112,075	5,530,026	37,345	—	18,080,467
Funds borrowed from other financial institutions .....	7,530,570	10,149,293	10,240,290	1,853,121	735,500	—	30,508,774
Other liabilities and shareholders' equity .....	604,694	348,832	597,932	905,572	9,272,345	33,359,963	45,089,338
<b>Total liabilities .....</b>	<b>109,012,189</b>	<b>47,869,275</b>	<b>23,011,973</b>	<b>9,357,274</b>	<b>10,178,873</b>	<b>71,705,006</b>	<b>271,134,590</b>
<b>Balance sheet long position .....</b>	<b>—</b>	<b>—</b>	<b>41,623,160</b>	<b>41,485,007</b>	<b>22,011,442</b>	<b>—</b>	<b>105,119,609</b>
<b>Balance sheet short position .....</b>	<b>(53,442,920)</b>	<b>(7,976,064)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(43,700,625)</b>	<b>(105,119,609)</b>
Off-balance sheet long position .....	9,992,141	17,275,624	—	—	—	—	27,267,765
Off-balance sheet short position .....	—	—	(2,350,770)	(16,392,589)	(8,159,895)	—	(26,903,254)
<b>Total position .....</b>	<b>(43,450,779)</b>	<b>9,299,560</b>	<b>39,272,390</b>	<b>25,092,418</b>	<b>13,851,547</b>	<b>(43,700,625)</b>	<b>364,511</b>

## Liquidity Risk

Liquidity risk arises from mismatches between maturities of assets and liabilities, which may result in the Bank being unable to meet its obligations in a timely manner. The Bank's liquidity risk is managed as part of the asset and liability management strategy in accordance with the Bank's market risk policies. In order to manage this risk, the Bank's funding sources are diversified and the Bank believes that it holds sufficient cash and cash equivalents to fund its liabilities in the event that such mismatches occur. During the monthly meetings of the Asset and Liability Management

function within the Executive Committee, the liquidity position of the Group is evaluated and measures are implemented if necessary.

The Bank uses the following definitions with respect to the components of liquidity risk:

- (a) Liquidity mismatch risk refers to the risk of non-conformity between the amounts and/or the maturities or cash inflows and cash outflows;
- (b) Liquidity contingency risk refers to the risk that future unexpected events could require a greater amount of liquidity than the amount estimated necessary by the Bank. This risk could arise as a result of events such as the failure by clients to reimburse loans, the need to finance new assets, difficulties in selling liquid assets or obtaining new financings in the event of a liquidity crisis; and
- (c) Market liquidity risk refers to the risk that the Bank may incur losses as a result of the sale of assets deemed to be liquid, or in extreme conditions is unable to liquidate such positions due to insufficient liquidity offered by the market or keeps the position that is too large when compared to market turnover.

Reports on short-term liquidity positions and structural liquidity positions are prepared by the Bank's Risk Management department. Short-term liquidity risk management focuses on events that can impact upon the Bank's liquidity position from one day up to three months. Structural liquidity positions focus on events affecting the Group's long-term liquidity position. The primary objective is to maintain an adequate ratio between total liabilities and medium or long-term assets, with a view of avoiding pressures on short-term sources (both current and future), while optimising the cost of funding.

According to the BRSA communiqué on liquidity, banks have to meet an 80% liquidity ratio of foreign assets/liabilities and a 100% liquidity ratio of total assets/liabilities for weekly and monthly time brackets. The risk management department performs the calculation of the above-mentioned ratios on a daily basis and shares the results with the Treasury department and the Bank's senior management. Further description of the applicable regulatory requirements is set out in "*Turkish Regulatory Environment—Liquidity Reserve Requirement*".

A significant portion of the Group's funding base consists of deposits and funds borrowed. As of 30 September 2019, deposits constituted 55.05% of the Bank's total liabilities and, of all deposits, 93.85% had maturities of three months or less. As of 30 September 2019, loans and receivables constituted 63.61% of the Bank's total assets and, of all loans and receivables, 24.97% had maturities of three months or less.

The following tables set forth the Group's breakdown of financial liabilities according to their remaining contractual maturities as of 31 December 2018, 31 December 2017 and 31 December 2016, respectively, in TL thousands:

As of 31 December 2018						
	Demand and up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Above 5 years	Total
	(TL, thousands)					
<b>Liabilities</b>						
Deposits .....	161,540,983	37,838,275	11,319,874	2,595,039	195,126	213,489,297
Funds borrowed from other financial institutions .....	5,082,465	6,125,162	24,127,513	12,611,773	6,752,919	54,699,832
Funds from money market .....	2,111,549	446,183	1,003,309	—	—	3,561,041
Subordinated loans .....	—	204,319	622,570	13,598,201	3,189,421	17,614,511
Marketable securities issued .....	958,512	2,495,592	3,860,371	13,298,497	3,020,060	23,633,032
<b>Total .....</b>	<b>169,693,509</b>	<b>47,109,531</b>	<b>40,933,637</b>	<b>42,103,510</b>	<b>13,157,526</b>	<b>312,997,713</b>

As of 31 December 2017						
	Demand and up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Above 5 years	Total
	(TL, thousands)					
<b>Liabilities</b>						
Deposits .....	140,182,673	22,457,141	9,462,133	1,385,188	1,614,526	175,101,661
Funds borrowed from other financial institutions .....	3,189,053	4,151,957	22,121,615	17,626,315	8,276,882	55,365,822
Funds from money market .....	14,910,780	1,005,980	168,835	—	—	16,085,595
Subordinated loans .....	—	141,647	446,133	6,090,660	6,524,937	13,203,377
Marketable securities issued .....	1,078,651	1,510,477	3,791,898	17,183,426	2,110,435	25,674,887
<b>Total .....</b>	<b>159,361,157</b>	<b>29,267,202</b>	<b>35,990,614</b>	<b>42,285,589</b>	<b>18,526,780</b>	<b>285,431,342</b>

As of 31 December 2016						
	Demand and up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Above 5 years	Total
	(TL, thousands)					
<b>Liabilities</b>						
Deposits .....	121,503,298	25,967,821	9,778,772	986,930	133,707	158,370,528
Funds borrowed from other financial institutions .....	1,582,766	2,812,256	20,122,521	7,814,443	2,654,499	34,986,485
Funds from money market .....	6,718,374	922,314	1,515,507	87,049	—	9,243,244
Subordinated loans .....	—	131,831	416,029	2,163,955	10,147,038	12,858,853
Marketable securities issued .....	634,449	4,311,511	1,345,780	7,433,015	5,300,698	19,025,453
<b>Total .....</b>	<b>130,438,887</b>	<b>34,145,733</b>	<b>33,178,609</b>	<b>18,485,392</b>	<b>18,235,942</b>	<b>234,484,563</b>

## Operational Risk Management

Operational risk is related to losses that arise as a result of inadequate or ineffective internal processes, personnel or systems or due to external events. The operational risk management team monitors the Bank's operational and reputational risk exposure in accordance with the Bank's standards and policies, collects operational risk data in a web-based database, identifies risk indicators, conducts scenario analysis assessment, plans for business continuity management and assures the quality of data gathered in accordance with Basel II standards, proposes insurance hedging on operational risks, prepares risk mitigation plans and coordinates IT risk management activities. The operational Risk Management department performs second-level controls, and manages and measures the Bank's operational risks.

The Bank's objective is to implement the advanced measurement approaches of Basel II and related measurement systems in operational risk management. As part of the Basel II operational risk project, the Bank has been collecting data on internal operational risk since 2004. Data on internal losses are collected from various departments and branches using web-based systems. Scenario analysis studies for measuring and managing the impacts of unrealised potential operational risk have been performed since 2008. Key risk indicator analyses have been performed to monitor current and potential operational risk exposure of the Bank since 2007. A dedicated database was established for monitoring the trends of key risk indicators. Moreover, a risk-based insurance management approach was used to seek to minimise main operational risks that the Bank is exposed to. These actions have resulted in minimising internet fraud, enhancing the effectiveness of the risk transfer mechanism and helped senior management to better understand and monitor the main risk factors associated with banking activities. Additionally, potential risk evaluations were made before launching new products and services and the findings were shared with related departments so that necessary measures could be taken. Besides, both for IT and logistics purposes, the business continuity management activities and investments were accomplished and necessary tests were performed.

For regulatory and statutory capital adequacy ratio purposes, the Group calculated the amount subject to operational risk on a consolidated basis with the basic indicator method in accordance with Section 3 of "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published by the Official Gazette No. 29111 dated 6 September 2014, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Group for the years ended

2018, 2017 and 2016. As of 30 September 2019, the total amount subject to operational risk was calculated as TL 26,507,024 thousand, compared to TL 20,973,958 thousand as of 31 December 2018, TL 18,068,782 thousand as of 31 December 2017 and TL 14,338,007 thousand as of 31 December 2016.

As of 30 September 2019, the amount of the related capital requirement was TL 2,120,562 thousand, compared to TL 1,677,917 thousand as of 31 December 2018, TL 1,445,503 thousand as of 31 December 2017 and TL 1,147,041 thousand as of 31 December 2016.

## Capital Management

Banks in Turkey are required to comply with capital adequacy guidelines published by the BRSA. These capital adequacy guidelines are based on standards established by BIS. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures.

In accordance with the guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%, Tier 1 ratio of a minimum of 6% and CET 1 ratio of a minimum of 4.5%. By taking into account banks' internal systems, assets and financial structure, the BRSA is authorised to: (a) increase the minimum capital adequacy ratio; (b) set different ratios for each bank; and (c) determine a different calculation and submission period for the capital adequacy ratio for each bank. If a bank's capital adequacy ratio is below the ratio set by the BRSA, certain restrictions are imposed.

The Bank and its individually regulated operations were in compliance with all of the above-mentioned capital adequacy requirements as of 30 September 2019.

The table below shows the Group's regulatory capital position on a consolidated BRSA basis as of 30 September 2019 in TL thousands unless otherwise stated:

	As of 30 September 2019	As of 31 December 2018
<b>Common Equity Tier 1 Capital</b>		
Paid-up Capital.....	8,447,051	8,447,051
Share issue premiums.....	556,937	556,937
Retained earnings.....	25,884,402	21,216,976
Accumulated other comprehensive income and other disclosed reserves which defined in the Turkish Accounting Standards .....	4,288,659	5,647,070
Profit.....	4,976,694	6,307,380
<i>Net profit of the period.....</i>	3,336,740	4,667,426
<i>Profit of the previous years.....</i>	1,639,954	1,639,954
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and which cannot be recognised within profit for the period .....	9,093	6,331
Minority interest.....	659	611
<b>Common Equity Tier 1 capital before regulatory adjustments.....</b>	<b>44,163,495</b>	<b>42,182,356</b>
<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
Prudential valuation adjustments .....	40,644	54,299
The sum of the net loss for the current period and the previous years which could not be absorbed by the retained earnings and losses recognised in equity in accordance with TAS.....	2,627,487	3,175,078
Improvement costs for operating leasing .....	121,583	107,326
Goodwill (net of related tax liability).....	979,493	979,493
Other intangibles other than mortgage servicing rights (net of related tax liability) .....	833,393	789,064
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability).....	—	—
Cash flow hedge reserve .....	—	1,513,584
Shortfall of provisions to expected losses .....	—	—
Securitisation gain on sale.....	—	—
Gains and losses due to changes in own credit risk on fair valued liabilities .....	—	—
Defined-benefit pension fund net assets .....	—	—
Investments in own shares .....	—	—
Credits extended contrary to the fourth paragraph of Article 56 of the Banking Law .....	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the	—	—



issued share capital (amount above 10% threshold) .....	—	—
Mortgage servicing rights (amount above 10% threshold) .....	—	—
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) .....	—	—
Amount exceeding the 15% threshold (as set out in paragraph 2 of the Provisional Article 2 of the Regulation on Banks' Own Funds) .....	—	—
The amount above threshold for the investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital .....	—	—
The amount above threshold for mortgage servicing rights .....	—	—
The amount above threshold for deferred tax assets arising from temporary differences .....	—	—
National specific regulatory adjustments which shall be determined by the BRSA .....	—	—
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions .....	—	—
<b>Total regulatory adjustments to Common Equity Tier 1 .....</b>	<b>4,602,600</b>	<b>7,686,876</b>
<b>Common Equity Tier 1 capital (CET1) .....</b>	<b>39,560,895</b>	<b>34,495,480</b>
<b>Additional Tier 1 Capital</b>		
Preferred shares that are not included in Common Equity Tier 1 capital and related shares issue premiums .....	—	—
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA .....	3,678,415	—
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds) .....	—	—
Additional Tier 1 capital before regulatory adjustments .....	—	—
Additional Tier 1 capital: regulatory adjustments .....	—	—
Investments in own Additional Tier 1 instruments .....	—	—
Reciprocal cross-holdings in Additional Tier 1 instruments .....	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold) .....	—	—
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) .....	—	—
National specific regulatory adjustments which shall be determined by the BRSA .....	—	—
<b>Regulatory Adjustments which will be deducted from Tier 1 capital during the transition period</b> .....	—	—
Goodwill and other intangible assets and related deferred tax liabilities which will not be deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-) .....	—	—
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-) .....	—	—
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions .....	—	—
<b>Total regulatory adjustments to Additional Tier 1 capital .....</b>	<b>—</b>	<b>—</b>
<b>Total Additional Tier 1 capital .....</b>	<b>—</b>	<b>—</b>
<b>Total Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital) ..</b>	<b>43,239,310</b>	<b>34,495,480</b>
<b>Tier 2 Capital</b>		
Eligible capital instruments and relevant share issue premiums that are approved by the Agency .....	6,538,260	7,070,650
Eligible capital instruments and relevant share issue premiums that are approved by the Agency (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds) .....	509,373	711,040
Shares of Third Parties in Additional Tier 1 Capital .....	—	—
Shares of Third Parties in Additional Tier 1 Capital (Covered by Temporary Article 3) .....	—	—
Provisions (Article 8 of the Regulation on the Equity of Banks) .....	2,808,608	2,720,587
<b>Tier 2 capital before regulatory adjustments .....</b>	<b>9,856,241</b>	<b>10,502,278</b>
<b>Tier 2 capital: regulatory adjustments</b>		
Direct and indirect investments of the Bank on its own Tier 2 Capital (-) .....	—	—
Investments of the Bank to banks that invest on the Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8 .....	105,903	87,791
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) (-) .....	—	—
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) (-) .....	—	—
National specific regulatory adjustments which shall be determined by the BRSA .....	—	—
<b>Total regulatory adjustments to Tier 2 capital .....</b>	<b>105,903</b>	<b>87,791</b>
<b>Total Tier 2 capital .....</b>	<b>9,750,338</b>	<b>10,414,487</b>
<b>Total Capital (the sum of Tier 1 capital and Tier 2 capital) .....</b>	<b>52,945,011</b>	<b>44,866,207</b>
<b>The Sum of Tier 1 Capital and Tier 2 Capital (Total Capital) .....</b>		
Credits extended contrary to the provisions of Articles 50 and 51 of the Banking Law .....	11,143	4,893
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and held for Sale but Retained more than Five Years <sup>(2)</sup> .....	—	—
National specific regulatory adjustments which shall be determined by the BRSA .....	33,494	38,866
<b>Regulatory Adjustments which will be deducted from Total Capital during the transition period</b>		
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10%	—	—

of the issued common share capital of the entity (amount above the 10% threshold) which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, and Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)

Significant investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, and Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	—	—
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold), mortgage servicing rights (amount above 10% threshold), deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) which will not be deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	—	—
<b>Own Funds</b>	—	—
<b>Total Capital (The sum of Tier 1 capital and Tier 2 capital)</b>	<b>52,945,011</b>	<b>44,866,207</b>
<b>Total Risk Weighted Assets</b>	<b>317,758,049</b>	<b>302,881,004</b>
<b>Capital Adequacy Ratios</b>		
Consolidated Common Equity Tier 1 Capital Adequacy Ratio (%)	12.45	11.39
Consolidated Tier 1 Capital Adequacy Ratio (%)	13.61	11.39
Consolidated Capital Adequacy Ratio (%)	16.66	14.81
<b>Buffers</b>		
Institution specific buffer requirement of the Bank	4.053	3.042
Capital conservation buffer requirement (%)	2.500	1.875
Bank's specific countercyclical buffer requirement (%)	0.053	0.042
Systemically important Bank buffer (%)	1.500	1.125
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of Article 4 of the Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets (%)	7.608	5.389
<b>Amounts below the thresholds for deduction (before risk weighting)</b>	—	—
Non-significant investments in the capital of other financials	—	—
Significant investments in the common stock of financials	—	—
Mortgage servicing rights (net of related tax liability)	—	—
Deferred tax assets arising from temporary differences (net of related tax liability)	3,447,296	2,576,876
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>		
General provisions for standard- based receivables (before 10,025 limitation)	6,175,282	5,355,077
Up to 1.25% of total risk-weighted amount of general provisions for receivables where the standard approach is used	3,600,781	3,487,932
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	—	—
Excess amount of total provision amount to 0.6% of risk-weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	—	—
<b>Capital instruments subject to phase out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>	—	—
Current cap on Additional Tier 1 capital instruments which are subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	—	—
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) which is subject to the Provisional Article 4 of the Regulation on Banks' Own Funds	—	—
Current cap on Tier 2 capital instruments which are subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	509,373	711,040
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) which is subject to the Provisional Article 4 of the Regulation on Banks' Own Funds	4,896,029	4,549,860

The table below shows the Group's regulatory capital position on a consolidated BRSA basis as of 31 December 2018 in TL thousands unless otherwise stated:

	<b>As of 31 December 2018</b>	<b>Amounts subject to treatment before 1/1/2014<sup>(1)</sup></b>
<b>Common Equity Tier 1 Capital</b>		
Paid-up Capital	8,447,051	—
Share issue premiums	556,937	—
Retained earnings	21,216,976	—
Accumulated other comprehensive income and other disclosed reserves which are defined in the Turkish Accounting Standards	5,647,070	—
Profit	6,307,380	—
Net profit of the period	4,667,426	—
Profit of the previous years	1,639,954	—
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and	6,331	—

which cannot be recognised within profit for the period .....		
Minority interest .....	611	—
<b>Common Equity Tier 1 capital before regulatory adjustments .....</b>	<b>42,182,356</b>	<b>—</b>
<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
Prudential valuation adjustments .....	54,299	—
The sum of the net loss for the current period and the previous years which could not be absorbed by the retained earnings and losses recognised in equity in accordance with TAS .....	3,175,078	—
Improvement costs for operating leasing .....	107,326	—
Goodwill (net of related tax liability) .....	979,493	979,493
Other intangibles other than mortgage servicing rights (net of related tax liability) .....	789,064	667,171
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) .....	—	—
Cash flow hedge reserve .....	1,513,584	—
Shortfall of provisions to expected losses .....	—	—
Securitisation gain on sale .....	—	—
Gains and losses due to changes in own credit risk on fair valued liabilities .....	—	—
Defined-benefit pension fund net assets .....	—	—
Investments in own shares .....	—	—
Credits extended contrary to the fourth paragraph of Article 56 of the Banking Law .....	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) .....	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital (amount above 10% threshold) .....	—	—
Mortgage servicing rights (amount above 10% threshold) .....	—	—
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) .....	—	—
Amount exceeding the 15% threshold (as set out in paragraph 2 of the Provisional Article 2 of the Regulation on Banks' Own Funds) .....	—	—
The amount above threshold for the investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital .....	1,068,032	—
The amount above threshold for mortgage servicing rights .....	—	—
The amount above threshold for deferred tax assets arising from temporary differences .....	—	—
National specific regulatory adjustments which shall be determined by the BRSA .....	—	—
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions .....	—	—
<b>Total regulatory adjustments to Common Equity Tier 1 .....</b>	<b>7,686,876</b>	<b>—</b>
<b>Common Equity Tier 1 capital (CET1) .....</b>	<b>34,495,480</b>	<b>—</b>
<b>Additional Tier 1 Capital</b>		
Preferred shares that are not included in Common Equity Tier 1 capital and related shares issue premiums .....	—	—
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA .....	—	—
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds) .....	—	—
Additional Tier 1 capital before regulatory adjustments .....	—	—
Additional Tier 1 capital: regulatory adjustments .....	—	—
Investments in own Additional Tier 1 instruments .....	—	—
Reciprocal cross-holdings in Additional Tier 1 instruments .....	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold) .....	—	—
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) .....	—	—
National specific regulatory adjustments which shall be determined by the BRSA .....	—	—
<b>Regulatory Adjustments which will be deducted from Tier 1 capital during the transition period</b>		
Goodwill and other intangible assets and related deferred tax liabilities which will not be deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-) .....	—	—
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-) .....	—	—
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions .....	—	—
<b>Total regulatory adjustments to Additional Tier 1 capital .....</b>	<b>—</b>	<b>—</b>
<b>Total Additional Tier 1 capital .....</b>	<b>—</b>	<b>—</b>
<b>Total Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital) .</b>	<b>34,495,480</b>	<b>—</b>
<b>Tier 2 Capital</b>		
Eligible capital instruments and relevant share issue premiums that are approved by the Agency .....	7,070,650	—
Eligible capital instruments and relevant share issue premiums that are approved by the Agency (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds) .....	711,040	—
Shares of Third Parties in Additional Tier 1 Capital .....	—	—
Shares of Third Parties in Additional Tier 1 Capital (Covered by Temporary Article 3) .....	—	—
Provisions (Article 8 of the Regulation on the Equity of Banks) .....	2,720,587	—

<b>Tier 2 capital before regulatory adjustments</b>	<b>10,502,278</b>	—
<b>Tier 2 capital: regulatory adjustments</b>		—
Direct and indirect investments of the Bank on its own Tier 2 Capital (-)	—	—
Investments of the Bank to banks that invest on the Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8	87,791	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) (-)	—	—
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) (-)	—	—
National specific regulatory adjustments which shall be determined by the BRSA	—	—
<b>Total regulatory adjustments to Tier 2 capital</b>	<b>87,791</b>	—
<b>Total Tier 2 capital</b>	<b>10,414,487</b>	—
<b>Total Capital (The sum of Tier 1 capital and Tier 2 capital)</b>	<b>44,866,207</b>	—
<b>The Sum of Tier 1 Capital and Tier 2 Capital (Total Capital)</b>		—
Credits extended contrary to the provisions of Articles 50 and 51 of the Banking Law	4,893	—
Net Book Values of Movables and Immovables Exceeding the Limit Defined in Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and held for Sale but Retained more than Five Years <sup>(2)</sup>	—	—
National specific regulatory adjustments which shall be determined by the BRSA	38,866	—
<b>Regulatory Adjustments which will be deducted from Total Capital during the transition period</b>	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, and Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	—	—
Significant investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, and Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	—	—
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold), mortgage servicing rights (amount above 10% threshold), and deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) which will not be deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	—	—
<b>Own Funds</b>		—
<b>Total Capital (The sum of Tier 1 capital and Tier 2 capital)</b>	<b>44,866,207</b>	—
<b>Total Risk Weighted Assets</b>	<b>302,881,004</b>	—
<b>Capital Adequacy Ratios</b>		—
Consolidated Common Equity Tier 1 Capital Adequacy Ratio (%)	11.39	—
Consolidated Tier 1 Capital Adequacy Ratio (%)	11.39	—
Consolidated Capital Adequacy Ratio (%)	14.81	—
<b>Buffers</b>		—
Institution specific buffer requirement of the Bank	3.042	—
Capital conservation buffer requirement (%)	1.875	—
Bank's specific countercyclical buffer requirement (%)	0.042	—
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of Article 4 of the Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets (%)	5.389	—
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		—
Non-significant investments in the capital of other financials	—	—
Significant investments in the common stock of financials	—	—
Mortgage servicing rights (net of related tax liability)	—	—
Deferred tax assets arising from temporary differences (net of related tax liability)	2,576,876	—
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>		—
General provisions for standard-based receivables (before 10,025 limitation)	5,355,077	—
Up to 1.25% of total risk-weighted amount of general provisions for receivables where the standard approach is used	3,487,932	—
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	—	—
Excess amount of total provision amount to 0.6% of risk-weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	—	—
<b>Capital instruments subject to phase out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>		—
Current cap on Additional Tier 1 capital instruments which are subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	—	—
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) which is subject to the Provisional Article 4 of the Regulation on Banks' Own Funds	—	—
Current cap on Tier 2 capital instruments which are subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	—	—

Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) which is subject to the Provisional Article 4 of the Regulation on Banks' Own Funds.....

—

—

The table below shows the Group's regulatory capital position on a consolidated BRSA basis as of 31 December 2017 in TL thousands unless otherwise stated:

	As of 31 December 2017	Amounts subject to treatment before 1/1/2014 <sup>(1)</sup>
<b>Common Equity Tier 1 Capital</b>		
Paid-up Capital .....	4,347,051	—
Share issue premiums .....	543,881	—
Retained earnings .....	17,697,018	—
Accumulated other comprehensive income and other disclosed reserves which are defined in the Turkish Accounting Standards .....	3,538,112	—
Profit .....	5,254,035	—
<i>Net profit of the period</i> .....	3,614,081	—
<i>Profit of the previous years</i> .....	1,639,954	—
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and which cannot be recognised within profit for the period .....	5,667	—
Minority interest .....	541	—
<b>Common Equity Tier 1 capital before regulatory adjustments .....</b>	<b>31,386,305</b>	<b>—</b>
<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
Prudential valuation adjustments .....	91,324	—
The sum of the net loss for the current period and the previous years which could not be absorbed by the retained earnings and losses recognised in equity in accordance with TAS .....	1,284,479	—
Improvement costs for operating leasing .....	98,823	—
Goodwill (net of related tax liability) .....	783,594	979,493
Other intangibles other than mortgage servicing rights (net of related tax liability) .....	533,737	667,171
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) .....	—	—
Cash flow hedge reserve .....	836,691	—
Shortfall of provisions to expected losses .....	—	—
Securitisation gain on sale .....	—	—
Gains and losses due to changes in own credit risk on fair valued liabilities .....	—	—
Defined-benefit pension fund net assets .....	—	—
Investments in own shares .....	—	—
Credits extended contrary to the fourth paragraph of Article 56 of the Banking Law .....	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) .....	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital (amount above 10% threshold) .....	—	—
Mortgage servicing rights (amount above 10% threshold) .....	—	—
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) .....	—	—
Amount exceeding the 15% threshold (as set out in paragraph 2 of the Provisional Article 2 of the Regulation on Banks' Own Funds) .....	—	—
The amount above threshold for the investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital .....	790,411	—
The amount above threshold for mortgage servicing rights .....	—	—
The amount above threshold for deferred tax assets arising from temporary differences .....	—	—
National specific regulatory adjustments which shall be determined by the BRSA .....	—	—
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions .....	—	—
<b>Total regulatory adjustments to Common equity Tier 1 .....</b>	<b>4,419,059</b>	<b>—</b>
<b>Common Equity Tier 1 capital (CET1) .....</b>	<b>26,967,246</b>	<b>—</b>
<b>Additional Tier 1 Capital</b>		
Preferred shares that are not included in Common Equity Tier 1 capital and related shares issue premiums .....	—	—
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA .....	—	—
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds) .....	—	—
Additional Tier 1 capital before regulatory adjustments .....	—	—
Additional Tier 1 capital: regulatory adjustments .....	—	—
Investments in own Additional Tier 1 instruments .....	—	—
Reciprocal cross-holdings in Additional Tier 1 instruments .....	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold) .....	—	—
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) .....	—	—
National specific regulatory adjustments which shall be determined by the BRSA .....	—	—

<b>Regulatory Adjustments which will be deducted from Tier 1 capital during the transition period</b>	—	—
Goodwill and other intangible assets and related deferred tax liabilities which will not be deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	329,333	—
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	—	—
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	—	—
<b>Total regulatory adjustments to Additional Tier 1 capital</b>	—	—
<b>Total Additional Tier 1 capital</b>	—	—
<b>Total Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)</b>	<b>26,637,913</b>	—
<b>Tier 2 Capital</b>		—
Eligible capital instruments and relevant share issue premiums that are approved by the Agency	5,865,305	—
Eligible capital instruments and relevant share issue premiums that are approved by the Agency (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds)	711,040	—
Shares of Third Parties in Additional Tier 1 Capital	—	—
Shares of Third Parties in Additional Tier 1 Capital (Covered by Temporary Article 3)	—	—
Provisions (Article 8 of the Regulation on the Equity of Banks)	3,130,251	—
<b>Tier 2 capital before regulatory adjustments</b>	<b>9,706,596</b>	—
<b>Tier 2 capital: regulatory adjustments</b>		—
Direct and indirect investments of the Bank on its own Tier 2 Capital (-)	—	—
Investments of the Bank to banks that invest on the Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8	72,789	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) (-)	—	—
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) (-)	—	—
National specific regulatory adjustments which shall be determined by the BRSA	—	—
<b>Total regulatory adjustments to Tier 2 capital</b>	<b>72,789</b>	—
<b>Total Tier 2 capital</b>	<b>9,633,807</b>	—
<b>Total Capital (The sum of Tier 1 capital and Tier 2 capital)</b>	<b>36,132,636</b>	—
<b>The Sum of Tier 1 Capital and Tier 2 Capital (Total Capital)</b>		—
Credits extended contrary to the provisions of Articles 50 and 51 of the Banking Law	3,885	—
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and held for Sale but Retained more than Five Years <sup>(2)</sup>	—	—
National specific regulatory adjustments which shall be determined by the BRSA	135,199	—
<b>Regulatory Adjustments which will be deducted from Total Capital during the transition period</b>	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, and Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	—	—
Significant investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, and Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	—	—
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold), mortgage servicing rights (amount above 10% threshold), and deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) which will not be deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	—	—
<b>Own Funds</b>		—
<b>Total Capital (The sum of Tier 1 capital and Tier 2 capital)</b>	<b>36,132,636</b>	—
<b>Total Risk Weighted Assets</b>	<b>270,278,292</b>	—
<b>Capital Adequacy Ratios</b>		—
Consolidated Common Equity Tier 1 Capital Adequacy Ratio (%)	9.98	—
Consolidated Tier 1 Capital Adequacy Ratio (%)	9.86	—
Consolidated Capital Adequacy Ratio (%)	13.37	—
<b>Buffers</b>		—
Institution specific buffer requirement of the Bank	2.017	—
Capital conservation buffer requirement (%)	1.250	—
Bank's specific countercyclical buffer requirement (%)	0.017	—
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of Article 4 of the Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets (%)	3.978	—
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		—
Non-significant investments in the capital of other financials	—	—
Significant investments in the common stock of financials	—	—

Mortgage servicing rights (net of related tax liability) .....	—	—
Deferred tax assets arising from temporary differences (net of related tax liability) .....	1,780,093	—
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>		—
General provisions for standard-based receivables (before 10,025 limitation) .....	3,410,805	—
Up to 1.25% of total risk-weighted amount of general provisions for receivables where the standard approach is used .....	3,130,251	—
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation .....	—	—
Excess amount of total provision amount to 0.6% of risk-weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation .....	—	—
<b>Capital instruments subject to phase out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b> .....		—
Current cap on Additional Tier 1 capital instruments which are subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds .....	—	—
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) which is subject to the Provisional Article 4 of the Regulation on Banks' Own Funds .....	—	—
Current cap on Tier 2 capital instruments which are subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds .....	—	—
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) which are subject to the Provisional Article 4 of the Regulation on Banks' Own Funds .....	—	—



The table below shows the Group's regulatory capital position on a consolidated BRSA basis as of 31 December 2016 in TL thousands unless otherwise stated:

	As of 31 December 2016	Amounts subject to treatment before 1/1/2014 <sup>(1)</sup>
<b>Common Equity Tier 1 Capital</b>		
Paid-up Capital.....	4,347,051	—
Share issue premiums .....	543,881	—
Retained earnings.....	14,539,224	—
Accumulated other comprehensive income and other disclosed reserves which are defined in the Turkish Accounting Standards .....	3,053,077	—
Profit .....	4,572,749	—
<i>Net profit of the period</i> .....	2,932,795	—
<i>Profit of the previous years</i> .....	1,639,954	—
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and which cannot be recognised within profit for the period .....	4,561	—
Minority interest.....	502	—
<b>Common Equity Tier 1 capital before regulatory adjustments</b> .....	<b>27,061,045</b>	<b>—</b>
<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
Prudential valuation adjustments .....	19,189	—
The sum of the net loss for the current period and the previous years which could not be absorbed by the retained earnings and losses recognised in equity in accordance with TAS.....	939,892	—
Improvement costs for operating leasing.....	119,336	—
Goodwill (net of related tax liability) .....	587,696	979,493
Other intangibles other than mortgage servicing rights (net of related tax liability) .....	331,709	552,848
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) .....	—	—
Cash flow hedge reserve .....	379,150	—
Shortfall of provisions to expected losses.....	—	—
Securitisation gain on sale .....	—	—
Gains and losses due to changes in own credit risk on fair valued liabilities .....	—	—
Defined-benefit pension fund net assets .....	—	—
Investments in own shares .....	—	—
Credits extended contrary to the fourth paragraph of Article 56 of the Banking Law .....	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold) .....	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital (amount above 10% threshold).....	—	—
Mortgage servicing rights (amount above 10% threshold).....	—	—
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability).....	—	—
Amount exceeding the 15% threshold (as set out in paragraph 2 of the Provisional Article 2 of the Regulation on Banks' Own Funds).....	—	—
The amount above threshold for the investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital.....	682,728	—
The amount above threshold for mortgage servicing rights .....	—	—
The amount above threshold for deferred tax assets arising from temporary differences.....	—	—
National specific regulatory adjustments which shall be determined by the BRSA .....	—	—
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions .....	—	—
<b>Total regulatory adjustments to Common Equity Tier 1</b> .....	<b>3,059,700</b>	<b>—</b>
<b>Common Equity Tier 1 capital (CET1)</b> .....	<b>24,001,345</b>	<b>—</b>
<b>Additional Tier 1 Capital</b>		
Preferred shares that are not included in Common Equity Tier 1 capital and related shares issue premiums ...	—	—
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA .....	—	—
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds).....	—	—
Shares of Third Parties in Additional Tier 1 Capital .....	—	—
Shares of Third Parties in Additional Tier 1 Capital (Covered by Temporary Article 3) .....	—	—
Additional Tier 1 capital before regulatory adjustments .....	—	—
Additional Tier 1 capital: regulatory adjustments .....	—	—
Investments in own Additional Tier 1 instruments.....	—	—
Reciprocal cross-holdings in Additional Tier 1 instruments .....	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold).....	—	—
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions).....	—	—

National specific regulatory adjustments which shall be determined by the BRSA .....	—	—
<b>Regulatory Adjustments which will be deducted from Tier 1 capital during the transition period</b>		
Goodwill and other intangible assets and related deferred tax liabilities which will not be deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-) .....	612,936	—
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-) .....	—	—
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions .....	—	—
<b>Total regulatory adjustments to Additional Tier 1 capital</b> .....	—	—
<b>Total Additional Tier 1 capital</b> .....	—	—
<b>Total Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)</b> .....	<b>23,388,409</b>	—
<b>Tier 2 Capital</b>		
Eligible capital instruments and relevant share issue premiums that are approved by the Agency .....	5,472,356	—
Eligible capital instruments and relevant share issue premiums that are approved by the Agency (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds) .....	1,066,560	—
Shares of Third Parties in Additional Tier 1 Capital .....	—	—
Shares of Third Parties in Additional Tier 1 Capital (Covered by Temporary Article 3) .....	—	—
Provisions (Article 8 of the Regulation on the Equity of Banks) .....	2,886,021	—
<b>Tier 2 capital before regulatory adjustments</b> .....	<b>9,424,937</b>	—
<b>Tier 2 capital: regulatory adjustments</b>		
Direct and indirect investments of the Bank on its own Tier 2 Capital (-) .....	—	—
Investments of the Bank to banks that invest on the Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8 .....	109,452	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) (-) .....	—	—
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) (-) .....	—	—
National specific regulatory adjustments which shall be determined by the BRSA .....	—	—
<b>Total regulatory adjustments to Tier 2 capital</b> .....	<b>109,452</b>	—
<b>Total Tier 2 capital</b> .....	<b>9,315,485</b>	—
<b>Total Capital (The sum of Tier 1 capital and Tier 2 capital)</b> .....	<b>32,484,365</b>	—
<b>The Sum of Tier 1 Capital and Tier 2 Capital (Total Capital)</b> .....		
Credits extended contrary to the provisions of Articles 50 and 51 of the Banking Law .....	13,811	—
Portion of the sum of the banks' real estate net book values, which is in excess of 50% of their own funds and net book values of those of merchandise and real estate which have to be acquired due to their receivables and disposed of pursuant to Article 57 of the Banking Law, which cannot be disposed of despite the lapse of a period of five years since the date of such acquisition .....	11,868	—
National specific regulatory adjustments which shall be determined by the BRSA .....	193,850	—
<b>Regulatory Adjustments which will be deducted from Total Capital during the transition period</b>		
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, and Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-) .....	—	—
Significant investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, and Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-) .....	—	—
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold), mortgage servicing rights (amount above 10% threshold), and deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) which will not be deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-) .....	—	—
<b>Own Funds</b>		
<b>Total Capital (The sum of Tier 1 capital and Tier 2 capital)</b> .....	<b>32,484,365</b>	—
<b>Total Risk Weighted Assets</b> .....	<b>246,436,668</b>	—
<b>Capital Adequacy Ratios</b>		
Consolidated Common Equity Tier 1 Capital Adequacy Ratio (%) .....	9.74	—
Consolidated Tier 1 Capital Adequacy Ratio (%) .....	9.49	—
Consolidated Capital Adequacy Ratio (%) .....	13.18	—
<b>Buffers</b>		
Institution specific buffer requirement of the Bank .....	5.512	—
Capital conservation buffer requirement (%) .....	0.625	—
Bank's specific countercyclical buffer requirement (%) .....	0.012	—
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of the Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets (%) .....	3.739	—
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
Non-significant investments in the capital of other financials .....	—	—

Significant investments in the common stock of financials.....	—	—
Mortgage servicing rights (net of related tax liability) .....	—	—
Deferred tax assets arising from temporary differences (net of related tax liability) .....	1,218,309	—
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>		—
General provisions for standard-based receivables (before 10,025 limitation) .....	3,109,571	—
Up to 1.25% of total risk-weighted amount of general provisions for receivables where the standard approach is used .....	2,886,021	—
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation .....	—	—
Excess amount of total provision amount to 0.6% of risk-weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation .....	—	—
<b>Capital instruments subject to phase out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b> .....		—
Current cap on Additional Tier 1 capital instruments which are subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds.....	—	—
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) which is subject to the Provisional Article 4 of the Regulation on Banks' Own Funds .....	—	—
Current cap on Tier 2 capital instruments which are subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds.....	—	—
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) which is subject to the Provisional Article 4 of the Regulation on Banks' Own Funds.....	—	—

## Fair Value of Financial Instruments

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 is best evidenced by the quoted market price, if available.

The estimated fair value of financial instruments has been determined by the Group with the use of available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data in order to develop the estimated fair value. Accordingly, the estimated fair value presented in this Base Prospectus is not necessarily indicative of the amount the Group could realise in a current market exchange transaction.

The table below indicates the carrying and estimated fair value of the financial assets and liabilities, which are not presented on the Group's balance sheet at their estimated fair value.

	As of 31 December					
	2018		2017		2016	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets:</b>						
Due from money markets .....	117,231	117,231	817,005	817,005	252	252
Banks .....	5,269,563	5,280,916	4,837,212	4,839,937	3,448,966	3,450,260
Financial assets at fair value through other comprehensive income.....	26,939,541	26,939,541	24,496,524	24,496,524	18,386,109	18,386,109
Financial assets measured at amortised cost .....	22,805,679	27,598,896	14,197,066	14,109,664	11,588,890	10,981,828
Loans.....	234,967,956	238,815,551	201,998,787	209,211,659	178,664,422	185,565,273
<b>Financial liabilities:</b>						
Bank deposits.....	10,407,301	10,407,301	9,433,289	9,445,379	8,172,114	8,186,147
Other deposits .....	199,884,172	199,842,689	163,950,344	164,229,229	148,916,081	149,132,775
Funds borrowed from other financial institutions.....	47,072,002	46,902,531	42,350,053	41,953,431	30,508,774	30,074,417
Subordinated loans.....	13,557,153	13,596,916	9,718,804	9,821,399	9,067,893	9,170,193
Marketable securities issued .....	21,442,203	21,363,593	23,277,871	23,331,523	18,080,467	18,136,827
Miscellaneous payables .....	14,662,414	14,662,414	12,754,229	12,757,892	11,162,787	11,162,787

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments:

### ***Banks, Bank deposits and Funds borrowed from other financial institutions***

The fair values of banks, bank deposits and funds borrowed from other financial institutions are determined by calculating the discounted cash flows using the current market interest rates.

### ***Held-to-maturity assets***

The fair value of held-to-maturity assets is determined based on market prices or, when these prices are unavailable, based on market prices quoted for other securities subject to the same redemption qualifications in terms of interest, maturity and other similar conditions.

### ***Loans***

The expected fair value of loans and receivables is determined by calculating the discounted cash flows using the current market interest rates for the loans with fixed interest rates. For the loans with floating interest rates (such as overdrafts and credit card receivables), it is assumed that the carrying value approaches the fair value.

### ***Available-for-sale financial assets***

Available-for-sale financial assets are subsequently re-measured at fair value. When fair values based on market prices cannot be obtained reliably, the available-for-sale financial assets are carried at fair values determined by using alternative models. Available-for-sale equity securities which are not quoted in a market, and the fair values of which cannot be determined reliably, are carried at cost less any impairment.

### ***Assets and liabilities measured at fair value***

The following table presents assets and liabilities at fair value as of 31 December 2018 in TL thousands.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets where fair value change is reflected to income statement .....	77,634	170,522	—	248,156
Financial assets where fair value change is reflected to other comprehensive income statement .....	24,988,310	1,942,952	—	26,931,262
Derivative financial assets .....	—	9,067,984	—	9,067,984
<b>Total assets</b> .....	<b>25,065,944</b>	<b>11,181,458</b>	<b>—</b>	<b>36,247,402</b>
Derivative financial liabilities .....	—	7,287,749	—	7,287,749
Financial liabilities at fair value through profit or loss .....	—	7,965,404	—	7,965,404
<b>Total liabilities</b> .....	<b>—</b>	<b>15,253,153</b>	<b>—</b>	<b>15,253,153</b>

### ***Risk Committees***

Within the Bank, risk management is performed by the Asset and Liability Management function within the Executive Committee and the Credit Committee.

The Credit Committee is responsible for: (a) determining lending guidelines in line with the credit policy, economic objectives and the overall risk profile of the credit portfolio of the Bank; (b) granting loans within certain set limits or advising the Board with respect to granting loans exceeding such limits; (c) defining restructuring terms for overdue loans within certain set limits or advising the Board on the same with respect to loans exceeding such limits; and (d) performing other functions assigned to it by the Board. The Credit Committee consists of four principal members and two substitute members, namely: the CEO, the Deputy CEO and two members of the Board, and the Vice Chairman and one member of the Board, respectively. The Risk Management Assistant General Manager attends the meetings by invitation. The Credit Committee meets on a weekly basis.

The decisions of the Credit Committee become immediately effective in the case of a unanimous vote. Otherwise, decisions of the Credit Committee require a majority approval from the Board.

The Asset and Liability Management function within the Executive Committee is responsible for: (i) determining the Bank's structural risk management guidelines and policies; (ii) defining risk profile management strategies, and ensuring their compliance with the Board's guidelines in terms of

risk appetite; (iii) optimising the level of risk that the Bank is exposed to within the guidelines set by the Board; (iv) defining risk limits; (v) defining operational principles of risk management and approval of risk measurement and control models; and (vi) maintaining an overview of credit, market and operational risks. The decisions of the Asset and Liability Management function within the Executive Committee are made by unanimous vote of its permanent members. Such permanent members include the CEO, the Deputy CEO, the CFO, the Treasury Department Assistant General Manager and the Risk Management Assistant General Manager. In addition, heads of other business units as members of the Executive Committee also regularly attend meetings of the Asset and Liability Management function within the Executive Committee, including the Corporate and Commercial Banking Assistant General Manager, the Retail Banking Assistant General Manager, and the Retail Banking Sales Assistant General Manager. The Asset and Liability Management function within the Executive Committee usually meets on a weekly basis but in any case not less frequently than once a month.

## MANAGEMENT

The Bank is managed by its Board of Directors, its General Manager and its senior management.

### Board of Directors

Pursuant to the Bank's articles of association, the Board is responsible for the Bank's management. The Bank's articles of association stipulate that the Board should consist of a minimum of eight members elected by the General Assembly, with the General Manager holding a board seat, as required by the Banking Law. The Board is currently composed of 14 directors. Each director is appointed for a maximum term of three years. The business address of each of the directors is Yapı Kredi Plaza D Blok, Levent 34330, Istanbul, Turkey.

The following table sets forth certain information regarding each member of the Board as of the date of this Base Prospectus.

Name	Position
Ali Y. Koç .....	Chairman
Niccoló Ubertalli .....	Vice Chairman
Gökhan Erün .....	Executive Member and CEO
Marco Iannaccone .....	Executive Member and COO
Ahmet F. Ashaboğlu .....	Member
Levent Çakıroğlu .....	Member
Mirko D. G. Bianchi .....	Member
A. Ümit Taftalı .....	Member
Giovanna Villa .....	Member
Gianfranco Bisagni .....	Member (Independent)
Wolfgang Schilk .....	Member
Ahmet Çimenoglu .....	Member (Independent)
Virma Sökmen .....	Member
Carlo Vivaldi .....	Member

#### *Ali Y. KOÇ, Chairman of the Board of Directors*

Ali Y. Koç graduated from Rice University in Business Administration and completed his MBA degree at Harvard Business School. Between 1990 and 1991, he attended the American Express Bank Management Trainee programme. Between 1992 and 1994, he worked as an Analyst at Morgan Stanley Investment Bank. Between 1997 and 2006, Mr. Koç held various senior level positions at Koç Holding such as the New Business Development Coordinator and President of the Information Technology Group. Between 2006 and 2010, he was the President of the Corporate Communications and Information Technology Group. Mr. Koç has been a Board Member of Koç Holding since January 2008 and was named Vice Chairman in February 2016. He is also the Chairman of various Koç Group companies. Additionally, Mr. Koç contributes to the country's social and economic development by serving as President of the URAK (International Competition Research Association) and as a Board Member at Endeavor Association and at DEİK (Foreign Economic Relations Board). He is also the Vice Chairman of TÜSİAD (Turkish Industry and Business Association) and a Member of the Global Advisory Council of Bank of America, Harvard University and Council on Foreign Relations (CFR). Mr. Koç has been Board Chairman of Yapı Kredi and Koç Financial Services since April 2016.

*Niccolò UBERTALLI, Executive Member and Deputy CEO*

Niccolò Ubertalli graduated from Politecnico di Torino (Turin, Italy) with a Bachelor's Degree in Material Engineering in 1996 and received his Master's in Business Administration from Owen Graduate School of Management at Vanderbilt University (Tennessee, USA) in 2000. During the graduate programme, he worked at Teksid Aluminum Foundry as Program Manager and Process Engineer. In 2000, Mr. Ubertalli moved to Milan (Italy) and worked at McKinsey as Senior Associate until 2002. Between 2002 and 2004, he worked at UniCredit Clarima as Director of Major Relations Divisions. Between 2004 and 2006, Mr. Ubertalli worked at MBNA (USA and UK) as First Vice President. Between 2006 and 2009, Mr. Ubertalli relocated to Bulgaria to work at UniCredit Consumer Financing as Chairman and Executive Director. In 2009, he moved back to Italy and continued his career at UniCredit as the Chief of Staff for Group CEO and, between 2011 and 2012, as the Head of Group Consumer Finance. In 2012, he moved to Romania and assumed the position of Deputy CEO at UniCredit Tiriac Bank. During his time there between 2012 and 2015, he was a Member of the Management Board for UniCredit Tiriac as well as a Member of the Supervisory Boards for Pioneer Investments, UniCredit Consumer Finance Bulgaria, UniCredit Consumer Finance Romania and Ergo Asigurari de Viata S.A. Romania. Since February 2015, Mr. Ubertalli has continued his career at Yapı Kredi as Executive Director in the Board of Directors and Deputy Chief Executive Officer (CEO). In addition, Mr. Ubertalli served as the Deputy CEO of Koç Financial Services and held positions in the Boards of various Yapı Kredi Group subsidiaries until July 2019. In July 2019, Mr. Ubertalli was appointed co-CEO Commercial Banking, CEE at UniCredit and Member of the UniCredit Executive Management Committee. He started to serve at Yapı Kredi and Koç Financial Services as Vice Chairman of the Boards.

*Gökhan ERÜN, Executive Member and CEO*

Gökhan Erün earned his undergraduate degree from Istanbul Technical University Department of Electronics and Communications Engineering and his graduate degree from Yeditepe University in Business Administration. In 1994, Mr. Erün began his career at the Treasury Department of Garanti Bank. Between 1999 and 2004, he served as the Senior Vice President of Commercial Marketing and Sales Department. After becoming the CEO of Garanti Pension and Life in 2004, he was appointed as Executive Vice President of Garanti Bank in September 2005. Mr. Erün served as the Deputy CEO of Garanti Bank since September 2015, in charge of Corporate Banking Coordination, Treasury, Treasury Marketing and Financial Solutions, Derivatives, Cash Management and Transaction Banking, and Financial Institutions. He also held positions in the Boards of various Garanti Bank subsidiaries. As of January 2018, Mr. Erün has continued his career in Yapı Kredi as Executive Director in the Board of Directors and as Chief Executive Officer (CEO). In addition, Mr. Erün is the CEO of Koç Financial Services and holds positions in the Boards of various Yapı Kredi Group subsidiaries.

*Marco IANNACCONE, Executive Member and COO*

Marco Iannaccone graduated from Università degli Studi di Venezia in Business Administration in 1993 and completed his MBA degree at Clemson University in 2003, where he had previously been a graduate assistant in 1994. Between 1995 and 1997, he worked at KPMG as Consultant. In 1997, he started to work at Andersen Consulting as Senior Consultant. In 1999 he moved to Deutsche Bank and continued his career working in several departments, last of which was as the Head of Private & Business Banking until 2002. Moving to UniCredito Italiano in 2002, Mr. Iannaccone held a number of managerial positions in the Group, including Central and Eastern Europe Mergers and Acquisitions, Business Development, Private Banking, Strategy, Planning and Control until 2008. In 2008, Mr. Iannaccone assumed the position of Chief Financial Officer and Vice President of the Management Board at Bank Pekao in Poland. Mr. Iannaccone was Assistant General Manager and CFO at Yapı Kredi from April 2013 until February 2016. Within this period, he also served on Boards of Yapı Kredi Group subsidiaries as Member. In March 2016, he started to work at UniCredit Bank Hungary as Deputy CEO and General Manager. In May 2019, he was appointed to

Yapı Kredi and Koç Financial Services as Executive Director and Chief Operating Officer (COO). He is also Vice Chairman of Boards of Yapı Kredi Group subsidiaries.

*Ahmet F. ASHABOĞLU, Member of the Board of Directors*

Ahmet F. Ashaboğlu holds a Bachelor of Science degree from Tufts University and a Master's of Science degree from Massachusetts Institute of Technology (MIT) in Mechanical Engineering. In 1994, he began his career as a Research Assistant at MIT. Between 1996 and 1999, Mr. Ashaboğlu held various positions in capital markets within UBS Warburg, New York. Between 1999 and 2003, he worked as a Consultant at McKinsey & Company, New York. In 2003, Mr. Ashaboğlu joined Koç Holding as Finance Group Coordinator. Since 2006, he has been serving as the CFO of Koç Holding. In addition to being a Board Member at Yapı Kredi and Koç Financial Services since September 2005, Mr. Ashaboğlu is also a Board Member at Yapı Kredi Koray Real Estate Investment Trust and various Koç Group Companies.

*Levent ÇAKIROĞLU, Member of the Board of Directors*

Levent Çakıroğlu graduated from Ankara University Faculty of Political Sciences, Business Administration Department and received his Master's degree from University of Illinois. He started his professional life in the Ministry of Finance in 1988. Between 1997 and 1998, he taught as part-time instructor at Bilkent University and served as Vice President of the Financial Crimes Investigation Board at the Ministry of Finance. Mr. Çakıroğlu joined Koç Group in 1998 as Koç Holding Financial Group Coordinator. He was the General Manager of Koçtaş between 2002 and 2007, the CEO of Migros between 2007 and 2008, the CEO of Arçelik between 2008 and 2015 and the President of the Durable Goods Group of Koç Holding A.Ş. between 2010 and 2015. Mr. Çakıroğlu was appointed as the Deputy CEO of Koç Holding in February 2015 and he took over the CEO post in April 2015. He is also a member of the Board of Directors of Koç Financial Services and serves in the Board of Directors of some Koç Group Companies.

*Mirko D. G. BIANCHI, Member of the Board of Directors*

Mirko D. G. Bianchi earned a Master's in Science degree in Chemical Process Engineering from the Swiss Federal Institute of Technology. In 1991, he also earned his MBA in Marketing & Finance from Fordham University (New York). Mr. Bianchi started his career at BCI Capital (New York) as an Equity Analyst. Between 1993 and 1998, he worked as Senior Analyst (Vice President) at Moody's Investors Service. In 1998, Mr. Bianchi joined Deutsche Bank Securities as a Director at the Global Debt Capital Markets Department. Between 2000 and 2009, he worked at UBS Investment Bank (London) as Managing Director and Global Head of Ratings Advisory. In October 2009, Mr. Bianchi joined UniCredit as Head of Group Finance in the CFO department and Co-Head of the Group Treasury. Between June 2015 and September 2016, he was appointed as CFO for Austria & CEE of UniCredit Bank Austria and served as Member of the Management Board. In September 2016, Mr. Bianchi was appointed as the CFO of UniCredit. In 2019, Mr. Bianchi was appointed Co-Chief Financial Officer at UniCredit, with an enlarged role also covering Accounting & Regulatory Reporting, Group Tax Affairs and Manager in Charge Staff. He is a member of UniCredit Executive Management Committee. In addition to being a Board Member at Yapı Kredi and Koç Financial Services since July 2015, Mr. Bianchi is also a Board Member at some UniCredit Group Companies.

*A. Ümit TAFTALI, Member of the Board of Directors*

A. Ümit Taftalı earned his Bachelor's degree in Finance from Ball State University (Indiana) and his MBA degree from the University of South Carolina. He also participated in senior executive programmes at Harvard University. Mr. Taftalı is an investment banker and wealth manager with over 30 years of international experience. He has worked in executive positions in Atlanta, New York and London for Merrill Lynch & Company, Bankers Trust Company and Goldman Sachs International. Mr. Taftalı has been representing and advising Mrs. Suna (Koç) Kıraç since 2011 and has been a Member of Koç Holding Executive Committee. He is also Board Chairman of Kare



Portföy and a Board Member at Kıraca Holding. Mr. Taftalı is or has been Board/Founding Member of various philanthropic and professional organisations such as Suna-İnan Kırac Foundation, Educational Volunteers Foundation of Turkey (TESEV), Turkish Industrialists and Businessmen Association (TÜSİAD), Saint Joseph Educational Foundation, Educational Volunteers Foundation of Turkey (TEGV), Galatasaray Sport Club, American Finance Association (USA), Financial Management Association (USA), Museum of American Financial History (USA), Ball State University Foundation (USA), Turkish Bankers Association (UK), and University of South Carolina Foundation (USA). Mr. Taftalı has been a Board Member of Yapı Kredi and Koç Financial Services since April 2016.

*Giovanna VILLA, Member of the Board of Directors (Independent)*

Giovanna Villa earned her Bachelor's degree in Financial Administration from Bocconi in 1991 and obtained a Certified Public Accountant (CPA) certificate in 2000. Between 1991 and 1995, Ms. Villa worked as a Senior Auditor at PricewaterhouseCoopers. Between 1995 and 1997, she was an Assistant in the administration department at Santavaleria (an Italian listed company). In 1997, Ms. Villa provided accounting consultancy to SME companies. Between 2009 and 2011, she worked as an Assistant to the Internal Auditor at Aler Azienda Lombarda Edilizia Residenziale. Since 2000, Ms. Villa has been a Member of the Audit Committee for several companies such as Lenovo Italy, Ritrama Group, Sias Monza Circuit, Lux Vide and Malvestiti. In 2017, she was appointed as Statutory Auditor in Sias Group and Sintesi, Italian listed companies. Ms. Villa has been a Board Member of Yapı Kredi and Koç Financial Services since April 2016.

*Gianfranco BISAGNI, Member of the Board of Directors*

Gianfranco Bisagni holds a degree in Business Administration from Royal Melbourne Institute of Technology. He started his career in the Italian UniCredit network and, shortly thereafter, moved to the United States. His first appointment was in the Chicago office. He was then relocated to New York, where he took over as Deputy Chief Manager for the UniCredit New York branch, responsible for all the representative offices in North and South America. In 2001, he was named Chief Manager of UniCredit's Hong Kong branch and, in 2008, Head of Corporate Banking Asia Pacific & Chief Manager Hong Kong branch. In 2010, he started to serve as Head of Corporate and Investment Banking & Private Banking at UniCredit Tiriak Bank Romania, where he was also appointed a Member of the Management Board. Between 2011 and 2015, he acted as Head of Central and Eastern Europe (CEE) Corporate and Investment Banking and as Deputy Head of CEE Division of UniCredit. In April 2015, he was appointed as the Deputy and, in September 2016, as the Co-Head of Corporate and Investment Banking. In March 2019 he was appointed Co-CFO of Commercial Banking, Central Eastern Europe while retaining shared oversight of the CIB division, along with the Co-CFO of Commercial Banking, Western Europe. Mr. Bisagni has been a Board Member of Yapı Kredi and Koç Financial Services since October 2016.

*Wolfgang SCHILK, Member of the Board of Directors*

Wolfgang Schilk graduated from University of Wien Law School in 1992 and completed a postgraduate management trainee programme at Creditanstalt-Bankverein (CA-BV). Between 1994 and 1996, he worked at CA-BV as the Restructuring and Workout Manager responsible for Corporate Banking. Between 1996 and 2004, Mr. Schilk worked as the Head of Credit Unit at Bank Austria Creditanstalt. In 2004, he became the Head of Regional Office responsible for Corporate Banking. In 2006, he worked as the Head of Regional Office responsible for Private and SME segments. Between 2007 and 2010, he was the Head of Risk Management responsible for Private and SME segments in Bank Austria. Between 2010 and 2016, Mr. Schilk served as the Chief Risk Officer (CRO) of Yapı Kredi. In September 2016, he was appointed as UniCredit CRO for Central and Eastern Europe (CEE) region. In addition to being a Board Member at Yapı Kredi and Koç Financial Services since October 2016, Mr. Schilk is also a Supervisory Board Member at UniCredit Bank Czech Republic & Slovakia and Zagrebacka Banka.

*Ahmet ÇİMENÖĞLU, Member of the Board of Directors*

Ahmet Çimenoglu graduated from the Department of Economics at Boğaziçi University in 1992. He started his professional life as an economist at Yapı Kredi in 1995, after completing his MA in Economics at Boğaziçi University, Istanbul. He received his PhD degree in economics at Istanbul Technical University in 2002. He worked as the Chief Economist, and Head of Strategic Planning and Research, at Yapı Kredi, respectively, between July 2004 and February 2009. In March 2009, he joined Koç Holding as the Head of Economic Research. He is currently the Chief Economist of Koç Holding. Mr. Çimenoglu has been serving as a Board member at Koç Financial Services and Yapı Kredi since March 2019.

*Virma SÖKMEN, Member of the Board of Directors (Independent)*

Virma Sökmen has a Bachelor's degree in Finance from LaSalle University. She began her professional career at the research and investment banking departments of Körfezbank and Çarşı Menkul Değerler. Between 1993 and 2001, she worked at Midland Bank A.S. as a Credit Analyst. Between 2001 and 2010, she served as Corporate Banking Group President and an Executive Vice President of Corporate and Commercial Banking at HSBC. Ms.Sökmen managed corporate banking, commercial banking foreign trade and provision management, factoring, corporate and commercial insurance, corporate marketing and cash management units since 2010. Ms.Sökmen also served as the Assistant General Manager, responsible for Corporate and Commercial Banking, at HSBC. Since 2016, Ms.Sökmen has been a Managing Partner at Credia Partners. Ms.Sökmen has been a Board Member of Yapı Kredi and Koç Financial Services since March 2019.

*Carlo VIVALDI, Member of the Board of Directors*

Carlo Vivaldi graduated from University of Ca'Foscari (Venice, Italy), Department of Business Administration. He started his career in 1991 as Teller in Cassamarca, which merged into UniCredit in 1998. From 1993, he continued his career in various Planning and Control teams. In 2000, Mr. Vivaldi became responsible for Planning and Control for the New Europe Division (today's Central and Eastern Europe – CEE). In 2003, he became the Chief Financial Officer (CFO) of Koçbank/Koç Financial Services. In 2007, he became a Member of the Management Board and CFO of UniCredit Bank Austria (covering Austria and the CEE countries of UniCredit). He also became a Member of several Supervisory Boards in CEE subsidiaries. In 2011, Mr.Vivaldi was appointed as the Executive Director and Deputy CEO of Yapı Kredi. In 2015, he was appointed as the Head of CEE Division of UniCredit. Until 2019 he served as Vice Chairman of Yapı Kredi and Koç Financial Services, and also as Supervisory Board Member of UniCredit Russia and UniCredit Foundation, Board Member of UBIS (UniCredit Business Integrated Solutions) and Member of UniCredit Executive Management Committee. In 2019, Mr.Vivaldi started to serve as Co-Chief Operating Officer at UniCredit, maintaining the positions of Member of the Board of Directors in both UniCredit Foundation and UniCredit Services and Member of the UniCredit Executive Management Committee. Since 1 July 2019, Mr.Vivaldi continues to serve in his positions at Yapı Kredi and Koç Financial Services as Board Member.

## Senior Management

The current members of the Bank's senior management and their areas of responsibility are as follows:

Name	Position	Responsibility
Gökhan Erün .....	BOD Member/CEO	General Manager
Marco Iannaccone .....	BOD Member/COO	Chief Operating Officer
Massimo Francese .....	Assistant Manager	General Financial Planning and Administration Management (Chief Financial Officer)
Albert Angersbach .....	Assistant Manager	General Risk Management Chief Risk Officer
Akif Cahit Erdogan .....	Assistant Manager	General Information Technologies and Operation Management
Yakup Dogan .....	Assistant Manager	General Alternative Distribution Channels
Erhan Adalı .....	Assistant Manager	General Corporate and Commercial Banking Management
Demir Karaaslan .....	Assistant Manager	General Retail Credits
Arif İsfendiyaroğlu .....	Assistant Manager	General Retail Banking Sales Management
Mehmet Erkan Özdemir .....	Assistant Manager	General Compliance and Internal Control/Consumer Relations Coordination Officer
Giovanni Battista Avanzi .....	Assistant Manager	General Internal Audit/Chief Audit Executive
Hakan Alp .....	Assistant Manager	General Human Resources and Organisation Management
Cemal Aybars Sanal .....	Assistant Manager	General Legal Activities Management
Serkan Ülgen .....	Assistant Manager	General Retail Banking Management
Nurgün Eyüboğlu .....	Assistant Manager	General Corporate and Commercial Credit Management
Cengiz Arslan .....	Chief Information Officer	Information Technologies
Saruhan Yücel .....	Assistant Manager	General Treasury

Set forth below is brief biographical information regarding Yapı Kredi's current senior management (other than those who are members of the Board, whose biographical information is set out above):

### *Mr. Massimo Francese*

Mr. Francese, 53, graduated from Università Cattolica del Sacro Cuore, Economics & Commerce Department in Milan, Italy. He joined Credito Italiano in 1991 as Customer Relationship Manager and then moved to different positions in organisation, audit, planning and control functions. In 2005, he became the Head of Group Planning at UniCredit S.p.A. Mr. Francese continued his career at UniCredit Family Financing Bank S.p.A between 2007 and 2010 as Chief Financial Officer. In November 2010, he moved to UniCredit S.p.a. as the Head of Value Management & Planning for the bank's consumer finance business. In 2012, Mr. Francese assumed the position of CEO and the Chairman of the Management Board in UniCredit Consumer Financing EAD in Sofia (Bulgaria), where he worked until the end of February 2016. As of 1 March 2016, he has been appointed Chief Financial Officer and a member of the Executive Committee at Yapı Kredi.

### *Mr. Albert Angersbach*

Mr. Albert Angersbach, 40, graduated from Ryerson University and University of Frankfurt am Main as a double major in 2006. In 2005 he began his professional career at HypoVereinsbank AG as a trainee in the Corporate Credit Risk Management division. Between 2006 and 2007 he served as a Senior Corporate Credit Analyst at UniCredit and in 2007 he started to work as Corporate

Credit Risk Management Assistant Vice President at Deutsche Bank. From 2010 until 2012, Mr. Angersbach worked as Credit Underwriting Vice President and from 2012 until 2013 he worked as Chief Risk Officer at ATF Bank. In 2014 he became the Corporate Credit Operations Assistant General Manager in UniCredit and worked as Chief Risk Officer in Zagrebacka Bank, UniCredit between 2016 and 2018.

Mr. Angersbach has been working as CRO and as a member of the Executive Committee at Yapı Kredi since August 2018. Mr. Angersbach is also a member of the Board of Directors of certain domestic and foreign subsidiaries of Yapı Kredi.

*Mr. Akif Cahit Erdogan*

Mr. Erdogan, 46, graduated from the Faculty of Mechanical Engineering at Istanbul Technical University. Mr. Erdogan earned his MBA degree from the Rochester Institute of Technology. Starting his professional career at Xerox Corporation (Rochester, NY) as a Business Analyst, Mr. Erdogan moved to Accenture (Istanbul Office) in 2000 as a Management Consultant, where he went on to hold various positions. Mr. Erdogan joined the Bank on 1 December 2009 as Chief Information Officer. As of 15 July 2013, he assumed the position of Assistant General Manager in charge of Information Technologies and Operations at the Bank. Mr. Erdoğan has been a member of the Executive Committee of Yapı Kredi Bank since July 2013 and also a chairman of the Executive Committee of Yapı Kredi Teknoloji A.Ş. since May 2015.

*Mr. Yakup Dogan*

Mr. Dogan, 51, received a degree in Business Administration from the Çukurova University. Mr. Doğan started his career at İş Bankası as an Assistant Specialist in 1992. Between 1996 and 2001, he worked at Ottoman Bank in senior management positions responsible for the development of Retail Banking, Credit Cards and Alternative Delivery Channels. In 2001, Mr. Doğan joined Koçbank as Alternative Delivery Channels Manager. In 2006, Mr. Doğan held the position of Alternative Delivery Channels Executive Vice President in Yapı Kredi. As of 30 January 2009 he assumed the position of Assistant General Manager in charge of ADCs at the Bank.

*Mr. Erhan Adalı*

Mr. Adalı, 52, graduated from the Faculty of Political Sciences, Public Administration at Istanbul University in 1987. Erhan Adalı began his professional career at Garanti Bankası as an Internal Auditor. After serving in various positions, Mr. Adalı worked as the Corporate Branch Manager, Commercial Banking Regional Manager and Coordinator in SME Banking Marketing between 1997 and 2005. Mr. Adalı worked as the CEO of Garanti Pension and Life Company from 2005 to 2012 and continued to serve as Executive Vice President of Credits at Garanti Bank until 2015. He served as a member of the Board of Garanti Leasing and Garanti Mortgage from 2015 to 2017. Mr. Adalı has been Assistant General Manager in charge of Corporate and Commercial Banking and a Member of the Executive Committee since March 2018. Mr. Adalı is also a Member of the Board of Directors of Yapı Kredi Factoring, Yapı Kredi Leasing, Yapı Kredi Bank Azerbaijan and Yapı Kredi Bank Malta.

*Mr. Demir Karaaslan*

Mr. Karaaslan, 41, graduated from Marmara University, Business Administration department in 1999. Between September 1999 and December 2004, he worked at PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (formerly Başaran Nas Bağımsız Denetim ve S.M.M.M. A.Ş.) where he joined as an Assistant Auditor and was promoted to Audit Manager. He continued his career at Koçbank between 2005 and 2006 as Head of Budget & Planning. In 2006, following the merger of Koçbank and Yapı Kredi Bank, he was appointed as Vice President responsible from Planning & Control. He has been the Head of Planning & Control since 2010 and promoted as Executive Vice President in 2011. Starting from January 2016, he was appointed as Assistant General

Manager responsible from Retail Credits. Throughout his career, Mr. Karaaslan has also assumed the positions of Statutory Auditor and member of the Board in several subsidiaries of Yapi Kredi Bank.

*Mr. Arif İsfendiyaroğlu*

Arif İsfendiyaroğlu has a Bachelor's degree in Textile Engineering from Istanbul Technical University and an MBA from Manchester Business School and Bilgi University. Mr. Arif İsfendiyaroğlu started his professional career in 1990 at Garanti Bank as a Securities Officer, and held various positions at the same bank until 2004. In 2004, he was transferred to Denizbank as Executive Vice President for Retail Banking. In 2006, he was appointed as Executive Vice President in charge of Retail Banking in the same bank. From 2009 to 2015, he was the Executive Vice President of Garanti Payment Systems. Lastly, he was the Executive Vice President of Retail Banking and Payment Systems at Akbank. Mr. Arif İsfendiyaroğlu has been working as Assistant General Manager in charge of Retail Banking Sales at Yapı Kredi Bank A.S since December 2018.

*Mr. Mehmet Erkan Özdemir*

Mr. Özdemir, 51, received a degree in Economics from the Middle East Technical University. He worked as a Sworn in Bank Auditor on the Sworn in Bank Auditor Board of the Banking Regulation and Supervision Agency between April 1994 and August 2001. He joined Koç Group in August 2002 where he worked as Audit Coordinator in the Audit Group responsible for the financial companies of the Group. Since April 2008, Mr. Özdemir has been serving as Compliance Officer and Executive Vice President at the Bank. Mr. Özdemir has been serving as Assistant General Manager in charge of Compliance and Internal Control since October 2013 and has been a member of the Executive Committee at Yapı Kredi Teknoloji A.Ş. since May 2015.

*Mr. Giovanni Battista Avanzi*

Mr. Avanzi, 51, graduated from Cattolica Sacro Cuore University, Management and Business Administration. He began his career in 1995 as a Senior Manager at Arthur Andersen. He later joined UniCredit SpA, where he served as Senior Auditor from 2003 to 2006, as Head of the Audit Monitoring Team on CIB & PB SBA and on the Asset Management Division from 2006 to 2009, as the Head of the Audit Methodologies Unit from 2009 to 2010, Head of the Global Methodologies Development Unit from 2010 to 2011, Head of the Audit Methodologies and Processes Department from 2011 to 2013. He served as Head of Internal Audit (120 FTE) of Bank Pekao Group from 2014 to 2017. Mr. Avanzi has been serving as Assistant General Manager responsible for Internal Audit at the Bank since January 2017.

*Mr. Hakan Alp*

Mr. Hakan Alp, 50, graduated from Ankara University, Faculty of Political Sciences, Department of International Relations. He started his professional career in 1991 in the Audit Department of Garanti Bank and then served as Training Manager at the same bank between 1997 and 1999. He worked for Humanitas Doğu Human Resources Management as Assistant General Manager in charge of Training, Executive Development, Finance and Administration and Operations between 2000 and 2003. Between 2003 and 2005, he worked as Human Resources Management Assistant General Manager for Tansaş Retail Chain and in 2006 became Human Resources Management Assistant General Manager at Sutas. He started working as Human Resources Executive Vice President at QNB Finansbank in 2007 and was assigned as Human Resources Assistant General Manager in 2010, where he worked until 2018. As of September 2018, Mr. Alp serves as Assistant General Manager in charge of Human Resources and Organisation for the Bank.

*Mr. Cemal Aybars Sanal*

Mr. Sanal, 59, graduated from Istanbul University, Faculty of Law. He began his career in 1986 with the law firm of Sanal & Sanal as a Partner. He later served at the Shell Company of Turkey Limited as an attorney from 1992 to 1995, at White & Case LLP as an attorney from 1995 to

1998, at the Shell Company of Turkey Limited as Chief Legal Counsel and was a member of the Board of Directors from 1998 to 1999 and at Boyner Holding A.Ş. as Chief Legal Counsel and Vice President between 1999 and 2006. After working as a freelance attorney between 2006 and 2007, Mr. Sanal worked with the ELIG Law Firm as a Consultant from 2007 to 2008. He has been working as Assistant General Manager responsible for Legal Affairs at the Bank, since July 2008.

*Mr. Serkan Ülgen*

Serkan Ülgen, 42, graduated from the Bilkent University, Ankara B.S. Industrial Engineering programme in 1998. After graduating, he began his career at BENKAR Consumer Financing and Credit Card Services. In 2001 Mr. Ülgen joined Yapı Kredi and took several responsibilities in Card Payment Systems. He also gained his MBA degree from Bogaziçi University in 2005.

Mr. Ülgen has been the Retail Banking Assistant General Manager and he has been a member of the Executive Committee of Yapı Kredi since January 2018.

He has also been a Member of the Board of Interbank Card Center (BKM) representing Yapı Kredi since January 2011 and Chairman of the Board of BKM since March 2016.

*Ms. Nurgün Eyüboğlu*

Ms. Eyüboğlu, 51, graduated from Boğaziçi University in Business Administration in 1991. She began her career at İktisat Bankası as Management Trainee. She joined Koçbank in 1993 as Relationship Manager and worked as Branch Manager from 1995 to 2004. Between 2004 and 2009 she held the position of the Head of Corporate Banking and Multinational Companies at Yapı Kredi Bank. She was appointed as General Manager of Yapi Kredi Leasing in February 2009. Ms. Eyüboğlu has been Assistant General Manager in charge of Corporate and Commercial Credits at Yapı Kredi since February 2013.

*Mr. Cengiz Arslan*

Mr. Arslan, 51, graduated from Istanbul Technical University in 1989 from the Department of Control and Computer Engineering. He started his career in October 1992 at Yapı Kredi Technology (BILPA), where he worked as a System Software Specialist and Project Leader until November 1995. Between 1995 and 2000, Mr. Arslan worked as Supervisor in SYNERGY Ltd., and in 2000 he worked at Garanti Technology Inc., where he started to work in the Department of Image and Workflow as a Supervisor. He then assumed the role of Unit Manager in the Payment Systems and Automotive Companies Department. In 2012, Mr. Arslan worked as Executive Vice President of Software at Doğuş Technology. Mr. Arslan joined the Bank on 17 December 2012 as BL Info Doc. Management and Workflow Software Development Vice President. As of 15 July 2013, he assumed the position of Chief Information Officer.

*Mr. Saruhan Yücel*

Mr. Yücel earned his undergraduate degree from Istanbul University Department of Business Administration and his graduate degree from the University of Illinois in Business Administration. Yücel started his career at Koçbank in fund the Management Department in 2000. Mr. Yücel held the role as Securities Portfolio Manager in Yapı Kredi's Portfolio in Investment Funds Management Fixed Income department between 2002 and 2003. Following this, he worked as FX and Money Markets Senior Dealer, FX Markets Vice President, Fixed Income Securities Vice President and Balance Sheet Management, and Fixed Income Securities Executive Vice President in Yapı Kredi Bank between 2003 and 2018. Since June 2018, he has continued his career as Treasury Management Assistant General Manager. He is also a Member of the Executive Committee at Yapı Kredi Bank.

The business address of Mr. Yakup Dogan, Mr. Akif Cahit Erdogan and Mr. Cengiz Arslan is Yapı ve Kredi Bankası A.Ş., Genel Mudurluk/Bankacılık Ussu, Akse Mahallesi, Rahmi Dibek Caddesi No: 275 41435 Çayirova, Kocaeli, Turkey which is the operation centre of the Bank. The

other members of the senior management have their business address at Yapı ve Kredi Bankası A.Ş., Yapı Kredi Plaza D Blok, 34330 Istanbul, Turkey.

### Board Committees

Yapı Kredi has a number of committees comprising various members of the Board. These committees consider risk and credit matters and include the Asset and Liability Management function of the Executive Committee and the Credit Committee, which are described in detail in “*Risk Management*”, as well as the Audit Committee, the Corporate Governance Committee and the Remuneration Committee. The Audit Committee supervises compliance by the Bank with local laws and internal regulations, monitors the performance of the Internal Audit Department, Compliance and Internal Control Department and Risk Management Department, controls ethical compliance and executes other functions provided for by the Banking Legislation and CMB Legislation for Audit Committees. The Audit Department, Risk Management and Compliance and Internal Control report to the Audit Committee.

### Corporate Governance

Until recently, there were no mandatory corporate governance rules in Turkey. In 2003, the CMB issued a set of recommended principles for public companies, which applied to public companies on a “comply or explain” basis. In 2004, the Board decided to adopt these principles. On 30 December 2011, the Communiqué on the Determination and Implementation of Corporate Governance Principles Series: IV, No: 56 (the “**Annulled Corporate Governance Communiqué**”) was published and came into force, providing certain compulsory and non-mandatory principles applicable to all companies incorporated in Turkey and listed on the Borsa Istanbul, including the Bank. The Annulled Corporate Governance Communiqué became applicable to the Bank on 30 December 2012, as the regulation provided a one year exemption for listed banks. Following the entrance into force of the New Capital Markets Law No. 6362, by 30 December 2012, the CMB started to prepare secondary legislation in light of the new law. Accordingly, a new communiqué on corporate governance – the Corporate Governance Communiqué Series: II No: 17.1 (the “**Corporate Governance Communiqué**”) was published in the Official Gazette as of 3 January 2014 which annulled the Communiqué on the Determination and Implementation of Corporate Governance Principles Series: IV, No: 56. The Corporate Governance Communiqué contains principles relating to: (a) the company shareholders; (b) public disclosure and transparency; (c) the stakeholders of the company; and (d) the board of directors. A number of principles are compulsory while the remaining principles continue to apply on a “comply or explain” basis as before. The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalisation and the market value of their free float shares, subject to recalculation on an annual basis. The CMB has classified 36 companies for the year 2018 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/or “Tier 3” companies. The Bank is classified as a “Tier 1” company. According to the information policy of the Bank, the public disclosures and all other relevant information given to shareholders are done under the supervision of the compliance office.

- The compliance office manages the official public disclosures via [www.kap.org.tr](http://www.kap.org.tr)
- Public disclosure is managed daily so as to assure timely communication.

The mandatory principles under the Corporate Governance Communiqué include: (i) the composition of the board of directors; (ii) the appointment of independent board members; (iii) board committees; (iv) 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 (v) the information rights in connection with General Assembly meetings.

All “Tier 1” and “Tier 2” companies are required to have a number of independent board members that constitute at least one third of the board of directors. However, these companies can apply to the CMB in order to limit the number of independent board members to two, irrespective of the ratio of the company’s free float shares, as long as at least 51% of their share capital is equally owned by two independent shareholders contractually sharing equal management control but having no direct or indirect shareholding, management or audit relationship among themselves, except for banks. “Tier 3” companies do not have to comply with the one third ratio, although they are obliged to have at least two independent directors. Pursuant to Article 6 of the Corporate Governance Communiqué, banks have discretion in determining the number of independent directors, provided that they sustain the minimum requirement of having at least three independent directors. Board members who are appointed as an audit committee member within the bank’s organisational structure shall be considered as an independent board member within the framework of the Corporate Governance Communiqué.

The Corporate Governance Communiqué further initiated a pre-assessment system to determine the “independency” of individuals nominated as independent board members in “Tier 1” companies. Those nominated for such positions must be evaluated by the “**Nomination Committee**” 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 on this evaluation for final review by the CMB, which is authorised 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. “Tier 2” and “Tier 3” public companies are not required to go through the CMB pre-assessment for the appointment of independent directors, although the nominations must still be evaluated by the Nomination Committee.

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 creating any guarantee, pledge or mortgage in favour of third parties, transactions that may result in a conflict of interest with the company or its subsidiaries and certain other transactions deemed material by the Corporate Governance Communiqué. For example, material transactions, which 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, the acquisition or lease of a material asset, must be approved by the majority of the independent board members. If the majority of the independent directors do not vote in favour of such board resolutions, the relevant transaction will be subject to the approval of the shareholders, which will convene without required meeting quorums and where the related parties to those transactions will not be able to vote. The foregoing framework also applies to all related party transactions as well as transactions creating any guarantee, pledge or mortgage in favour of third parties.

In 2007, the CMB had issued a rating communiqué enabling rating agencies to rate companies on the basis of their compliance with the applicable principles. In 2008, following a corporate governance rating report issued by SAHA Corporate Governance and Credit Rating Services Inc., the Bank was included among the leading companies that form the Borsa Istanbul Corporate Governance Index. The report provided the Bank with a corporate governance rating of 8.02 out of 10. In 2017, following a repeated review by SAHA Corporate Governance and Credit Rating Services Inc., the Bank’s corporate governance rating was upgraded to 9.43.

## **Compensation**

The Bank’s compensation policy aims to remunerate fairly and in a manner that is consistent with the nature of work and structure of the general market or the sector, in order to enhance talent and key staff attraction/retention capability and people motivation. The compensation package is composed of base pay and variable pay. The variable pay is linked to the realisation of the Bank’s strategic targets.



In general, base pay depends upon the position and the work completed while variable pay depends on performance. Thus, the compensation system allows the bank to reward employees according to their level of contribution and responsibility in order to reach the goals of the institution.

Salaries and other benefits paid to the Group's senior management amounted to TL 1,443,446 thousand as of 30 September 2019, TL 66,780 thousand as of 31 December 2018, TL 77,215 thousand as of 31 December 2017 and TL 56,454 thousand as of 31 December 2016.

### **UniCredit Relationship**

As a result of the Group's relationship with the UniCredit Group, the Group receives assistance from the UniCredit Group in identifying candidates to fill management roles within the Group. Furthermore, the Group's management may also be appointed to other roles within the UniCredit Group. For example, in June 2010, the Bank's former Chief Risk Officer was appointed to a more senior position at an entity within the UniCredit Group. The Board resolved on 30 July 2010 to apply to the BRSA in order to appoint Wolfgang Schilk, a senior executive from the UniCredit Group, as Chief Risk Officer. This appointment was confirmed as of October 2010. As of 1 August 2018, the Bank appointed Albert Angersbach, an executive from UniCredit Group, as Chief Risk Officer.

On 30 November 2019, UniCredit and the Koç Group announced an agreement to change the Bank's ownership structure. The relationship between UniCredit and the Bank is subject to change as a result of announced changes to UniCredit's stake in the Bank.

### **Conflicts**

None of the members of the Bank's Board or senior management has any existing or potential conflicts of interest with respect to his duties to the Bank and his private interests or other duties.

## SHARE CAPITAL AND OWNERSHIP

### Share Capital

As of the date of this Base Prospectus, the Bank's share capital consisted of 844,705,128,400 authorised shares with a nominal value of TL 0.01 each. The Bank's shares are listed on the Borsa Istanbul and its global depositary receipts are listed on the London Stock Exchange.

The Bank's issued and fully paid-up share capital was held as of the dates specified as follows<sup>9</sup>:

	As of 30 September 2019		As of 31 December 2018		As of 31 December 2017		As of 31 December 2016	
	Ownership	Capital	Ownership	Capital	Ownership	Capital	Ownership	Capital
	(%)	(TL, thousands)	(%)	(TL, thousands)	(%)	(TL, thousands)	(%)	(TL, thousands)
<b>Shareholders</b>								
Koç Financial Services .....	81.9	6,918,131	81.9	6,918,131	81.8	3,555,712	81.8	3,555,712
Other shareholders (minorities) .....	18.1	1,528,920	18.1	1,528,920	18.2	791,339	18.2	791,339
Historical share capital .....	100	8,447,051	100	8,447,051	100	4,347,051	100	4,347,051
Adjustment to share capital .....	—	(60,471)	—	(60,471)	—	(60,471)	—	(60,471)
Share premium .....	—	556,937	—	556,937	—	543,881	—	543,881
<b>Total share capital and share premium .....</b>	<b>—</b>	<b>8,943,517</b>	<b>—</b>	<b>8,943,517</b>	<b>—</b>	<b>4,830,461</b>	<b>—</b>	<b>4,830,461</b>

On 18 January 2012, the Board decided to increase the registered capital ceiling from TL 5 billion, the maximum level that the Board is authorised to increase the share capital absent a resolution of the General Assembly, to TL 10 billion. Such increase of the registered capital ceiling was approved by the CMB and the BRSA in February 2012 and was finalised upon the approval of the shareholders during the General Assembly meeting dated 22 March 2012.

On 30 November 2019, UniCredit and the Koç Group announced a transaction that would impact the Group's share capital and ownership.

### Ownership

As of the date of this Base Prospectus, the Bank's controlling shareholder was KFS with an 81.9% stake and the remaining 18.1% of the Bank's shares were publicly traded and held by minority shareholders. The direct or indirect acquisition of shares, which represent 10% or more of the share capital of any bank, or the direct or indirect acquisition or transfer of shares resulting in the total number of shares held by a shareholder to increase above or fall below 10%, 20%, 33% or 50% of the share capital of a bank, requires the permission of the BRSA. In addition, irrespective of these thresholds, an assignment and transfer of privileged shares with the right to nominate a member to the board of directors or audit committee or issuance of new shares with such privileges is also subject to the authorisation of the BRSA.

On 30 September 2016, UniCredit Bank Austria AG transferred its 50% shareholding in KFS to UniCredit S.p.A. (which wholly owns UniCredit Bank Austria AG). Following the transfer, UniCredit S.p.A. directly owns 50% of KFS's shares. On 30 November 2019, UniCredit and the Koç Group announced a transaction that would impact the Group's share capital and ownership.

### Controlling Shareholders

#### Koç Financial Services

KFS is a financial holding company and an equal share (50%/50%) joint venture between the Koç Group and UniCredit. In connection with the establishment of the joint venture, UniCredit and the Koç Group entered into a shareholders' agreement to govern various aspects of the management of KFS and the Bank (the "Shareholders' Agreement"). The Shareholders' Agreement includes an

<sup>9</sup> Please note that figures provided for share capital and share premium are IFRS figures.

agreement between the parties to ensure that both are represented equally on the Board of Directors of KFS and the Bank and their various committees and among the senior management and sets out terms under which the shareholders may dispose of their relevant stake in KFS. In addition, the parties agree not to compete with the Bank in the Turkish banking market.

### **Koç Holding A.Ş.**

Koç Holding is one of Turkey's largest conglomerates in terms of turnover and exports, with operations in the energy, automotive, consumer durables and finance sectors. Koç Holding derives its strength from a large distribution network and after-sales services, a wide customer base in different business segments together with strong customer relationship management capabilities enabling efficient upward and cross-selling, leading brands and strong recognition and optimum portfolio diversification. In the year ended 31 December 2017, Koç Holding had total sales that corresponded to 7.2% of Turkey's GDP and exports that comprised 10% of Turkey's total exports. In the year ended 31 December 2018, Koç Holding had total sales that corresponded to 10% of Turkey's GDP and exports that comprised 8% of Turkey's total exports. In the first six months of 2019, Koç Holding generated U.S.\$27.82 billion in total revenues.

### **UniCredit and the UniCredit Group**

UniCredit is a bank incorporated as a joint stock company under Italian law, with its registered office at Via A. Specchi, 16, 00186, Rome, Italy, and with its head office and principal centre of business at Piazza Cordusio, 20123, Milan, Italy.

UniCredit is the parent holding company of the Gruppo UniCredit registered with the Register of Banking Groups held by the Bank of Italy pursuant to Article 64 of the Italian Banking Act under No. 02008.1 (the "**UniCredit Group**").

The UniCredit Group, with roots dating back to 1473, is a systemically important European financial institution based in Italy. The Group operates through leading banks in 14 core markets.

UniCredit Bank AG, as one of the Arrangers, and the Issuer are affiliates of UniCredit S.p.A, the parent company of the UniCredit Group. Further information about this relationship is set out in "*Related Party Transactions*".

### **UniCredit Relationship**

As a result of the Group's relationship with the UniCredit Group, the Group receives assistance from the UniCredit Group in identifying candidates to fill management roles within the Group. Furthermore, the Group's management may also be appointed to other roles within the UniCredit Group. For example, in June 2010, the Bank's former Chief Risk Officer was appointed to a more senior position at an entity within the UniCredit Group. The Board resolved on 30 July 2010 to apply to the BRSA in order to appoint Wolfgang Schilk, a senior executive from the UniCredit Group, as Chief Risk Officer. This appointment was confirmed as of October 2010. As of 1 August 2018, the Bank appointed Albert Angersbach, an executive from UniCredit Group, as Chief Risk Officer.

On 30 November 2019, UniCredit and the Koç Group announced an agreement to change the Bank's ownership structure. The relationship between UniCredit and the Bank is subject to change as a result of announced changes to UniCredit's stake in the Bank.

## RELATED PARTY TRANSACTIONS

Related parties include entities that are directors, shareholders or affiliates of, or entities under common management or control with, the Bank. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by Koç Group and the UniCredit Group, owning 50% of the ordinary shares each of KFS, and as a result, both the UniCredit Group and Koç Group are considered related parties of the Group.

All of the related party credit applications must go through the Group's normal credit review process. All extensions of credit to the related parties are made on an arm's length basis and the credit and payment terms in respect of such credits are no more favourable than those offered to third parties.

The Banking Law places limits on a bank's exposure to related parties. Under the Banking Law, the total amount of loans to be extended by a bank to its risk group must not be more than 20% of its own funds. As of 30 September 2019, the Bank's total net exposure to its risk group totalled TL 5,846,673 thousand, an amount corresponding to 10.5% of its own funds; the Bank is therefore within the limits of the Banking Law in terms of its exposure to its subsidiaries and other affiliates.

The following tables show the loans of the Group's risk group as of the dates indicated:

<b>Group's risk group<sup>(1)(2)</sup></b>	<b>As of 30 September 2019</b>					
	<b>Associates, subsidiaries and joint ventures</b>		<b>Direct and indirect shareholders of the Group</b>		<b>Other real and legal persons that have been included in the risk group</b>	
	<b>Cash</b>	<b>Non-cash</b>	<b>Cash</b>	<b>Non-cash</b>	<b>Cash</b>	<b>Non-cash</b>
	<i>(TL, thousands)</i>					
Loans and other receivables .....						
Balance at the beginning of the period .....	8,537	73,717	585,510	1,351,956	3,823,152	4,218,277
Balance at the end of the period .....	202,141	12,379	779,889	1,122,175	3,409,352	2,443,151
<b>Interest and commission income received....</b>	<b>2,553</b>	<b>174</b>	<b>27,139</b>	<b>6,042</b>	<b>366,083</b>	<b>20,183</b>

(1) Defined in subsection 2 of Article 49 of the Banking Act No. 5411.

(2) The information in the table above includes loans and due from banks, as well as marketable securities.

<b>Group's risk group<sup>(1)(2)</sup></b>	<b>As of 31 December 2018<sup>(3)</sup></b>					
	<b>Associates, subsidiaries and joint ventures</b>		<b>Direct and indirect shareholders of the Group</b>		<b>Other real and legal persons that have been included in the risk group</b>	
	<b>Cash</b>	<b>Non-cash</b>	<b>Cash</b>	<b>Non-cash</b>	<b>Cash</b>	<b>Non-cash</b>
	<i>(TL, thousands)</i>					
Loans and other receivables .....						
Balance at the beginning of the period .....	8,523	10,130	413,696	1,358,830	2,582,313	3,078,551
Balance at the end of the period .....	8,537	73,717	585,510	1,351,956	3,823,152	4,218,277
<b>Interest and commission income received.....</b>	<b>1,033</b>	<b>107</b>	<b>19,219</b>	<b>5,861</b>	<b>322,795</b>	<b>15,967</b>

(1) Defined in subsection 2 of Article 49 of the Banking Act No. 5411.

(2) The information in the table above includes loans due from banks, as well as marketable securities.

(3) Interest and commission income received is presented as of 30 September 2018.

Group's risk group <sup>(1)(2)</sup>	As of 31 December 2017					
	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Group		Other real and legal persons that have been included in the risk group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
	(TL, thousands)					
Loans and other receivables						
Balance at the beginning of the period .....	21,974	8,492	519,444	1,158,561	2,394,592	2,586,737
Balance at the end of the period .....	8,523	10,130	413,696	1,358,830	2,582,313	3,078,551
<b>Interest and commission income received ....</b>	<b>1,831</b>	<b>119</b>	<b>9,516</b>	<b>7,893</b>	<b>320,083</b>	<b>12,547</b>

(1) Defined in subsection 2 of Article 49 of the Banking Act No. 5411.

(2) The information in the table above includes loans due from banks, as well as marketable securities.

Group's risk group <sup>(1)(2)</sup>	As of 31 December 2016					
	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Group		Other real and legal persons that have been included in the risk group	
	Cash	Non cash	Cash	Non cash	Cash	Non cash
	(TL, thousands)					
Loans and other receivables .....						
Balance at the beginning of the period .....	33,816	10,388	106,881	954,585	1,688,868	2,440,007
Balance at the end of the period .....	21,974	8,492	519,444	1,158,561	2,394,592	2,586,737
<b>Interest and commission income received .....</b>	<b>870</b>	<b>119</b>	<b>4,981</b>	<b>7,546</b>	<b>245,453</b>	<b>10,501</b>

(1) Defined in subsection 2 of Article 49 of the Banking Act No. 5411.

(2) The information in the table above includes loans due from banks, as well as marketable securities.

The following table shows the deposits of the Group's risk group for the periods indicated:

Group's risk group <sup>(1)(2)</sup>	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	For the nine months ended 30 September 2019	For the year ended 31 December 2018 <sup>(3)</sup>	For the nine months ended 30 September 2019	For the year ended 31 December 2018 <sup>(3)</sup>	For the nine months ended 30 September 2019	For the year ended 31 December 2018 <sup>(3)</sup>
	(TL, thousands)					
Beginning of the period ....	32,007	27,440	39,787,874	29,100,563	22,326,048	18,301,565
End of the period .....	105,662	32,007	31,915,468	39,787,874	21,801,752	22,326,048
<b>Interest expense on deposits .....</b>	<b>5,474</b>	<b>3,097</b>	<b>2,073,249</b>	<b>1,658,457</b>	<b>1,071,296</b>	<b>720,301</b>

(1) Defined in subsection 2 of Article 49 of the Banking Act No. 5411.

(2) The information in the table above includes borrowings, marketable securities issued and repo transactions, as well as deposits.

(3) Interest expense on deposits is presented for the nine months ended 30 September 2018.

The following table shows the deposits of the Group's risk group for the periods indicated:

	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Group		Other real and legal persons that have been included in the risk group	
	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2016
<b>Group's risk group<sup>(1)(2)</sup></b>						
	<i>(TL, thousands)</i>					
Beginning of the period .....	232,820	82,069	24,423,963	19,927,462	14,406,822	5,148,413
End of the period.....	27,440	232,820	33,489,119	24,423,963	18,301,565	14,406,822
<b>Interest expense on deposits.....</b>	<b>5,564</b>	<b>3,139</b>	<b>1,458,814</b>	<b>1,107,376</b>	<b>779,396</b>	<b>556,428</b>

(1) Defined in subsection 2 of Article 49 of the Banking Act No. 5411.

(2) The information in the table above includes borrowings, marketable securities issued and repo transactions, as well as deposits.

The following table shows the forward and option agreements and other derivative instruments with the Group's risk group for the periods indicated:

	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Group		Other real and legal persons that have been included in the risk group	
	For the nine months ended 30 September 2018	For the nine months ended 30 September 2017	For the nine months ended 30 September 2018	For the nine months ended 30 September 2017	For the nine months ended 30 September 2018	For the nine months ended 30 September 2017
<b>Group's risk group<sup>(1)</sup></b>						
	<i>(TL, thousands)</i>					
Transactions at fair value through profit or loss <sup>(2)</sup>						
Beginning of the period <sup>(3)</sup> ...	–	–	4,585,782	8,532,884	4,263,455	1,104,683
End of the period <sup>(3)</sup> .....	–	–	3,739,433	4,585,782	5,646,748	4,263,455
<b>Total profit/loss<sup>(4)</sup> .....</b>	<b>471</b>	<b>239</b>	<b>272,125</b>	<b>(62,544)</b>	<b>(650,543)</b>	<b>29,894</b>
Transactions for hedging purposes <sup>(2)</sup>						
Beginning of the period <sup>(3)</sup> ...	–	–	1,375,186	–	–	–
End of the period <sup>(3)</sup> .....	–	–	1,529,011	1,375,186	–	–
<b>Total profit/loss .....</b>	<b>–</b>	<b>–</b>	<b>179,011</b>	<b>–</b>	<b>–</b>	<b>–</b>

(1) Defined in subsection 2 of Article 49 of the Banking Act No. 5411.

(2) The Bank's derivate instruments are classified as "Financial instruments at fair value through profit or loss" or "Derivate financial instruments held for hedging" according to TAS 39.

(3) The balances at the beginning and end of the periods are disclosed as the total of buy and sell amounts of derivate financial instruments.

Group's risk group <sup>(1)</sup>	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
<b>Transactions at fair value through profit or loss</b>						
Beginning of the period <sup>(2)</sup>	-	-	3.330.535	4.585.782	983.564	4.263.455
End of the period <sup>(2)</sup>	-	-	2.514.094	3.330.535	8.023.206	983.564
<b>Total profit / loss<sup>(3)</sup></b>	-	<b>471</b>	<b>(451)</b>	<b>272.125</b>	<b>84.320</b>	<b>(650.543)</b>
<b>Transactions for hedging purposes</b>						
Beginning of the period <sup>(2)</sup>	-	-	1.456.586	1.375.186	-	-
End of the period <sup>(2)</sup>	-	-	1.377.758	1.456.586	-	-
<b>Total profit / loss<sup>(3)</sup></b>	-	-	<b>27.758</b>	<b>179.011</b>	-	-

(1) Defined in subsection 2 of the 49th article of the Banking Act No. 5411.

(2) The balances at the beginning and end of the periods are disclosed as the total of buy and sell amounts of derivative financial instruments.

(3) Prior period presents profit / loss information of 30 September 2018

The following table shows the forward and option agreements and other derivative instruments with the Group's risk group for the periods indicated:

	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank Group		Other real and legal persons that have been included in the risk group	
	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2016
<b>Group's risk group<sup>(1)</sup></b>	<i>(TL, thousands)</i>					
Transactions at fair value through profit or loss <sup>(2)</sup>						
Beginning of the period <sup>(3)</sup> .....	—	—	8,532,884	1,455,484	1,104,683	146,778
End of the period <sup>(3)</sup> .....	—	—	4,585,782	8,532,884	4,263,455	802,512
<b>Total profit/loss<sup>(4)</sup> .....</b>	<b>134</b>	<b>(8,091)</b>	<b>(16,232)</b>	<b>(9,004)</b>	<b>(48,039)</b>	<b>(9,512)</b>
Transactions for hedging purposes <sup>(2)</sup>						
Beginning of the period <sup>(3)</sup> .....	—	—	—	—	—	—
End of the period <sup>(3)</sup> .....	—	—	1,375,186	—	—	—
<b>Total profit/loss<sup>(4)</sup> .....</b>	<b>—</b>	<b>—</b>	<b>25,186</b>	<b>—</b>	<b>—</b>	<b>—</b>

(1) Defined in subsection 2 of Article 49 of the Banking Act No. 5411.

(2) The Bank's derivate instruments are classified as "Financial instruments at fair value through profit or loss" or "Derivate financial instruments held for hedging" according to TAS 39.

(3) The balances at the beginning and end of the periods are disclosed as the total of buy and sell amounts of derivate financial instruments.

In December 2013, the Bank repaid a EUR 350 million subordinated loan facility advanced by Goldman Sachs International and received a new subordinated loan facility from UniCredit Bank Austria AG in the amount of U.S.\$470 million. The new facility has a ten-year maturity with a repayment option at the end of five years.



## INSOLVENCY OF THE ISSUER

The Turkish Covered Bonds Legislation contains provisions relating to the protection of the Covered Bondholders upon the insolvency of the Issuer.

Pursuant to the Turkish Covered Bonds Legislation, the assets in the Cover Pool can only be used to pay the Covered Bondholders, Couponholders, Hedging Counterparties and (to the extent that Additional Cover has been included in the manner described in Article 29 of the Covered Bonds Communiqué) Other Secured Creditors. The assets in the Cover Pool cannot be pledged, subject to an attachment, or included in the assets of the Issuer in case of bankruptcy. If the assets in the Cover Pool are not sufficient to pay all of the outstanding Total Liabilities, then the Covered Bondholders, Couponholders and Hedging Counterparties will have a right of recourse to the other assets of the Issuer and any claims of such Secured Creditors will rank *pari passu* with the other creditors of the Issuer (including the Other Secured Creditors) for the unpaid amount with the exception of the preferred rank of the creditors under Turkish law, including, but not limited to, Article 206 of the Turkish Execution and Bankruptcy Law No. 2004 (*İcra ve İflas Kanunu*), as amended from time to time, and the Law on the Central Bank of the Republic of Turkey No. 1211 (*Türkiye Cumhuriyet Merkez Bankası Kanunu*) according to which the proceeds obtained from the sale of the assets of the debtor are distributed among the creditors in the following order:

- (a) claims against the bankruptcy estate due to debts incurred during the administration of the bankruptcy estate;
- (b) secured obligations;
- (c) taxes, duties, fees and other governmental charges arising from the sales of the pledged assets;
- (d) salaries of the employees for the last year, and severance payments of the employees and debts to the employee funds;
- (e) certain debts of the bankruptcy estate due to custody and guardianship provisions under Turkish Civil Law No. 4721;
- (f) debts of the bankruptcy estate which are determined as privileged receivables of the bankruptcy estate under specific laws, i.e., debts of the bankruptcy estate to its legal counsels, debts of the bankruptcy estate to participate in utilities, etc.; and
- (g) unsecured receivables (assets).

As the Issuer is a licensed bank in Turkey, the insolvency process of the Issuer will be conducted in accordance with the Banking Law and the Turkish Execution and Bankruptcy Law No. 2004 (*İcra ve İflas Kanunu*).

### Measures under the Banking Law and Transfer to the SDIF

#### (a) Transfer of Management to the SDIF and Cancellation of Activity Licence

Pursuant to the Banking Law, if the results of a consolidated or unconsolidated audit show that the Issuer's financial structure has seriously weakened due to the occurrence of one or more of the following events, then the BRSA may require the Board of Directors of the Issuer to take measures to strengthen its financial position:

- (i) the assets of the Issuer are insufficient or are likely to become insufficient to cover its obligations as they become due;
- (ii) the Issuer is not complying with its liquidity requirements;

- (iii) due to an imbalance in its income and expenses, the Issuer's profitability is such as to make it unable to conduct its business in a secure manner;
- (iv) the regulatory equity capital of the Issuer is not sufficient or is likely to become insufficient;
- (v) the quality of the assets of the Issuer has been impaired in a manner weakening its financial structure;
- (vi) the practices, decisions, by-laws and/or internal regulations of the Issuer are in breach of the Banking Law, relevant regulations or the decisions of the BRSA;
- (vii) the Issuer fails to: (A) establish internal control, internal audit and risk management systems; (B) effectively and sufficiently conduct such systems; or (C) any factor impedes the supervision of such systems; or
- (viii) imprudent acts of the Issuer's managers materially: (A) increase the risks defined under the Banking Law; or (B) weaken the Bank's financial structure.

If the BRSA determines that the Issuer is not in compliance with one or more of the requirements set forth under sub paragraph (i), (ii), (iii), (iv) or (v) above then it may require the Issuer, in accordance with Article 68(a) of the Banking Law:

- to increase its equity capital;
- not to distribute dividends for a specific period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund;
- to increase its loan provisions;
- to cease any grant of loan to its shareholders;
- to dispose of its assets in order to strengthen its liquidity;
- to cease or restrict its new investments;
- to limit salaries and other payments;
- to cease its long-term investments; and/or
- to take any other action that is deemed necessary by the BRSA.

In the event the aforementioned actions are not taken (in whole or in part) by the Issuer or its financial structure cannot be strengthened despite it having taken such actions, or the BRSA determines that the Issuer's financial structure has become so weak that it could not be strengthened even if it takes any of the actions above, then the BRSA may require the Issuer, in accordance with Article 69 of the Banking Law to take any of the following corrective actions:

- to strengthen its financial condition;
- to increase its liquidity and/or capital adequacy;
- to dispose of its fixed assets and long-term assets;
- to decrease its operational and administrative costs;

- to postpone its payments, excluding the regular payments to be made to its members; or
- to restrict or cease to make any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors.

On the other hand, if the BRSA determines that the Issuer is not in compliance with one or more of the requirements set forth under sub-paragraph (vi), (vii) or (viii) above, then it may require the Issuer, in accordance with Article 68 of the Banking Law:

- to comply with the relevant banking legislation;
- to review its loan policy and cease its high risk transactions;
- to take all actions to decrease any maturity, foreign exchange and interest rate risks; or
- to take any other action that is deemed necessary by the BRSA.

In the event the aforementioned actions are not taken (in whole or in part) by the Issuer or its financial structure cannot be strengthened despite it having taken such actions, or the BRSA determines that the Issuer's financial structure has become so weak that it could not be strengthened even if it takes any of the actions above, then the BRSA may require the Issuer in accordance with Article 69 of the Banking Law to take any of the following corrective actions:

- to convene an extraordinary general assembly in order to change the board members or assign new member(s) to the Board of Directors or the removal of the existing board members responsible for the failure to ensure compliance with 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 Issuer in respect of sub-paragraph (viii) above and to request the board members and shareholders holding qualified shares to undertake the implementation of such plan in writing and to deliver the outcome of this on a periodical basis; and/or
- to take any other action that is deemed necessary by the BRSA.

Pursuant to Article 70 of the Banking Law, in the event the aforementioned actions are not (in whole or in part) taken by the Issuer or are not sufficient to cause the Issuer to continue its business in a secure manner, the BRSA may require the Issuer:

- to limit or cease its business for a temporary period;
- to apply various restrictions, including restrictions on interest and maturity with respect to resource collection and utilisation;
- to remove from office (in whole or in part) its board members, general manager and deputy general managers and department and branch managers and to obtain approval from the BRSA for the appointment of their replacements;
- to make available long-term loans which will be secured by the shares or other assets of the controlling shareholders;
- to limit or cease its non-performing operations and to dispose of its non-performing assets;

- to merge with one or more other banks;
- to provide new shareholders in order to increase its equity capital;
- to cover its losses with its equity capital; and/or
- to take any other action that is deemed necessary by the BRSA.

In the event the BRSA determines that: (a) the aforementioned actions are not (in whole or in part) taken by the Issuer within a period of time set forth by the BRSA or in any case within 12 months; (b) the financial structure of the Issuer cannot be strengthened despite it having taken such actions or the financial structure of the Issuer has become so weak that it could not be strengthened even if the actions were taken; (c) the continuation of the activities of the Issuer would jeopardise the rights of the depositors and the participation fund owners and the security and stability of the financial system; (d) the Issuer cannot fulfil its obligations as they become due; (e) the total amount of the liabilities of the Issuer exceeds the total amount of its assets; or (f) the controlling shareholders or managers of the Issuer are found to have made use of the Issuer's resources for their own interests, directly, indirectly or fraudulently, in a manner that jeopardised the secure functioning of the Issuer or caused the Issuer to sustain a loss as a result of such misuse, then the BRSA, with the affirmative vote of at least five of its board members: (i) may revoke the licence of the Issuer to engage in banking operations and/or to accept deposits; or (ii) shall transfer the management, supervision and control of the rights of the shareholders (excluding dividends) of such bank to the SDIF with the condition that the losses of the shareholders are reduced from the capital.

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

**(b) Management and Liquidation by the SDIF**

***Transfer of the Bank's Management, Supervision and Control to the SDIF***

In case the Issuer's management, supervision and control of the privileges of shareholders (excluding dividends) is transferred to the SDIF as per Article 71 of the Banking Law, the SDIF will manage the Issuer in accordance with Article 107 of the Banking Law. Accordingly, the SDIF will exercise its rights in line with the principles ensuring cost efficiency and maintaining the security and stability of the financial system. The SDIF is authorised to suspend the activities of any bank whose partnership rights, excluding dividends, as well as management and control have been transferred thereto pursuant to the provisions of Article 71 of the Banking Law, for a period to be determined by the SDIF. Taking as a basis the balance sheet to be prepared as of the transfer date, the SDIF is also authorised to:

- (i) request the BRSA to transfer the assets, organisation, personnel (unless they otherwise request) as well as the savings deposit and contribution funds subject to insurance together with the interest accrued, provided that such interest does not exceed the average of interest rates applied by five deposit banks with the highest total deposits as of the transfer date for savings

deposits and the average of return rates applied by three participation banks with the highest total participation funds for contribution funds, and the corresponding provision items on the liabilities side, to a bank to be newly established or any of the existing banks, and/or to terminate the operating permission of the bank, whose assets and liabilities have been transferred partially or completely;

- (ii) provide financial support and take over the losses corresponding to the capital representing the shares transferred thereto, provided that it owns the shares and that the amount of deposits and contribution funds covered by insurance is not exceeded;
- (iii) in case of failure to take ownership of all shares upon assuming the losses, take over the shares in return for the payment of share values to be calculated on the basis of the capital to be calculated upon subtracting the loss from the paid in capital, to the Issuer's shareholders within the period to be set by the SDIF; or
- (iv) request the BRSA to cancel the Issuer's activity licence.

The shares referred to in sub-paragraphs (ii) and (iii) above shall be transferred to the SDIF free from any right and restriction.

If the Issuer's shares have been transferred to the SDIF in accordance with this provision, the SDIF is authorised to:

- (A) partially or completely transfer the assets and liabilities of the Issuer, whose majority or all shares have been transferred thereto, to a bank that is newly established or to interested banks, by providing financial and technical assistance where necessary, or to merge the Issuer with any other interested bank;
- (B) in order to strengthen and restructure the financial system, as limited to cases where deemed necessary by the SDIF:
  - (i) increase the Issuer's capital;
  - (ii) remove default interests arising from statutory provisions and general liquidity requirements;
  - (iii) purchase affiliates, immovable and other assets, or to take them as guarantee and give advances in return;
  - (iv) deposit funds to meet liquidity requirements;
  - (v) take over receivables or losses; or
  - (vi) carry out any transaction pertaining to its assets and liabilities and convert them into cash;
- (C) sell the assets of the Issuer to third parties offering discounts or other methods and to take any other measure it may deem necessary; or
- (D) transfer the shares of the Issuer to third parties, with the permission of the BRSA within the framework of the principles and procedures to be set by the SDIF.

The consent of creditors and debtors shall not be sought in transfer transactions to be performed under the provisions of Article 107 of the Banking Law.

The process of restructuring, strengthening, transferring, merging or selling the Issuer whose partnership rights, excluding dividends, as well as management and supervision have been transferred to the SDIF pursuant to Article 71 of the Banking Law, has to be completed within a maximum period of nine months following the transfer date. This period may be extended for a period of up to three months subject to the SDIF's decision. If the transfer, merger or sale cannot be completed within such period of time, the BRSA shall revoke the operating permission of the Issuer upon the request of the SDIF.

### **Liquidation by the SDIF Following Cancellation of Activity Licence**

Once the BRSA decides that the Issuer should no longer continue its banking activity and cancels the activity licence of the Issuer, the SDIF will take over the management of the Issuer. Pursuant to Article 106 of the Banking Law, following cancellation of the Issuer's banking licence and takeover of the Issuer by the SDIF, the SDIF will apply to the court for bankruptcy of the Issuer. The bankruptcy court is required to rule on the bankruptcy of the Issuer within six months of the application and appoint the SDIF as the bankruptcy administrator.

In the event that a bankruptcy judgment is issued, the SDIF will participate in the bankruptcy estate as a privileged creditor, having priority over all privileged creditors specified in Article 206 of the Execution and Bankruptcy Law No. 2004 (*İcra ve İflas Kanunu*), after deduction of the receivables of the State and social security organisations set forth in Law No. 6183 on the Collection Procedures of Public Receivables.

In case the bankruptcy court does not render a bankruptcy decision, then the voluntary liquidation of the Issuer shall commence, and such process shall be conducted by the SDIF through the appointment of liquidation board members by the SDIF, without requiring the resolution of the general assembly of the Issuer and without being subject to the provisions of the Turkish Commercial Code regarding the dissolution and liquidation of joint stock companies.

## OVERVIEW OF THE TURKISH RESIDENTIAL MORTGAGE LOAN MARKET

*The following is a general overview of the Turkish residential mortgage loan market. The summary does not purport to be, and is not, a complete description of the Turkish residential mortgage loan market or any aspect thereof.*

### Turkish Residential Mortgage Loan Market

According to TurkStat, 1,348,729 homes were sold in Turkey in 2019, with sales decreasing by 1.9% during 2019 compared to the previous year and with 332,508 sales including a mortgage. The declining interest rate environment towards the end of 2019 has encouraged borrowers to seek mortgage loans and lenders to increase their business in these higher-yielding retail products.

The following table provides the residential mortgage loans-to-GDP ratio and the outstanding principal amount of residential mortgage loans as of the indicated dates:

	As of 31 December										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(TL millions, except percentages)										
Residential											
Mortgage loans-to-											
GDP ratio .....	4.27%	4.96%	4.99%	5.06%	5.59%	5.57%	5.63%	5.84%	5.96%	5.07%	- <sup>10</sup>
Residential											
Mortgage loans .....	42,643	57,485	69,622	79,429	101,148	113,793	131,652	152,399	174,056	187,963	194,814

Source: BRSA, TurkStat

The main drivers of this growth have been: (a) the historically very low use of residential mortgage loans, reflecting the traditional approach in Turkey of paying cash for a home (occasionally with funds borrowed from family members or other non-bank sources); (b) lower interest rates in Turkey, particularly towards the end of 2019; (c) favourable demographics as a result of Turkey's significant and growing population of people in their 20s and 30s, including many young families; (d) the significant (though volatile) growth in GDP; (e) revisions to Turkish laws that have made mortgage lending more attractive to Turkish banks; and/or (f) greater stability in the value of the Turkish Lira, thereby encouraging Turkish lenders to make longer term loans denominated in Turkish Lira.

As noted above, the Turkish residential mortgage market was historically very small, being almost non-existent until 2004 as a result of persistently high budget deficits, inflation and interest rates. Following the economic crisis in 2001, Turkey has experienced a more stable political and economic environment and has implemented more prudent economic policies, which have significantly reduced the level of inflation and the volatility of the value of the Turkish Lira. In line with these improvements, Turkish interest rates have declined significantly and made mortgage borrowing more affordable for Turkish borrowers.

<sup>10</sup> According to BRSA, data relating to residential mortgage loans in 2019 has only been provided from January to November as at the date of this Base Prospectus and consequently the Residential Mortgage Loans-to-GDP Ratio for 2019 cannot be calculated as at the date of this Base Prospectus.

The following table sets out the average CPI inflation levels and average residential mortgage interest rates in Turkey for each of the indicated years:

	As of (or for the year ended) 31 December										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CPI .....	6.25%	8.57%	6.47%	8.89%	7.49%	8.85%	7.67%	8.53%	11.20%	16.22%	15.43%
Mortgage interest rates.....	15.43%	11.00%	11.59%	12.40%	9.69%	11.90%	12.39%	13.24%	11.77%	19.29%	17.54%

Source: TurkStat, Central Bank, KPMG

Mortgage interest rates and the growth in mortgage loans are intercorrelated, with a declining interest rate environment resulting in greater demand from borrowers. A declining interest rate environment also encourages lenders to offer greater amounts of mortgage loans due to their relatively higher net interest margin as compared to traditional corporate loans. Consistent with this correlation, the highest expansion in the outstanding principal amount of residential mortgage loans was experienced in 2010 and 2013, which also had the lowest average mortgage interest rates (11.00% and 9.69%, respectively) on record. The following table sets forth the growth in the principal amount of outstanding residential mortgages:

	As of (or for the year ended) 31 December										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(TL, millions)										
Growth in outstanding principal .....	5,978	15,921	13,794	11,454	24,244	15,464	17,785	20,680	13,605	12,506	6,851 <sup>11</sup>

Source: BRSA

### ***Loan Provisions***

In Turkey, banks announce mortgage rates on a monthly basis instead of a yearly basis (e.g., 1% monthly instead of 12% yearly). Almost all Turkish mortgage loans are fixed rate loans and, as a result of a change of law in 2009 requiring loans to Turkish citizens to be denominated in Turkish Lira, all are denominated in Turkish Lira other than a very small number of mortgage loans made to foreign citizens with residences in Turkey. Payments on residential mortgages are almost always monthly and generally are effected by having the lending bank withdraw funds from a bank account held by the borrower with the lending bank.

The maximum maturity for residential mortgage loans in Turkey is typically 240 months and the most common mortgage quantum is approximately TL 125,000. In 2019, the average mortgage term was approximately 8.5 years.

### **Turkish Demographics and Housing Market**

Several developments in Turkey, including urbanisation and a young population, provide the potential for further demand in housing, and thus further growth in residential mortgage lending; provided that the economic fundamentals are favourable, particularly if inflation and interest rates decrease. The Turkey Statistical Institute announced the results of its address-based population registration system in 2018. Accordingly, by the end of 2018 the population of Turkey was calculated to be 82,003,882. According to TurkStat data, the population of Turkey increased by 1,193,357 people in 2018 when compared with the previous year. The data also indicated that 50.2% of the population of Turkey is male and 49.8% are female.

<sup>11</sup> According to BRSA, data relating to residential mortgage loans in 2019 has only been provided from January to November as at the date of this Base Prospectus



775,653 men and 420,276 women in Turkey became homeowners in 2019 based on general housing market figures, with an additional 24,141 homes bought jointly by women and men. This equates to the demographic makeup of new homeowners in 2019 being 57.5% male, 31.2% female and 1.8% joint ownership.

**Number of house sales by genders, 2018-2019**

	2019		2018	
	Unit	Share (%)	Unit	Share (%)
<b>Total</b>	<b>1 348 729</b>	<b>100.0</b>	<b>1 375 398</b>	<b>100.0</b>
Female	420 276	31.2	421 286	30.6
Male	775 653	57.5	790 006	57.4
Joint ownership	24 141	1.8	26 877	2.0
Other	128 659	9.5	137 229	10.0

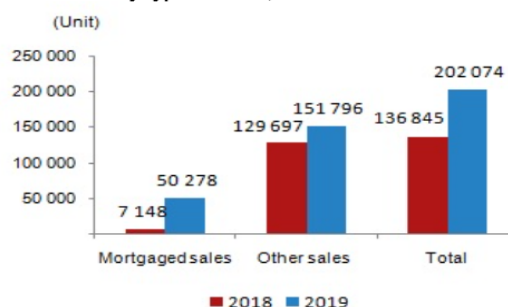
Source: TurkStat

The proportion of residents living in provincial and district centers fell from 92.5 % in 2017 to 92.3% in 2018. The proportion of people living in towns and villages was 7.7%. Istanbul is the most populous city in Turkey with a population of 15,067,724. According to TurkStat, 18.4 % of Turkey's population resided in Istanbul in 2018. The median age of the population is 30.9 years, with total life expectancy of 75 years in 2018.

The Bank's management expects that, as a result of these generally favourable demographic trends, the Turkish mortgage market will continue to grow in order to finance the annual increase in housing demand.

Within the scope of the general housing market, in November 2019 the house price index increased by 1.09 percent compared to the previous month, increased by 7.19% compared to the same month of the previous year nominal terms, although it decreased by 3.05% compared to the same month of the previous year in real terms. According to TurkStat, housing sales in the third quarter of 2019 remained at the same level as in the previous year and were recorded as 359,667 units. As of August 2019, a combination of interest rates on housing loans of up to TRY 500,000 by public banks falling below 1% and the upward trend in the housing price index has exerted a positive effect on the Turkish residential mortgage market and mortgage sales.

**House sales by type of sales, December 2018-2019**



Source: TurkStat

Home sales to foreigners increased by 14.7% in 2019 compared to previous year, with Istanbul the leading province (with 20,857 sales) according to TurkStat.

In December 2019, ownership of 50,278 homes changed by mortgage sale according to TurkStat. Furthermore, mortgaged home sales throughout Turkey increased by 603.4% compared to

December 2018 to a total of 50,278. Home sales including a mortgage comprised 24.9% of all home sales in Turkey. Istanbul has the highest sales including a mortgage in Turkey, with a share of 20.2% (Source: TurkStat). The Bank's management expects that Istanbul will continue to be the predominant mortgage market in Turkey in the coming years.

The Central Bank's house price index for a residence in Turkey decreased by 11.14% as of 30 September 2017 and 11.30% as of 30 September 2018. More than 46% of the outstanding residential mortgage loans as of 31 December 2015 were for properties located in Istanbul and Ankara (source: BRSA), where property prices are generally higher than the rest of the country. The Bank's management expects that these two cities will continue to be the predominant mortgage markets in Turkey.

### **Interest Rates and Refinancing Risk**

As noted above, almost every mortgage loan has a fixed interest rate for the entire term of the loan. Although Consumer Protection Law No. 6502 published in the Official Gazette dated 28 November 2013 and No. 28835 allows the disbursement of residential mortgage loans with variable interest rates, the Central Bank determined that any such variable interest rates are required to be based upon the consumer price index determined by TurkStat. As such variable rates are unattractive to Turkish banks due to the lack of funding alternatives indexed to CPI, almost all Turkish banks prefer to offer fixed rates, which are also attractive to Turkish borrowers due to the certainty that a fixed rate provides.

Housing loan interest rates averaged 17.75% in 2019, 19.25% in 2018, 11.14% in 2017 and 13.9% in 2016. In 2016, after rising, they decreased to 12% by December 2016. Meanwhile, mortgage loan growth decreased to 6.9% year-date as at 16 September 2016, following growth rates of 13.4% in 2014 and 14.9% in 2015. The refinancing of mortgage loans is common at times of significant declines in interest rates (mostly seen at single digit periods), such as the declining interest rate environment of the second half of 2009, the first half of 2011 and in 2013, when the lowest average mortgage rates were observed. Housing loan growth was also the highest in 2013 at 28%. The Bank's management estimates that Turkish banks refinanced or re-priced most of their existing residential mortgage loan portfolio in 2019 due to a decline in interest rates. In general, Turkish mortgage loan agreements include a prepayment charge of up to 2% of the outstanding principal amount of the loan for loans with a remaining maturity of more than 36 months, and up to 1% otherwise; however, such charge does not create a significant deterrent for borrowers refinancing. The Bank's management expects that the refinancing of residential mortgage loans will continue as consumers become more educated as to the benefits of refinancing during periods of declining interest rates. Refinancing presents challenges for Turkish lenders due to the increased difficulty of matching funding with their mortgage loan portfolio and, by definition, the high probability of being unable to relend prepaid funds at the same or a higher interest rate than the rate applicable to the prepaid loan.

As a result of the predominance of fixed rate loans and the declines in interest rates, refinancing of mortgage loans is becoming more common. For example, during 2019, due to a declining interest rate environment, 1,988 loans were refinanced and the Bank's management estimates that Turkish banks refinanced or re-priced almost half of their existing residential mortgage loan portfolio. In general, Turkish mortgage loan agreements include a prepayment charge of up to 2% of the outstanding principal amount of the loan for loans with the remaining maturity of more than 36 months, and up to 1% otherwise; however, such charge does not create a significant deterrent for borrowers if the difference between the interest rate on their existing mortgage loan and the interest rate on a refinanced loan is greater than 1% *per annum*.

## SUMMARY OF THE TURKISH COVERED BONDS LEGISLATION

*The following is a summary of the provisions of the Turkish Covered Bonds Legislation relevant to the transactions described in this Base Prospectus and of which Covered Bondholders should be aware. The summary does not purport to be, and is not, a complete description of all aspects of the Turkish legislative and regulatory framework pertaining to Covered Bonds and prospective Covered Bondholders should also read the detailed information set out elsewhere in this Base Prospectus.*

### Introduction

The primary legislation with respect to the transaction and the structure described herein is the Capital Markets Law and the secondary legislation is the Covered Bonds Communiqué which was published by the CMB in the Official Gazette No. 28889 and dated 21 January 2014 (as amended from time to time). The Covered Bonds Communiqué regulates the mortgage covered bonds as well as other asset-backed covered bonds; however, as the transaction herein is in relation to the issuance of mortgage covered bonds, this summary focuses on the mortgage covered bonds provisions of the Covered Bonds Communiqué.

### ***Cover Pool – composition of assets***

An issuer of covered bonds is required by the Turkish Covered Bonds Legislation to maintain a cover pool for the benefit of such covered bonds. This cover pool must be maintained in a way so that it satisfies and complies with the terms and conditions and legal requirements applicable to such covered bonds. In particular, this cover pool must be in compliance with, *inter alia*, quantitative statutory tests and the eligibility criteria required or implied by the Turkish Covered Bonds Legislation and the CMB. In addition, a cover register for such cover pool must be established and maintained in accordance with the Turkish Covered Bonds Legislation.

Pursuant to the Covered Bonds Communiqué, a cover pool may be created with the following assets:

- receivables of banks and finance companies, resulting from house financing as defined in Article 57 of the Capital Markets Law, which have been secured by establishing a mortgage at the relevant registry or, if approved by the CMB, otherwise;
- receivables arising from financial lease agreements executed within the framework of Law No. 6361, provided that they arise out of house financing as defined in Article 57 of the Capital Markets Law;
- commercial loans and receivables of the banks and financial leasing companies and finance companies, which have been secured by establishing a mortgage at the relevant registry;
- in relation to the issuances to be made by mortgage finance institutions only, contractual receivables arising from instalment sales of houses by the Housing Development Administration of Turkey;
- other assets whose characteristics may be determined by the CMB;
- substitute assets, which include cash (including cash generated from cover assets), certificates of liquidity issued by the Central Bank, government bonds issued for domestic and foreign investors, securities issued or secured by the central government or the central banks of OECD member states, sukuks issued by asset leasing companies established by the Undersecretariat of Treasury and securities guaranteed by the Turkish Treasury under the applicable laws thereof; and

- derivative instruments fulfilling the conditions of the Covered Bonds Communiqué.

The Covered Bonds Communiqué provides that neither the ratio of the net present value of commercial loans and receivables that are included in the cover assets (other than those related with sea and air vehicles that have been secured by establishing a mortgage at the relevant registry) nor the net present value of the substitute assets (as described above) shall exceed 15% of the total net present value of the cover assets.

With respect to the LTV ratio requirements, the portions of: (i) the loans and receivables resulting from housing finance; and (ii) commercial loans and receivables that have been secured by establishing a mortgage at the relevant registry exceeding, respectively, 80% and 50% of the value of the security provided in respect of them shall not be taken into consideration in the calculation of the Statutory Tests described below. The 80% LTV ratio applicable for the loans and receivables resulting from housing finance originated from the Regulation on Loan Transactions of Banks. The LTV ratio is used to calculate the highest amount which may be extended by the bank for a residential mortgage loan, based on the appraisal value of the relevant real estate. On 27 September 2016, by way of an amendment to the Regulation on Loan Transactions of Banks the LTV ratio was increased to 80%. On 11 November 2018, the Covered Bonds Communiqué was updated by the CMB to reflect this increase.

Pursuant to Articles 15 to 21 of Section IV of the Covered Bonds Communiqué, the assets in the cover pool are subject to Statutory Tests which comprise the following:

- Nominal Value Test.* The nominal value of the cover assets may not be less than the nominal value of the covered bonds. The outstanding principal amount of mortgage loans, the issuance price of discounted debt instruments and the nominal value of premium-debt instruments in the cover pool shall be taken into account while calculating the nominal value of the cover assets in the cover pool and the contractual amount of derivative instruments shall not be taken into consideration while calculating the nominal value of the cover assets;
- Cash Flow Matching Test.* The total amount of the interest, yield and similar income that is expected to be generated from the cover assets (including the income derived from derivative instruments included in the cover register, if any), in each case within one year from the relevant calculation date, shall not be less than the similar payment obligations that are expected to arise from the aggregate liabilities resulting from the covered bonds (including the expenses derived from derivative instruments included in the cover register, if any) within such period;
- Net Present Value Test.* The net present value of the cover assets in the cover register is required to be more than the net present value of the total liabilities from the covered bonds and derivative instruments at a ratio to be determined by the issuer, which ratio is not to be less than 2%; and
- Stress Test.* The responsiveness of the net present value, matching the possible changes in the interest rates and currency exchange rates, shall be measured by conducting a stress test (not being less than 2%).

The Statutory Tests above may vary if the Covered Bonds Communiqué is amended.

### ***Cover Monitor***

Pursuant to the Turkish Covered Bonds Legislation, an issuer is required to appoint a cover monitor who will be responsible for monitoring the cover pool and will report to the CMB and the issuer with regard to the cover pool.

Pursuant to the Turkish Covered Bonds Legislation, an issuer is required to keep a cover register for the assets in the cover pool, which register the cover monitor will review. The cover monitor is to procure that the cover register is kept and maintained accurately and in accordance with the provisions of the Turkish Covered Bonds Legislation. The cover monitor is also required to perform an audit and to provide a report to the issuer at least: (a) every three months for public offerings made in Turkey; and (b) every six months for non-public offerings or issuances made abroad.

The Turkish Covered Bonds Legislation specifies that the company that conducts the independent audit on the financial statements of an issuer may not be designated as a cover monitor. The cover monitor is to be appointed through a cover monitor agreement, a copy of which is to be sent to the CMB within three business days of its execution. The cover monitor can only be removed from its duties by the issuer based upon just grounds to be submitted to the CMB in writing and by obtaining the consent of the CMB. The CMB is authorised to remove the cover monitor or replace the cover monitor with a new cover monitor if it determines that the cover monitor no longer meets the requirements to qualify as a cover monitor or is negligent or at fault while conducting its duties. Based upon the general authority of the CMB under the Capital Markets Law, the CMB is entitled to take necessary steps in case the issuer or the cover monitor do not fulfil their respective obligations relating to the covered bonds. The CMB is also entitled to impose an administrative fine in case of non-compliance with the Turkish capital markets legislation.

#### ***Non-compliance with the Statutory Tests***

In the event that an issuer detects any non-compliance with the Statutory Tests, it is to notify the cover monitor of such non-compliance and the cover monitor shall then verify whether such non-compliance is remedied by the issuer through a restructuring of the cover assets, redemption of the covered bonds or taking any similar precautionary measures within one month as of the detection of the non-compliance.

In such case, the issuer must take all necessary actions, including directing the collections made from the cover assets to a special segregated account, until the non-compliance is remedied. During such term, the amounts directed to this special segregated account may only be used for the payment of the total liabilities arising from the cover pool that have become due and payable during the period of non-compliance (which the cover monitor is to verify).

After such verification, if: (a) it is established by the cover monitor that the Statutory Tests are complied with, then the collection amounts accumulated in the special segregated account will be transferred to the issuer's accounts and may be used by the issuer; or (b) the Statutory Tests are still not complied with, the collections from the cover pool are not accumulated in a special segregated account or such collections have not been used for the payment of the total liabilities arising from the cover pool that have become due and payable during the non-compliance period, then the cover monitor shall notify such situation to the issuer.

#### ***Non-compliance by the Issuer with the payment liability under the Covered Bonds***

Pursuant to the Covered Bonds Communiqué, if an issuer does not completely or partially perform its total liabilities arising from the cover pool, then the issuer must so notify the cover monitor.

If an issuer has failed to completely or partially perform its total liabilities arising from the cover pool, then the collections to be made from the cover pool are to be accumulated in a segregated account from the date of non-payment and such collected amounts are to be used solely for the payment of the total liabilities arising from the cover pool that have become due and payable.

The cover monitor must determine within one month as of the date of complete or partial non-performance of the payment obligations of an issuer under the covered bonds or related derivative instruments whether: (a) the collections made from the cover pool have been accumulated in a special

segregated account; (b) such collected amounts have been used solely for the payment of the total liabilities arising from the cover pool that have become due and payable; and (c) the cover pool is sufficient to meet the total liabilities arising from the cover pool. The cover monitor is to notify the issuer of the results of such determination.

Pursuant to the Covered Bonds Communiqué, the covered bondholders and hedging counterparties do not need to wait until the completion of the liquidation of the assets in the cover pool for recourse to the other assets of the issuer. Such right of recourse to the other assets of the issuer can be initiated in accordance with the Covered Bonds Communiqué.

### ***Third party service providers***

An issuer may, provided that the liabilities of such issuer within the scope of the Covered Bonds Communiqué continue, utilise the services of expert third party service providers (as deemed appropriate by the CMB) to perform some of the duties of such issuer in respect of the management of the cover pool. If such third party service providers are to be appointed, then the issuer is required to notify the CMB of such fact before the sale of the covered bonds and disclose such fact in the prospectus or the issuance certificate for the covered bonds.

### ***Administrator***

In the event that: (a) the management and supervision of an issuer is transferred to public institutions; (b) the operating licence of an issuer is cancelled; or (c) an issuer is bankrupt, the CMB may appoint another bank or a mortgage finance institution, satisfying the requirements for issuers of covered bonds, the cover monitor, another independent audit company or an expert third party institution approved by the CMB to act as an administrator. This administrator would not be assuming the liabilities arising from the cover pool but would manage the cover pool and seek to fulfil the liabilities arising from the cover pool from the income generated from the cover pool.

The administrator may actively manage the cover pool to seek to ensure that the payments under the covered bonds and derivative instruments arising from the cover pool are made in a timely manner, and if necessary may sell assets, purchase new assets, utilise loans or conduct repo transactions. The administrator also may (after obtaining the approval of the CMB) transfer the cover pool and the liabilities arising from the cover pool partially or fully to another bank or to a mortgage finance institution satisfying the qualifications required for issuers. The administrator is not to be held liable for any payments under the liabilities arising from the cover pool, including if the cover pool and the liabilities arising from the cover pool cannot be transferred or the revenue generated from the cover pool is not sufficient.

### ***Derivative Instruments***

Article 11 of the Covered Bonds Communiqué sets out the specific requirements that derivative instruments need to satisfy in order for such derivative instruments to be recognised as part of the cover pool and for the claim of the relevant derivative counterparty to be regarded as a part of the Total Liabilities. In general:

- the derivative instrument must be traded on exchanges or the derivative counterparty needs to be a bank or financial institution (multilateral development agencies also qualify);
- the derivative counterparty needs to have an investment grade long-term international rating (which is tested at the time of entry into of the derivative instrument);
- the derivative instrument cannot be unilaterally terminated (except in certain cases) by the derivative counterparty even in the event of bankruptcy of the Issuer;

- the derivative counterparty must consent to registration of the derivative instrument with the cover register; and
- the derivative instrument must contain fair price terms and reliable and verifiable valuation methods.

An exception to the unilateral termination may be brought, subject to the CMB's prior consent; the Covered Bonds Communiqué stipulates certain exemplary cases:

- the Issuer being fully or partially unable to fulfil its total liabilities and the cover assets (derivatives included) being insufficient to cover its total liabilities;
- impossibility of performing the derivative contract and violation of applicable legislation, and also substantial changes in the legislation applicable which affect the essence of derivative contracts;
- early redemption of covered bonds; or
- the derivative agreement not being registered with the cover register or its removal from the same, as a breach of the relevant derivative contract.

## TURKISH BANKING SYSTEM

*The following information relating to the Turkish banking market has been provided for background purposes only. The information has been extracted from third party sources that the Bank believes to be reliable but the Bank has not independently verified such information.*

The data provided in this “*Turkish Banking System*” section has been derived from information of the Banks Association of Turkey. As of the date of this Base Prospectus, data as of September 2019 was available.

As at 30 September 2019, 46 banks were operating in Turkey (excluding a bank under the administration of the SDIF and six participation banks). Three of these banks were public sector commercial banks, nine were privately owned deposit banks, 21 were foreign banks (branches of foreign banks and joint ventures between Turkish and foreign shareholders) and 13 were domestic development and investment banks (four of which having foreign shareholding). There were also six participation banks in Turkey, which conducted their business under the relevant legislation in accordance with Islamic banking principles.

The former Banks Act was replaced by the Banking Law on 1 November 2005 and the secondary Turkish banking legislation has changed substantially between 2005 and 2017. The Banking Law permits commercial banks to engage in all fields of financial activities including deposit taking, corporate and consumer lending, foreign exchange transactions, certain capital markets activities, securities trading and investment banking (except collecting participation funds) and financial leasing activities.

The Turkish banking system has become increasingly competitive over the last decade. The expansion of the Turkish banking sector was initially fuelled by economic growth and the liberalisation of the economy and went through a rapid and significant consolidation as many banks with weaker financial standing were taken over by the SDIF and removed from the sector. The Government has also contributed to structural improvements in the banking system through various regulatory arrangements, including standardised accounting practices, external auditing, higher capital adequacy standards, stricter treatment of non-performing credits and the proposed phasing out of deposit insurance. The objective of these regulatory changes has been to strengthen the banking sector and to increase the transparency and overall efficiency of the Turkish banking sector.

Following the financial crisis in 2001, the BRSA started to intervene actively in the banking sector. The BRSA is an autonomous and independent body and is the sole regulatory and supervisory authority for the Turkish banking system. The BRSA required privately owned commercial banks that had the authority to accept deposits to undergo a three-tier audit process in 2001, which was strictly monitored by the BRSA. The three-tier audit process was then by far the most comprehensive audit completed on Turkish banks, comprising a full audit by two independent auditors as well as BRSA auditors. A detailed analysis of each bank’s cash flows was undertaken, with a significant proportion of its credits being evaluated and an aggressive position taken on classifying credits as non-performing. The most conservative of the three audit reports was then delivered to the BRSA to enable it to evaluate each bank’s financial position. This process was completed by mid-2002. Moreover, in line with the regulations of the former Banks Act, banks established risk management departments reporting directly to their respective boards of directors. Accordingly, since 2002, risks taken by Turkish banks in terms of market, credit and operations are required to be calculated and monitored by these risk management departments.



The following table sets out certain statistical information for the Turkish banking sector as of 30 September 2019 under bank only BRSA reporting standards:

	Public sector banks	Privately owned banks	Foreign banks (TL, millions)	Development and investment banks	Total
Total assets .....	1,448,573	1,330,900	939,123	289,206	4,011,221
Total loans, net.....	1,110,665	841,763	606,851	227,918	2,789,840
Total deposits .....	917,185	805,908	575,863	—	2,299,166
Total equity .....	125,843	162,527	114,463	42,051	445,544
Net income .....	6,290	12,218	11,409	4,263	34,266
Number of branches.....	3,707	3,843	2,680	58	10,288
Number of employees .....	59,896	69,725	54,483	5,183	189,287
Number of banks.....	3	9	21	13	46

Source: The Banks Association of Turkey, BRSA

Note: Banks controlled by the SDIF and participation banks are not included in these figures.

The public and private sector commercial banks form the majority of the Turkish banking sector in terms of assets and operations. The three public sector banks, Ziraat, Vakıfbank and Halkbank, which all have large branch networks, were originally established with social rather than profit objectives, principally to provide services to certain sectors of the working population. Private sector commercial banks comprise full service banks and corporate/trade finance oriented banks. The four largest private commercial banks are Türkiye İş Bankası, Türkiye Garanti Bankası, Akbank and the Bank. These banks provide a large proportion of retail banking services and related financial products to the Turkish population in addition to providing large Turkish corporations and Turkish subsidiaries of large foreign companies with corporate and foreign trade-related banking services.

Since 2005, the liberalisation of the Turkish economy has resulted in an increase in the number of foreign banks operating in Turkey, either as locally incorporated banks, branches or joint ventures with domestic banks. For example, BNP Paribas acquired 50.0% of the shares of TEB Mali Yatırımlar A.Ş., which owns 84.3% of the shares of TEB A.Ş., in February 2005. In September 2005, Kof Finansal Hizmetler A.Ş., 50.0% of which is owned by UniCredito Italiano, acquired 57.4% of the Bank. In July 2005, Fortis Bank acquired 89.3% of Türk Dış Ticaret Bankası A.Ş. Also in July 2005, Rabobank agreed to purchase 51% of Şekerbank. In August 2005, General Electric Financial Services purchased 25.5% of Garanti Bankası. In September 2005, Bank Hapoalim BM acquired Bank Pozitif ve Kalkınma Bankası for U.S.\$113.0 million. In May 2006, Tekfenbank was acquired by EFG Eurobank Ergasias S.A. for U.S.\$182.0 million. In June 2006, TuranAlem Securities of Kazakhstan, a wholly owned subsidiary of BTA Bank, acquired 34.0% of Şekerbank's shares. NBG acquired from Fiba Holding and affiliates a 46.0% stake in the ordinary shares of Finansbank and 100% of the founder shares for a total consideration of U.S.\$2.8 billion in August 2006. In January 2007, NBG acquired a further 43.4% of Finansbank's publicly held outstanding ordinary shares. Denizbank was acquired in October 2006 from Zorlu Group by Dexia for U.S.\$2.4 billion. In January 2007, Citi Group acquired a 20% equity stake in Akbank. On July 2007, Turkishbank was acquired by the National Bank of Kuwait for U.S.\$160 million. ING acquired Oyakbank for U.S.\$2.7 billion in 2007. In November 2010, General Electric Co. agreed to sell its 18.6% stake in Garanti Bank to Banco Bilbao Vizcaya Argentaria S.A. for U.S.\$3.8 billion, and Doğu Holding A.Ş. agreed to sell its 6.3% stake in the bank for U.S.\$2 billion. In December 2010, Credit Europe Bank N.V. acquired a 95% stake in Turkey-based Millennium Bank A.Ş., a subsidiary of Banco Comercial Portugues SA (BCP), for a total adjusted price of EUR 58.9 million and later amended its corporate title to Fibabanka A.Ş. In June 2010, Türk Ekonomi Bankası's main partners announced their agreement to merge with Fortis Bank under the auspices of Türk Ekonomi Bankası. The merger was completed in March 2011. On 28 September 2012, Dexia sold and transferred the totality of its shareholding in Denizbank, amounting to 99.85%, to Sberbank of Russia for a total price of U.S.\$3.6 billion, as subject to certain closing adjustment mechanisms. On 26 December 2014, the BRSA approved the

transfer of the majority stake in Taib Yatırım Bankası to Azeri Pasha Bank OJSC, the trade name of the bank was changed to Pasha Yatırım Bankası A.Ş. following the transfer.

On 27 October 2011, the BRSA approved the application of Bank Audi s.a.l-Audi Saradar Group to establish a new deposit bank in Turkey, namely Odea Bank A.Ş., and the operation permit for this new deposit bank was granted on 28 September 2012. This approval and operation permit granted by the BRSA is the first authorisation granted to establish a “deposit bank” since 1997.

Similarly, the BRSA granted to Bank of Tokyo-Mitsubishi UFJ Turkey A.Ş. an incorporation permit as of 22 December 2012 and an operation permit as of 19 September 2013. The BRSA also granted to Intesa Sanpaolo S.p.A. Central Branch an incorporation permit as of May 2013 and an operation permit as of 4 July 2014. Rabobank obtained its incorporation permit from the BRSA as of 3 August 2013 and an operating permit as of 9 September 2014.

On 6 December 2012, the majority stake in Eurobank Tekfen A.S. was transferred to Burgan Bank S.A.K. headquartered in Kuwait. The trade name of Eurobank Tekfen A.S. was changed to Burgan Bank A.S. as of 28 January 2013. On 1 July 2013, the majority stake in Alternatifbank was transferred from the Anadolu Group to Commercial Bank of Qatar. Similarly, GSD Holding entered into an agreement to transfer its majority stake held in Tekstilbank to the Industrial and Commercial Bank of China in May 2014. The transfer was completed on 22 May 2015, leading the Industrial and Commercial Bank of China to acquire 75.5% issued shares in Tekstilbank from GSD Holding. In May 2015 and February 2016, the BRSA granted permission to Ziraat Katılım Bankası A.Ş. and Vakıf Katılım Bankası A.Ş., respectively, for each to start their operations as a participation bank. The acquisition of 99.84% of Finansbank A.Ş.’s shares by Qatar National Bank was approved by the BRSA and the Turkish Competition Board on 7 April 2016 and 3 May 2016, respectively, and on 15 June 2016 the acquisition was completed. In May 2016, the BRSA granted the Bank of China Limited an incorporation licence to open a deposit-taking bank in Turkey. A private participation bank, namely Bank Asya, the management of which was taken over by the SDIF on 3 February 2015, lost its operating permit by the BRSA resolution dated 22 July 2016 and No. 6947 and its liquidation proceedings were started in 2017. In March 2017, Doğu Holding A.Ş. sold its further 9.95% stake in Garanti Bank to Banco Bilbao Vizcaya Argentaria S.A. for EUR 859 million, and consequently Banco Bilbao Vizcaya Argentaria S.A. increased its shareholding in Garanti Bank to 49.85%. In May 2018, Emirates NBD Bank PJSC (ENBD) entered into a definitive agreement to buy 99.85% of Denizbank from its parent Sberbank and on 27 June 2019 the BRSA granted its permission to the acquisition. On 26 February 2019, the BRSA granted permission to Türkiye Emlak Katılım Bankası A.Ş. for it to start its operations as a participation bank, whose shares are 99.99% owned by the Ministry of Treasury and Finance.

Development banks are funded by international banks and institutions such as the World Bank. Their objective is to provide medium- and long-term financing to Turkish companies that cannot raise such funding easily through the market. These banks do not accept deposits.

### **Public Sector Commercial Banks**

As of the date of this Base Prospectus, there were three public sector commercial banks within Turkey, all or a majority of which are owned or controlled by state entities. They generally have large branch networks and were originally established for development purposes, such as for agriculture, housing or foundations, rather than for profit motives. The following table sets out the three state owned commercial banks in Turkey, ranked by size of assets as at 30 September 2019 under bank only BRSA reporting standards, and number of branches as at 30 September 2019:

	Specialisation	Total assets (TL, millions)	Number of branches
<b>Bank</b>			
T.C. Ziraat Bankası .....	Agriculture	618,228	1,763
Türkiye Halk Bankası .....	Retail	443,499	998
Türkiye Vakıflar Bankası .....	General	386,845	946

Source: The Banks Association of Turkey

According to the Banks Association of Turkey, total loans provided by these banks as of 30 September 2019 were TL 1,488,573 million. Through their broad branch networks and ownership structures, these banks have traditionally been able to collect deposits and thereby access cost efficient funding sources.

### Banks under the Control of the SDIF

Following the financial crises in 2001 and 2002, 19 private commercial banks were taken under the control of the SDIF. These banks have either been liquidated or sold to other domestic and international banks. As at 30 June 2019, Birleşik Fon Bankası A.Ş., with total assets of TL 3.3 billion as at 31 March 2019 and Adabank A.S., with total assets of TL 57 million as at 31 March 2019, were under the supervision and administration of the SDIF. Birlesik Fon Bankası has been incorporated by the SDIF by merging the assets of Egebank A.Ş., Etibank A.Ş., İktisat Bankası T.A.Ş., Kentbank A.Ş. and Toprakbank A.Ş. into Bayındırbank A.Ş. and by converting the latter into Birleşik Fon Bankası A.Ş. On 3 February 2015, the SDIF took over management of Bank Asya, a private participation bank. The BRSA announced that this action was taken due to Bank Asya's violation of a provision of the Banking Law that requires banks to have a transparent and open shareholding and organisational structure that does not obstruct the efficient auditing of the banks by the BRSA. On 29 May 2015, the BRSA announced that shareholding rights (except dividends), management and audit of Bank Asya is to be transferred to the SDIF for partial or full transfer, sale or merger of the bank pursuant to Article 71 of the Banking Law; provided that the loss shall be deducted from the shares of the existing shareholders. In May 2016, the Chairman of the BRSA announced that the SDIF will sell Bank Asya. Pursuant to the BRSA's resolution dated 22 July 2016 and numbered 6947, the operating permit of Bank Asya was revoked. On 16 November 2017, the Istanbul First Commercial Court of First Instance ruled on the bankruptcy of Bank Asya.

A continued environment of decreasing inflation, declines in yields on trading in Government securities and a reduction in the coverage of the SDIF could contribute to a higher level of calls on SDIF insurance and further consolidation in the banking sector.

### Private Sector Commercial Banks

Private sector commercial banks can be divided into large branch network commercial banks and small branch network commercial banks. The larger private sector banks emerged in the 1940s and their branch networks cover the entire country. Most private sector banks belong to large industrial groups, which provide additional support to the banks.

The following table ranks the larger branch network commercial private sector banks by asset size as at 30 September 2019, under bank only BRSA reporting standards:

Bank	Ownership	Total assets (TL, millions)	Number of branches
Türkiye İş Bankası.....	Bank Pension Fund; RPP; Floated	434,745	1,281
Akbank.....	Sabancı Group; Floated	351,448	771
Yapı ve Kredi Bankası A.Ş.....	Koç Holding; UniCredit; Floated	373,283	854
Türk Ekonomi Bankası.....	Çolakoğlu Group; BNP; Floated	102,451	495
	Employee Pension Funds BTA, Samruk		
	Kazyna Kazakhstan National Welfare		
Şekerbank .....	Fund	29,745	252

Source: The Banks Association of Turkey

The liberalisation of Turkey's economy and foreign trade in the 1980s led to profitable opportunities for banks in the field of trade finance. Most of the smaller banks concentrate on wholesale banking with limited retail services.

The following table ranks small branch network commercial private sector banks by assets and number of branches as at 30 September 2019:

Bank	Ownership	Total assets (TL, millions)	Number of branches
Anadolubank .....	Habaş Group	16,366	111
Fibabanka.....	Özyeğin Group	21,545	66
Turkish Bank.....	Özyol Group and National Bank of Kuwait	1,257	12

Source: The Banks Association of Turkey

Despite significant growth in the number of small commercial banks, larger commercial banks (both private and public) continue to dominate the banking sector. Out of eight privately owned commercial banks, apart from the four largest banks, there are four medium-sized commercial banks.

### Foreign Commercial Banks

The strengthening of regulations and the transparency of the Turkish economy over the past decade have resulted in an increase in the number of foreign commercial banks operating in Turkey. As at 30 September 2019, there were 21 foreign banks in total, 16 of which were locally incorporated banks and five of which were branches of foreign banks.

The table below presents certain information regarding foreign commercial banks in Turkey together with their asset size, under bank only BRSA reporting standards and number of branches as at 30 September 2019:

Bank	Ownership	Total assets (TL, millions)	Number of branches
<b>Locally Incorporated Banks</b>			
Alternatifbank .....	The Commercial Bank (QSC) and Anadolu Endüstri Holding A.Ş. <sup>(1)</sup>	28,182	40
	Libyan Central Bank, İş Bankası and Ziraat Bankası		
Arap Türk Bankası.....	Bankası	4,600	7
Bank of China Turkey A.Ş.....	Bank of China	1,742	1
Burgan Bank A.Ş.....	Burgan Bank S.A.K. <sup>(2)</sup>	18,697	35
Citibank .....	Citi Group	12,498	3
Denizbank.....	Emirates NBD <sup>(3)</sup>	148,280	709
Deutsche Bank.....	Deutsche Bank AG, London Branch	3,779	1
HSBC Bank .....	HSBC	33,069	80

Bank	Ownership	Total assets (TL, millions)	Number of branches
ING Bank.....	ING	56,716	220
Odea Bank .....	Bank Audi sal-Audi Saradar Group	31,742	48
Rabobank .....	Rabobank International	1,670	1
	Industrial and Commercial Bank of China		
ICBC Turkey Bank A.Ş.....	Limited <sup>(5)</sup>	17,168	41
MUFG Bank Turkey A.S.....	MUFG Bank, Ltd	13,590	1
QNB Finansbank .....	Qatar National Bank SAQ <sup>12</sup>	174,192	542
	Arab Bank, BankMed and Arab Bank		
Turkland Bank	Switzerland	3,769	17
Türkiye Garanti Bankası.....	BBVA; Floated <sup>(6)</sup>	374,335	918
<b>Branches of Foreign Banks</b>			
Habib Bank .....	Pakistan	242	1
Bank Mellat .....	Iran	1,009	3
JPMorgan Chase Bank.....	United States	1,749	1
Société Générale .....	France	155	1
Intesa Sanpaolo.....	Italy	12,941	1

- (1) On 1 July 2013, Commercial Bank of Qatar completed the purchase and transfer of 80% of the shares of Alternatifbank from Anadolu Group to Commercial Bank of Qatar.
- (2) In April 2012, Burgan Bank S.A.K., one of Kuwait's leading banks announced that it had entered into an agreement with Eurobank EFG to acquire a 99.26% stake in Eurobank Tekfen. Following the completion of the transaction, the trade name of Eurobank Tekfen was changed to Burgan Bank.
- (3) On 28 September 2012, Sberbank, Russia's largest bank, completed the purchase and transfer of 99.85% of the shares of Denizbank from Dexia Group for U.S.\$3,504 million. In May 2018, Emirates NBD entered into a definitive agreement to buy 99.85% of Denizbank from Sberbank, which acquisition closed in 2019.
- (4) The acquisition of 99.84% of Finansbank A.Ş.'s shares by Qatar National Bank was approved by the BRSA and the Turkish Competition Board on 7 April 2016 and 3 May 2016, respectively.
- (5) GSD Holding Tekstilbank entered into an agreement to transfer its majority stake held by GSD Holding in Tekstilbank to Commercial Bank of China in May 2014. The transfer was completed on 22 May 2015.
- (6) In March 2017, Doğu Holding A.Ş. sold its further 9.95% stake in Garanti Bank to Banco Bilbao Vizcaya Argentaria S.A. for EUR 859 million, and consequently Banco Bilbao Vizcaya Argentaria S.A. increased its shareholding in Garanti Bank to 49.85%.

## Development and Investment Banks

There are three state-owned, six privately owned and four foreign development and investment banks in Turkey. The following table presents these banks and their assets and number of branches as at 30 September 2019:

Bank	Total assets (TL, millions)	Number of branches
<b>State owned Development Banks:</b>		
İller Bankası .....	35,087	19
Türk EximBank .....	157,546	12
Türkiye Kalkınma ve Yatırım Bankası .....	18,469	1
<b>Privately owned Development and Investment Banks:</b>		
Türkiye Sınai Kalkınma Bankası .....	40,273	3
Nurol Yatırım Bankası .....	3,143	1
Diler Yatırım Bankası .....	175	1
GSD Yatırım Bankası.....	302	2

<sup>12</sup> The acquisition of 99.84% of Finansbank A.Ş.'s shares by Qatar National Bank was approved by the BRSA and the Turkish Competition Board on 7 April 2016 and 3 May 2016, respectively and on 15 June 2016 the acquisition was completed.

	<b>Total assets</b>	<b>Number of branches</b>
	<i>(TL, millions)</i>	
Aktif Yatırım Bankası .....	16,165	10
İstanbul Takas ve Saklama Bankası A.Ş. ....	14,878	1
<b>Foreign Development and Investment Banks:</b>		
BankPozitif Kredi ve Kalkınma Bankası .....	893	1
Standard Chartered Yatırım Bankası Türk A.S. ....	103	1
Merrill Lynch Yatırım Bankası .....	567	1
Pasha Yatırım Bankası A.Ş. <sup>(1)</sup> .....	1,605	1

(1) On 26 December 2014, the BRSA approved the transfer of a majority stake in Taib Yatırım Bankası to Azeri Pasha Bank OJSC, the trade name of the bank was changed to Pasha Yatırım Bankası A.Ş. following the transfer.

Source: The Banks Association of Turkey

The banks in this category provide medium- and long-term financing to large- and medium-sized companies on a project basis. The major funding sources of these banks are the Central Bank, international banks and institutions such as the World Bank, the European Investment Bank and various export credit agencies. These banks do not accept deposits and grant credit only on a project basis. They are also active in foreign exchange and securities transactions.

## TURKISH REGULATORY ENVIRONMENT

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

The Banks Act No. 4389 established the BRSA, which ensures that banks observe banking legislation, supervises the application of banking legislation and monitors the banking system. Accordingly, the BRSA is authorised and obliged to take all steps to assure the effective functioning of the credit system in Turkey and to prevent all transactions and practices which could jeopardise the disciplined and safe functioning of the Turkish banking sector. The BRSA has administrative and financial autonomy. The Banking Law No. 5411, which abolished and replaced the former Banking Law No. 4389, came into force upon publication thereof in the Official Gazette dated 1 November 2005. The Banking Law was passed to increase confidence and stability in financial markets, ensure efficient operation of the credit system, and protect the rights and interests of deposit holders. The Banking Law includes provisions regarding capital adequacy, efficiency of control and audit to be carried out by the BRSA, creation of market discipline, and enforcing liability insurance requirements for third party service providers to banks, such as sworn auditors and credit rating agencies. Historically, its head office has been in Ankara. However, as of 13 February 2011 and pursuant to Law No. 6111, the head office was relocated to Istanbul.

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 exercises its powers independently and is responsible for its affairs within the bounds of the Government's defined policies.

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, with information adequate to permit off-site evaluation of its financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and semi-annual basis, depending on 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 analyse the relationship between assets, liabilities, net worth, profit and loss accounts and all other factors affecting a bank's financial structure.

Pursuant to the Regulation on the Internal Systems and ICAAP of Banks, as issued by the BRSA and published in the Official Gazette dated 11 July 2014 and No. 29057 (the "**Internal Systems Regulation**"), banks are obligated to establish, manage and develop (for themselves and all of their consolidated affiliates) internal audit and risk management systems commensurate with the scope and structure of their activities, in compliance with the provisions of the regulation. Pursuant to such regulation, the internal audit and risk management systems are to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department will 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 Internal Systems Regulation also requires banks to internally calculate the amount of capital required to cover the risks to which they are or may be exposed on a consolidated basis and with a forward-looking perspective, taking into account the bank's near and medium-term business and strategic plans. This process, referred to as the "Internal Capital Adequacy Assessment Process", should be designed according to the bank's needs and risk attitude and should constitute an integral part of the decision-making process and corporate culture of the bank. In this context, each bank is

required to prepare an internal capital adequacy assessment process report (the “ICAAP Report”) representing the bank’s own assessment of its capital requirements. An ICAAP Report is required to be submitted annually to the BRSA, together with the stress test analysis, the internal audit report on the ICAAP and the model validation report by the end of March of the following year. The board of directors of a bank is responsible for the maintenance of adequate equity to ensure establishment and implementation of the ICAAP Report.

The Banks Association of Turkey acts as a limited organisation of supervision and coordination. All banks, other than participation banks, in Turkey are obliged 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 regulatory and disciplinary functions, it does not possess any powers to regulate banking.

## **Shareholding**

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 these thresholds, an assignment and transfer of privileged shares with the right to nominate a member to the board of directors or audit committee or issuance of new shares with such privileges is also subject to authorisation by the BRSA. In the absence of such authorisation, a holder of such thresholds of shares cannot be registered in the share register, which effectively deprives such shareholder of the ability to participate in shareholder meetings or to exercise voting or other shareholders’ rights with respect to the shares but not of the right to collect dividends declared on such shares.

The board of directors of a bank is responsible for ensuring that shareholders attending general assemblies have obtained the applicable authorisations from the BRSA. If the BRSA determines that a shareholder has exercised voting or other shareholders’ rights (other than the right to collect dividends) without due authorisation as described in the preceding paragraph, then it is authorised to direct the board of directors of a bank to initiate proceedings to cancel any applicable general assembly resolutions. If the shares are obtained on the stock exchange, then the BRSA may also impose administrative fines on shareholders who exercise their rights or acquire or transfer shares as described in the preceding paragraph without BRSA authorisation. Unless and until a shareholder obtains the necessary share transfer approvals from 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 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.



- 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 participates 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, general manager and partnerships directly or indirectly, individually or jointly, controlled by any of these persons or a partnership in which these persons participate with unlimited liability or in which these persons act as directors or general managers constitute a risk group, for which the lending limits are reduced to 20% of a bank's equity capital, subject to the BRSA's discretion to increase such lending limits up to 25% or to lower it to the legal limit.
- Loans made available to a bank's controlling shareholders or registered shareholders 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 abovementioned lending limits:

- transactions against cash, cash-like assets and accounts and precious metals;
- transactions carried out with the Undersecretariat of Treasury, Central Bank, Privatisation 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 with the Central Bank and in legally organised money markets;
- in case of new credit allocations to the same person or to the same risk group (but excluding cheques and credit cards), valuations prompted by 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 board of the BRSA (the "BRSB").

## Loan Loss Reserves

Procedures relating to loan loss reserves for NPLs are set out in Article 53 of the Banking Law and in regulations issued by the BRSA. According to Article 53, banks must formulate implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans and other receivables and to reserve an adequate level of provisions against impairment in the value of other assets, for qualification and classification of assets, receipt of guarantees and securities and measurement of their value and reliability. In addition, such policies must address issues such as monitoring the loans, write-off of such loans in accordance with Turkish Financial Reporting Standards as published by the POA, follow-up procedures and the repayment of overdue loans. Banks must also establish and operate systems to perform these functions. All special provisions set aside for loans and other receivables in accordance with Article 53 are considered as expenditures deductible from the corporate tax base in the year they are set aside. The uncollectible loans that are written-off after having reserved requisite provisions are considered to be bad debt within the context of Article 322 of the Tax Procedural Law No. 213.

On 22 June 2016, the BRSA published the 2016 Provisioning Regulation, which entered into force on 1 January 2018 in lieu of the Regulation on Provisions and Classification of Loans and Receivables published in the Official Gazette dated 1 November 2006 and No.26333. The 2016 Provisioning Regulation aims at ensuring compliance with the requirements of IFRS and the Financial Sector Assessment Programme, which is a joint programme by the International Monetary Fund and the World Bank. The 2016 Provisioning Regulation requires banks to have adopted Turkish Financial Reporting Standards 9, which is the IFRS 9 compliant financial reporting standards of Turkey (“**TFRS 9**”) principles, (unless an exemption is granted by the BRSA) related to the assessment of credit risk by the end of 2017 and to set aside general provisions in line with such principles.

According to the 2016 Provisioning Regulation, the banks are still required to classify their loans and receivables in groups, but there are certain changes in the content of the groups compared to the Regulation on Provisions and Classification of Loans and Receivables. Please note that group classification and provision levels for periods before and after 1 January 2018 are not directly comparable. Pursuant to the 2016 Provisioning Regulation, banks are required to classify their loans and receivables into one of the following groups:

(a) *Group I: Loans of a Standard Nature and Other Receivables:*

This group involves each loan (which, for purposes of the 2016 Provisioning Regulation, includes other receivables and shall be understood as such elsewhere in this Base Prospectus):

- (i) that has been disbursed to financially creditworthy natural persons and legal entities;
- (ii) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor;
- (iii) repayments of which have been made within due dates or have not been overdue for more than 30 days, for which no repayment problems are expected in the future, and that have the ability to be collected in full without recourse to any security;
- (iv) in respect of which no weakening of the creditworthiness of the applicable debtor has been found; or
- (v) to which 12 months expected credit loss reserve applies under TFRS 9.

(b) *Group II: Loans Under Close Monitoring:*

This group involves each loan:

- (i) that has been extended to financially creditworthy natural and legal persons and where negative changes in the debtor's solvency or cash flow have been observed or predicted due to adverse events in macroeconomic conditions or in the sector in which the debtor operates, or other adverse events solely related to the respective debtor;
- (ii) that needs to be closely monitored due to reasons such as significant financial risk carried by the debtor at the time of the utilisation of the loan;
- (iii) in connection with which problems are likely to occur as to principal and interest payments in accordance with the conditions of the loan agreement, and where the failure to resolve such problems might result in risk of non-collection in full without recourse to any security;
- (iv) where, although the credit standing of the debtor has not weakened in comparison with its credit standing on the day the loan is granted, there is likelihood of a weakening due to the debtor's irregular and unmanageable cash flow;
- (v) the collection of principal and/or interest payments of which are overdue for more than 30 but less than 90 days following its payment due date (including the maturity date) for reasons that cannot be interpreted as a weakening in credit standing;
- (vi) in connection with which the credit risk of the debtor has notably increased pursuant to TFRS 9;
- (vii) repayments of which are fully dependent upon security, and the net realisable value of such security falls under the receivable amount;
- (viii) that has been subject to restructuring when monitored under Group I or Group II without being able to be classified as an NPL; or
- (ix) that has been subject to restructuring while being monitored as an NPL and classified as a performing loan upon satisfaction of the relevant conditions stated in the regulation.

(c) *Group III: Loans with Limited Collection Possibility:*

This group involves each loan:

- (i) in connection with which the debtor's creditworthiness has weakened;
- (ii) that has limited possibility for the collection of the full amount without recourse to any security due to the insufficiency of net realisable value of the security or the debtor's equity to meet the repayment of the full amount on the due date, and that would likely result in losses in case such problems are not resolved;
- (iii) collection of the principal and interest (or both) of which has/have been delayed for more than 90 days but not more than 180 days from the payment due date;

- (iv) in connection with which the bank is of the opinion that collection by the bank of the principal or interest of the loan or both will be delayed for more than 90 days from the payment due date owing to reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity as a result of adverse events in macroeconomic conditions or in the sector in which the debtor operates or other adverse events solely related to the debtor; or
- (v) that has been classified as a performing loan after restructuring but principal and/or interest payments of which have been overdue for more than 30 days within one year of a restructuring or have been subject to another restructuring within such one year of the previous restructuring.

(d) *Group IV: Loans with Doubtful Collection Possibility:*

This group involves each loan:

- (i) principal and/or interest payments of which will probably not be collected in full under the terms of the loan agreement without recourse to any security;
- (ii) in connection with which the debtor's creditworthiness has significantly deteriorated, but which loan is not yet considered as an actual loss by virtue of contribution expected from factors such as merger, the possibility of finding new financing or a capital increase to the debtor's creditworthiness and the collection possibility of the credit;
- (iii) the collection of principal and/or interest payments of which has been overdue for more than 180 days but less than one year following its payment due date (including the maturity date); or
- (iv) the collection of principal and/or interest payments of which is expected to be overdue for more than 180 days following its payment due date (including the maturity date) as a result of adverse events in macroeconomic conditions or in the sector in which the debtor operates or adverse events solely related to the debtor.

(e) *Group V: Loans Having the Nature of Loss:*

This group involves each loan:

- (i) for which, as a result of the complete loss of the debtor's creditworthiness, no collection is expected or only a negligible part of the total receivable amount is expected to be collected;
- (ii) although having the characteristics stated in Groups III and IV, the collection of the total receivable amount of which, albeit due and payable, is unlikely within a period exceeding one year; or
- (iii) the collection of principal and/or interest payments of which has been overdue for more than one year following its payment due date.

Pursuant to the 2016 Provisioning Regulation, loans: (a) that are classified under Groups III, IV and V; (b) the debtors of which are deemed to have defaulted pursuant to the Communiqué on the Calculation of Principal Subject to Credit Risk by Internal-Ratings Based Approaches (published in the Official Gazette dated 23 October 2015 and No. 29511) (the “**Communiqué on the Calculation**”); or (c) to which, as a result of a debtor's default, the lifetime expected credit loss reserve applies under TFRS 9 are classified as NPLs. Financial guarantees are also classified as NPLs on the basis of their

nominal amounts in situations where: (i) a risk of a compensation claim by the creditor has occurred; or (ii) the debt assumed under the relevant financial guarantee falls within the scope of any of the circumstances stated in sub-paragraph (a), (b) or (c) above. If several loans have been extended to a debtor by the same bank and any of these loans is classified as an NPL, then all other loans extended to such debtor by such bank shall also be classified as NPLs; however, for consumer loans, even if any of these loans is classified as an NPL, other consumer loans granted to the same debtor may be classified in the respective applicable group other than Group I. If loans extended to a debtor are classified as an NPL, the creditworthiness of other debtors within the same risk group with that debtor should be evaluated at the date of classification as NPL of that debtor's loans. Accordingly, the loans extended to such other debtors should also be classified as an NPL if such loans fall within the scope of any of the circumstances stated in sub-paragraph (a), (b) or (c) above.

The 2016 Provisioning Regulation includes detailed rules and criteria in relation to concepts of the "reclassification" and "restructuring" of loans. As for the reclassification of loans, banks are required to evaluate such loans with a view as to whether such loans are to be reclassified under different groups, such evaluation is to be made at least once during each three-month financial statement term or (irrespective of this period) upon the occurrence of developments that pose a risk on such debtor's performance of its obligations, in macroeconomic circumstances, or in the sector in which the respective debtor operates, or solely related to the respective debtor regardless of the macroeconomic circumstances and the sector. Such evaluation shall be conducted independently from the credit and risk analysis made at the time of the extension of the loan.

The reclassification of NPLs as performing loans is subject to the following conditions: (a) all overdue repayments that have caused the relevant loan to be classified as an NPL have been collected in full without recourse to any security; (b) as of the date of the reclassification, there has been no overdue repayment, and the last two repayments preceding such date (except the repayments mentioned in sub-paragraph (a) above) have been realised in full by their due date; and (c) conditions for such loans to be classified under Group I or II have been fulfilled. Furthermore, loans (i) that have been fully or partially excluded from the assets of the banks, (ii) security which has been enforced to satisfy the debt or (iii) repayment of which has been made in kind, cannot be classified as a performing loan.

The restructuring of a loan is defined as privileges granted to a debtor who faces or would probably face financial difficulties in relation to the repayment of the loan, to which privileges would not be granted to other debtors not facing such repayment difficulties. These privileges consist of: (a) amendments to the conditions of the loan agreement; or (b) partial or full refinancing of the loan. In this respect, an NPL may be reclassified as a restructured loan under Group II subject to the following conditions: (i) upon evaluation of the financial standing of the debtor, it has been determined that the conditions for the applicable loan to be classified as an NPL have disappeared; (ii) the loan has been monitored as an NPL for at least one year following a restructuring; (iii) as of the date of reclassification as a Group II loan, there has been no delay in principal and/or interest payments or any expectation of any such delay in the future; and (iv) overdue payments and/or principal payments excluded from assets in relation to the restructured loan have been collected. Furthermore, such restructured NPL being reclassified as a performing restructured Group II loan may be excluded from the scope of the restructuring if all the following conditions are met: (A) such loan has been monitored as a restructured loan under Group II for at least one year; (B) at least 10% of the outstanding debt amount has been repaid during such one year monitoring period; (C) there has not been any delay of more than 30 days in principal and/or interest payments of any loan extended to the applicable debtor during such monitoring period; and (D) the financial difficulty that led to the restructuring of the loan no longer exists. On 15 August 2018, the BRSA published an amendment regulation to the 2016 Provisioning Regulation, introducing the possibility of a performing restructured loan being classified as a Group I loan, after being monitored as a restructured loan for at least three months and if conditions (C) and (D) above, are met (without seeking the satisfaction of conditions (A) and (B) above). Further, the same amendment regulation has provided that changes to the loan terms for, or partial or full refinancing of, the companies, the loans of which are classified as

Group I and that are not in distress, will not be classified as restructuring and may be monitored under Group I.

Pursuant to the 2016 Provisioning Regulation, the general rule is that banks shall apply provisions for their loans pursuant to TFRS 9; however, the BRSA may, on an exceptional basis, authorise a bank to apply the applicable provisions set forth in the 2016 Provisioning Regulation instead of those required by TFRS 9, subject to the presence of detailed and acceptable grounds. With respect to the requirements under TFRS 9, “twelve-months expected credit loss reserve” and “lifetime expected credit loss reserve set aside due to significant increase in credit risk profile of the debtor” are considered as general provisions while “lifetime expected credit loss reserve set aside due to debtor’s default” is considered as a special provision.

Banks that have been authorised not to apply provisions under TFRS 9 are required to determine their general and special provisions in accordance with Articles 10 and 11 of the 2016 Provisioning Regulation. In this respect, such banks shall set aside general provisions for at least 1.5% and 3.0% of their total cash loans portfolio under Groups I and II, respectively. For non-cash loans, undertakings and derivatives, general provisions to be set aside shall be calculated by applying the foregoing percentages to the risk-weighted amounts determined pursuant to the 2016 Capital Adequacy Regulation. Subject to the presence of a written pledge or assignment agreement, loans secured with cash, deposit, participation funds and gold deposit accounts, bonds that are issued by the Government and the Central Bank, and guarantees and sureties provided by such, are not subject to the general set aside calculation. Loans extended to the Government and the Central Bank are not to be considered in such calculation. As to special provisions, banks are required to comply with provision rules for NPLs under Groups III, IV and V at 20%, 50%, and 100%, respectively.

In respect of both general and special provisions, banks are required to consider country and transfer risks. In addition, the BRSA may increase such provision requirements on the basis of banks or loans, taking into account the concentration from time to time in matters such as loan size, type, due date, currency, interest structure, sector to which loans are extended, geographic circumstances, security, and the credit risk level and management.

Regarding the monitoring of security by the banks that have been authorised not to apply provisions under TFRS 9, the 2016 Provisioning Regulation increased the number of categories on collaterals (from four to five), amended the content of such categories, and amended the proportions to be deducted, in order to determine the net realisable values of the collaterals, from the borrower’s NPLs as follows:

<b>Discount Ratio</b>	<b>(%)</b>
Category I Collateral.....	100
Category II Collateral .....	80
Category III Collateral .....	60
Category IV Collateral.....	40
Category V Collateral.....	20

According to the amendments to the Equity Regulation (as defined below) and the 2016 Capital Adequacy Regulation that became effective as of 1 January 2020, general provisions will, from that date, no longer be allowed to be included in the supplementary capital (i.e., Tier 2 capital) of Turkish banks and will be deducted from their risk-weighted assets.

## **Capital Adequacy**

Article 45 of the Banking Law defines capital adequacy as having adequate equity against losses that could arise from 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%. Despite the 8% minimum capital adequacy ratio

requirement, the BRSA has declared in the press that its approach is, and will continue to be, to prohibit banks with a capital adequacy ratio less than 12% from opening new branches.

The BRSA is authorised to increase the minimum capital adequacy ratio, to set different ratios for each bank and to revise the risk weights of assets that are based upon participation accounts, but must consider each bank's internal systems as well as its asset and financial structures.

In order to implement the rules of the report entitled "A Global Regulatory Framework for More Resilient Banks and Banking Systems" published by the Basel Committee on Banking Supervision (the "**Basel Committee**") in December 2010 and revised in June 2011 into Turkish law, the BRSA announced its intention to adopt the Basel III requirements in September 2013 and enacted its new regulations, the Regulation on Equity as published in the Official Gazette dated 5 September 2013 and No. 28756 (the "**Equity Regulation**"), and amendments to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks (which was later replaced by the 2016 Capital Adequacy Regulation, effective as of 31 March 2016), both of which entered into effect on 1 January 2014. The BRSA published several new regulations and communiqués or amendments to its existing regulations and communiqués (as published in the Official Gazette dated 23 October 2015, No. 29511, and 20 January 2016, No. 29599) in accordance with the Basel Committee's regulatory consistency assessment programme, which is conducted by the Bank for International Settlements and reviews Turkey's compliance with Basel regulations. These amendments, which entered into force on 31 March 2016, include revisions to the Equity Regulation and the Capital Adequacy Regulation.

Under the Equity Regulation, subordinated loans are included under additional Tier 1 capital and Tier 2 capital subject to certain conditions; however, their amounts are required to be reduced by the amount of any cash credit extended to creditors holding 10% or more of such loans of a bank (or to any person within such creditor's risk group).

Pursuant to Article 44/3 of the Banking Law and Article 11 of the BRSA Regulation, the net worth of a bank (i.e., the bank's equity) consists of main capital and supplementary capital minus capital deductions. The Equity Regulation defines the capital of a bank as the sum of: (a) principal capital (i.e., Tier 1 capital), which is composed of core capital and additional principal capital (i.e., additional Tier 1 capital); and (b) supplementary capital (i.e., Tier 2 capital) minus capital deductions. The Equity Regulation was amended on 11 July 2017 to remove certain capital deduction items such as real estate and goods held by the banks in specific circumstances.

The BRSA published the Capital Adequacy Regulation, which entered into force on 31 March 2016 (the "**Capital Adequacy Regulation**") and replaced the former regulation, namely the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks, which was published in the Official Gazette dated 28 June 2012 and No. 28337. Pursuant to the Capital Adequacy Regulation: (a) both the minimum core capital adequacy ratio and the minimum consolidated core capital adequacy ratio are 4.5%; and (b) both the minimum Tier 1 capital adequacy ratio and the minimum consolidated Tier 1 capital ratio are 6.0%. The Capital Adequacy Regulation maintained the capital adequacy ratios introduced by the former regulation, but changed the risk weights of certain items.

Accordingly, pursuant to the Capital Adequacy Regulation, risk weights of certain assets are decreased such as:

- (a) the risk weights of residential mortgage loans from 50% to 35%;
- (b) the risk weights of consumer loans (excluding residential mortgage loans and credit cards) qualifying as retail loans (*perakende alacaklar*) in accordance with the Capital Adequacy Regulation and instalment payments of credit cards from a range of 100% to 250% (depending upon their outstanding tenor) to 75% (irrespective of their tenor);

provided that such receivables are not reclassified as non-performing loans (*donuk alacaklar*); and

- (c) the credit conversion factors of commitments for credit cards and overdrafts from 20% to 0%.

While the previous rules provided a 0% risk weight for exposures to the Turkish sovereign and the Central Bank, the rules of Basel II require that claims on sovereign entities and their central banks be risk weighted according to their credit assessment, which currently results in a 50% risk weighting for Turkey; however, the Turkish rules implementing the Basel principles in Turkey revised this general rule by providing that all Turkish Lira-denominated claims on sovereign entities in Turkey and the Central Bank shall have a 0% risk weight. The risk weights for foreign currency-denominated claims on the Turkish sovereign and the Central Bank were 50% or 100% depending on the external credit assessment institutions used for calculating the risk-weighted assets for capital adequacy purposes. However, the BRSA, with its decision dated 10 February 2017 and No. 7234, determined that the banks may apply the risk weights of foreign currency-denominated claims (including gold) on the Central Bank as 0% under the Capital Adequacy Regulation. According to the guidance published by the BRSA on 24 February 2017, foreign exchange required reserves held with the Central Bank will now also be subject to a 0% risk weight.

In addition, the Regulation on the Capital Maintenance and Cyclical Capital Buffer and the Regulation on the Measurement and Evaluation of Leverage Levels of Banks were published in the Official Gazette dated 5 November 2013 and No. 28812, and entered into force on 1 January 2014 (with the exception of certain provisions of the latter regulation entered into effect on 1 January 2015). The Regulation on the Capital Maintenance and Cyclical Capital Buffer provides additional core capital requirements both on a consolidated and bank-only basis. Pursuant to this regulation, the additional core capital requirements are to be calculated by the multiplication of the amount of risk-weighted assets by the sum of a capital maintenance buffer ratio and bank-specific countercyclical buffer ratio. The Regulation on the Measurement and Evaluation of the Leverage Level of Banks seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and bank-only basis against leverage risks. In this context, the BRSA further published: (a) its decision dated 18 December 2015 and No. 6602 regarding the procedures for and principles on calculation, application and announcement of a countercyclical capital buffer; and (b) its decision dated 24 December 2015 and No. 6602 regarding the determination of such countercyclical capital buffer. Pursuant to these decisions, the countercyclical capital buffer for Turkish banks' exposures in Turkey was initially set at 0% of a bank's risk-weighted assets in Turkey (effective as of 1 January 2016); however, such ratio might fluctuate between 0% and 2.5% as announced from time to time by the BRSA. Any increase to the countercyclical capital buffer ratio is to be effective one year after the relevant public announcement, whereas any reduction is to be effective as of the date of the relevant public announcement.

According to the Equity Regulation, which came into force on 1 January 2014, Tier 2 capital shall be calculated by subtracting capital deductions from general provisions, issuance premiums and the debt instruments that are not to be included in Tier 1 capital and have been approved by the BRSA.

Loans (as opposed to securities) that have been approved by the BRSA upon the application of the board of directors of the applicable bank accompanied by a written statement confirming that all of the new Tier 2 Conditions (except the issuance approval with the CMB) are met also can be included in Tier 2 capital calculations. In addition to the conditions that need to be met before including debt instruments and loans in the calculation of Tier 2 capital, the Equity Regulation also provides a limit for inclusion of general provisions in Tier 2 capital. Pursuant to the Equity Regulation, the basis for the calculation of this limit depends on risk-weighted assets related to credit risk. That being said, as of 1 January 2020, general provisions will no longer be allowed to be included in the supplementary capital (i.e., Tier 2 capital) of Turkish banks and the aforementioned



limit which is calculated on the basis of risk-weighted assets related to credit risk will not be applicable as of 1 January 2020.

The Equity Regulation requires banks to obtain the prior permission of the BRSA for a debt to be classified as a “secondary subordinated debt”. In order to obtain such permission, the bank must submit to the BRSA the original copy or a notarised 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 or a notarised copy thereof to be made after receipt of the BRSA’s consent). In considering any such request for its permission, the BRSA will evaluate whether the credit in question meets the following criteria:

- (i) the debt instrument shall have been issued by the bank and such issuance shall be approved by the CMB and shall have been fully collected in cash;
- (ii) in the event of dissolution of the bank, the debt instrument shall have priority over debt instruments that are included in additional Tier 1 capital and shall be subordinated with respect to rights of deposit holders and all other creditors;
- (iii) the debt instrument shall not be related to any derivative operation or contract violating the condition stated in the second paragraph (ii) above nor shall it be tied to any guarantee or security, in one way or another, directly or indirectly;
- (iv) the debt instrument must have an initial maturity of at least five years and shall not include any provision that may incentivise prepayment, such as dividends and an increase of the interest rate; and
- (v) the payment of debt 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 in 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 authorise the inclusion of the loan or debt instrument in the calculation of Tier 2 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 utilisation), they would be required to obtain the BRSA’s permission. Upon any such application, the BRSA will seek to ensure that the equity of the bank shall exceed the higher of: (a) the capital adequacy requirement that is to be calculated pursuant to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks along with the procedures and principles on capital buffers that are to be set by the BRSA; (b) the capital requirement derived as a result of an internal capital adequacy evaluation process of the bank; and (c) the higher capital requirement set by the BRSA (if any).

In connection with secondary subordinated debt 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 equity-related criteria stated above.

Debt instruments and loans that are approved by the BRSA are included in accounts of Tier 2 capital as of the date of transfer to the relevant accounts in the applicable bank’s records. Loan agreements and debt instruments that have been included in Tier 2 capital calculations, and that have less than five years to maturity, shall be included in Tier 2 capital calculations after being reduced by 20% each year.

### **Liquidity Reserve Requirement**

Article 46 of the Banking Law requires banks to calculate, attain, maintain and report the minimum liquidity level in accordance with principles and procedures to be set out by the BRSB.

Within this framework, a comprehensive liquidity arrangement was put in place by the BRSA, following the consent of the Central Bank.

The Regulation on the Calculation of Banks' Liquidity Coverage Ratios, through which the BRSA seeks to ensure that a bank maintains an adequate level of unencumbered, high quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period, both on a consolidated and unconsolidated basis, was published in the Official Gazette, dated 21 March 2014 and No. 28948 (the “**Regulation on Liquidity Coverage Ratios**”) and entered into effect immediately with the provisions thereof becoming applicable as of 1 January 2014 (with the exception of certain provisions relating to minimum coverage ratio levels, which entered into effect on 1 January 2015). The Regulation on Liquidity Coverage Ratios provides that the ratio of the high quality asset stock to the net cash outflows, both of which are calculated in line with the regulation, cannot be lower than 100% in respect of total consolidated and non-consolidated liquidity and 80% in respect of total consolidated and non-consolidated foreign exchange liquidity; however, pursuant to the BRSA decision on liquidity ratios, for the period between 5 January 2015 and 31 December 2015, such ratios were applied as 60% and 40% respectively, and such ratios shall be (and have been) applied in increments of ten percentage points for each year from 1 January 2016 until 1 January 2019. Unconsolidated total and foreign currency liquidity coverage ratios cannot be non-compliant more than six times within a calendar year, which includes non-compliance that has already been remedied. With respect to consolidated total and foreign currency liquidity coverage, these cannot be non-compliant consecutively within a calendar year and such ratios cannot be non-compliant for more than two times within a calendar year, including the non-compliances that have already been remedied.

Pursuant to the Communiqué Reserve Requirements No. 2013/15 and published in the Official Gazette dated 25 December 2013 and No. 28862 (“**Communiqué Regarding Reserve Requirements**”) and as of the date of this Base Prospectus, the reserve requirements regarding foreign currency liabilities vary by category and tenor.

Pursuant to the amendments to the Communiqué Regarding Reserve Requirements, published in the Official Gazette dated 28 December 2019 and No. 30992, the reserve requirements starting from 27 December 2019 and onwards for foreign currency liabilities are as set forth below:

<i>Category of Foreign Currency Liabilities Required</i>	<i>Reserve Ratio</i>
Demand deposits, notice deposits, private current accounts and the deposit/participation accounts with up to (and including) 1-month, 3-month, 6-month and up to 1-year maturities .....	19%
Deposit/participation accounts up to 1-year and longer maturities .....	15%
Other liabilities up to 1-year maturity (including 1-year).....	21%
Other liabilities up to 2-year maturity (including 2-year).....	16%
Other liabilities up to 3-year maturity (including 3-year).....	11%
Other liabilities up to 5-year maturity (including 5-year).....	7%
Other liabilities longer than 5-year maturity.....	5%
Borrowers' deposit accounts held at development and investment banks <sup>13</sup> .....	19%

Pursuant to the amendments to the Communiqué Regarding Reserve Requirements, the reserve requirements starting from 8 February 2019 regarding Turkish Lira liabilities vary by category, as set forth below:

<sup>13</sup> Due to laws applicable to development and investment banks, the amount deposited in such accounts cannot exceed the total outstanding loan amount extended by the relevant development and investment bank to such borrower.

<i>Category of Turkish Lira Liabilities Required</i>	<i>Reserve Ratio</i>
Demand deposits, notice deposits, private current .....	7%
Deposits/participation accounts up to 1-month maturity (including 1-month).....	7%
Deposits/participation accounts up to 3-month maturity (including 3-month).....	7%
Deposits/participation accounts up to 6-month maturity (including 6-month).....	4%
Deposits/participation accounts up to 1-year maturity .....	2%
Deposits/participation accounts up to 1-year and longer maturities .....	1%
Other Turkish Lira liabilities up to 1-year maturity (including 1-year) .....	7%
Other Turkish Lira liabilities up to 3-year maturity (including 3-year) .....	3.5%
Other Turkish Lira liabilities longer than 3-year maturity .....	1%

The reserve ratios listed in the table above are subject to continuous changes by the Central Bank, and the Bank maintains the required reserves in the amount determined by the Central Bank. 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). Pursuant to the Communiqué Regarding Reserve Requirements, interest may accrue on the reserve accounts in accordance with rules and procedures determined by the Central Bank.

On 19 August 2019, with the intention of using reserve requirements more flexibly and effectively as a macro prudential tool to support financial stability, CBRT decided to change the ratio of and the remuneration applied to required reserves. Accordingly, the reserve requirement ratios for Turkish Lira liabilities and the remuneration rates for Turkish Lira-denominated required reserves are linked to the annual growth rates of the total of banks' Turkish Lira-denominated standardized cash loans and cash loans under close monitoring, excluding foreign currency-indexed loans and loans extended to banks. For banks whose loan growth is between 10% and 20% (reference values), the reserve requirement ratios for Turkish Lira liabilities in all maturity brackets excluding deposits and participation funds with 1-year or longer maturity (excluding deposits/participation funds obtained from banks abroad) and other liabilities with longer than 3-year maturity (including deposits/participation funds obtained from banks abroad), would be set at 2%. The reserve requirement ratios for other banks are left unchanged. Additionally, the then-current remuneration rate of 13% applied to Turkish Lira-denominated required reserves, is set at 15% for banks with a loan growth between the reference values and at 5% to others. According to the said arrangement, loan growth rates would be calculated in each reserve requirement period and the banks whose loan growth is between the reference values will be subject to the related reserve requirement ratios and remuneration rates in the next three-months (six reserve requirement periods).

Notwithstanding the foregoing, on 9 December 2019, the CBRT rehauled the loan-growth-based reserve requirement system described in the paragraph above. It announced that, effective from 29 November 2019, it takes into account lower reference rates to determine which banks that can benefit from the special reserve requirement regime, while introducing a mechanism whereby loan growth will be calculated in adjusted terms having regard to CPI.

Accordingly, it announced that the following banks are subject to a 2% required reserve ratio on TL deposits for all maturity brackets, except for those with a maturity of (i) 1 year and longer (for deposit/participation accounts (excluding deposit/participation accounts held at foreign banks)); and, (ii) more than 3 years (for other liabilities (including deposit/participation accounts held at foreign banks)):

- banks that have a CPI-adjusted annual loan growth rate higher than 15%, provided that such rate would be equal to or lower than 15%, if it was calculated by deducting from the numerator of such rate the annual change in (i) housing loans with a maturity of five years or more and (ii) loans with a maturity longer than two years (excluding consumer loans and individual credit cards);

- banks that have a CPI-adjusted annual loan growth rate lower than 15%, provided that such rate would be equal to or higher than 5%, if it was calculated by deducting from the numerator of such rate half of the annual change in consumer loans (excluding housing loans with a maturity of five years or more) and individual credit cards; and
- banks that had an annual loan growth rate between 10% and 20% (reference values) and thereby met the former loan growth conditions described in the paragraph above announced on 19 August 2019, in the calculation period until (and including) 29 November 2019. These latter banks benefit from this required reserve ratio regime only for six calculation periods starting from the calculation period during which their loan growth rate was between the reference values.

The reserve requirements will also apply to gold deposit accounts. Furthermore, pursuant to the Communiqué Regarding Reserve Requirements issued by the Central Bank: (a) banks are permitted to maintain up to a maximum of 30% of the Turkish Lira reserve requirements in U.S. dollars (first 20% at 1.0 times, second 5% at 1.4 times, third 5% at 1.7 times) and up to a maximum of 30% of the Turkish Lira reserve requirements in standard gold (first 15% at 1.6 times, second 5% at 1.7 times, third 5% at 2.1 times, and fourth 5% at 2.5 times the reserve requirement); and (b) up to the entire amount of reserve requirements that should be maintained for precious metal deposit accounts should be maintained in the form of standard gold in blocked accounts. In addition, pursuant to the Communiqué Regarding Reserve Requirements banks are required to maintain their required reserves against their U.S. dollar denominated liabilities in U.S. dollars only; whereas, banks are allowed to maintain their required reserves against foreign currency denominated liabilities (other than U.S. dollars) in U.S. dollars or Euro.

From April 2013, the BRSA introduced additional reserve requirements for banks that did not meet a specified leverage ratio. Pursuant to the Communiqué Regarding Reserve Requirements which entered into force as of 17 January 2014, banks must establish additional mandatory reserves if their financial leverage ratio falls within certain intervals. Currently, the Bank's leverage ratio is above the required limit and the Bank has not been required to increase reserves to date.

On 15 August 2017, an amendment to the Regulation on Liquidity Coverage Ratios (numbered 30155) increasing the inclusion ratio of the mandatory reserves held at the Central Bank to 100% from 50% in the calculation of liquidity coverage ratios was published in the Official Gazette. The Bank does not expect this change to negatively impact its liquidity coverage ratios or the Bank's business, financial condition and/or results of operation.

### **Foreign Exchange Requirements**

The ratio of a bank's foreign exchange net position to its capital base should not exceed 20%, such calculation being required 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 and 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 shall establish audit committees for the execution of audit and monitoring functions. Audit committees shall consist of a minimum of two members who must be non-executive members of the board of directors. The duties and responsibilities of the audit committee include the supervision of the efficiency and adequacy of the banks' 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 and operate in a coordinated manner, on behalf of the board of directors. Furthermore, banks are obligated to establish, manage and develop (for themselves and all of their consolidated affiliates) internal audit, internal control and risk management systems commensurate with the scope and structure of their activities pursuant to the Internal Systems Regulation, as issued by the BRSA and published in the Official Gazette dated 11 July 2014 and numbered 29057.

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 Regarding the Independent Audit of the Banks, published in the Official Gazette on 2 April 2015, numbered 29314 (as amended from time to time). 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. With the Integral Systems Regulation, issued by the BRSA and published in the Official Gazette dated 11 July 2014 and numbered 29057, which was most recently amended on 4 March 2017, standards as to principles of internal audit and risk management systems were established in order to bring such regulations into compliance with Basel II requirements.

The reports prepared by independent audit firms are also filed with the CMB if the bank's shares are quoted on the Borsa Istanbul. 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 an annual audit by certified bank auditors who have the authority to audit banks on behalf of the BRSA under the "Regulation on Procedures and Principles of Audit to be conducted by the BRSA", published in the Official Gazette dated 22 July 2006 and numbered 26236 ("**BRSA Annual Audits**"). BRSA Annual 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 a bank. Typically, as an outcome of the BRSA Annual Audit, the Group receives a report (the "**BRSA Financial Health Report**") and has an opportunity to reply to the report before it is finalised, and, once the final report from the BRSA is finalised, makes any necessary changes required for compliance. The Central Bank has the right to monitor compliance by banks with the Central Bank's regulations through off site examinations.

## **Savings Deposit Insurance Fund**

Article 111 of the Banking Law relates to the SDIF and its principles. The SDIF is a public legal entity 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 responsible for and authorised to take measures for restructuring, transfers to third parties and strengthening the financial structures of banks, the shares of which and/or the management and control of which have been transferred to the SDIF in accordance with Article 71 of the Banking Law, as well as other duties imposed on it.

### **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.

### **Borrowings of the SDIF**

The SDIF may borrow in extraordinary situations upon an authorisation from the Treasury by borrowing Government debt securities which are issued by the Treasury where it is deemed 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.

### **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.

### **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, amount, repayment conditions, interest rates and other conditions of the advance will be determined by the Central Bank upon consultation with the SDIF.

### **Savings Deposits that are not subject to Insurance**

Deposits 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, auditors and the parents, spouses and children of the above, and deposits, participation funds and other accounts within the scope of criminally-related assets 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.

### **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.

### **Liquidation**

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

## **Claims**

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

Since 15 February 2013, deposit accounts (Turkish Lira, foreign exchange currency accounts or other accounts linked to precious metals) opened by natural persons in domestic branches are insured by the SDIF up to an amount of TL 100,000 per person, in each deposit bank.

## **Cancellation of Banking Licence**

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 the results of consolidated and unconsolidated audits indicate 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 to 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 the board of directors of such bank to take one or more of the following actions or any other actions that the BRSA deems necessary:

- 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 cease the exercise of providing loans to its shareholders;
- to dispose of its assets in order to strengthen its liquidity;
- to limit its new investments;
- to limit its salary distributions or other payments;
- to cease its long-term investments;

- to comply with the relevant banking legislation;
- to cease its risky transactions; and/or
- to take all actions to decrease any foreign exchange and interest rate risks.

In the event the aforementioned actions are not taken (in whole or in part) by that bank or its financial structure cannot be strengthened despite it 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 strengthen its financial structure, and to increase its liquidity and/or capital adequacy;
- to dispose of its fixed assets and long-term assets within a reasonable time determined by the BRSA;
- to decrease its operational and management 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; and/or
- to implement short-, medium- or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the bank.

In the event the aforementioned actions are not (in whole or in part) taken by that 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;
- to apply various restrictions, including restrictions with respect to resource collection and utilisation;
- to remove from office (in whole or in part) its board members, general manager and deputy general managers and department and branch managers;
- to make available long-term loans that will be secured by the shares or other assets of the controlling shareholders;
- to limit or cease its non-performing operations and to dispose of its non-performing assets;
- to merge with one or more other banks;
- to provide new shareholders in order to increase its equity capital; and/or
- to cover its losses with its equity capital.

In the event: (a) the aforementioned actions are not (in whole or in part) taken by that 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 jeopardise 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 jeopardised the secure functioning of the bank or caused such bank to sustain a loss as a result of such misuse, then the BRSA, with the affirmative vote of at least five of its board members, may revoke the licence 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 licence 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 licence is published in the Official Gazette. From the date of revocation of such bank's licence, 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 licence 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 and financial 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.

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

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

When the BRSA requests a bank's financial reports, the chairman of the board, the audit committee, the general manager, the deputy general manager responsible for chief 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 reports comply 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.

When the BRSA requests a bank's annual reports, the general manager, a representative of the audit committee and the deputy general manager responsible for chief financial reporting must sign the reports indicating their full names and titles and declare that the annual reports comply with relevant legislation and accounting records.

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 annual reports that comply with the BRSA's established guidelines. These reports include the following information: corporate profile, assessment by the chairman of the board and general manager, details on banking and subsidiaries' activities, management and organisation structures, financial situation, corporate governance practices, including

human resource implementations, assessment of risk management and policies and a summary of the directors' report and independent auditor's report.

The Regulation on the Preparation and Publication of Annual Reports 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 at each branch and publish it on its website by the end of May.

### **Disclosure of Financial Statements**

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

The BRSA published amendments, which entered into force on 31 March 2016, to the *Communiqué on Financial Statements* to be disclosed to the public setting forth principles of disclosure of annotated financial statements of banks in accordance with the *Communiqué on Public Disclosure regarding Risk Management of Banks* and the Equity Regulation. The amendments reflect the updated requirements relating to information to be disclosed to the public in line with the amendments to the calculation of risk-weighted assets and their implications for capital adequacy ratios, liquidity coverage ratios and leverage ratios. Rules relating to equity items presented in the financial statements were also amended in line with the amendments to the Equity Regulation. Furthermore, the changes require publication of a loan agreement of the bank or a prospectus relating to a loan or debt instrument, which will be taken into account in the calculation of the capital of a (parent company) bank as an element for additional principal capital (i.e., additional Tier 1 capital) and supplementary capital (i.e., Tier 2 capital), on the bank's website. Additionally, banks are required to make necessary disclosures on their websites immediately upon repayment of a debt instrument, depreciation or conversion of a share certificate or occurrence of any other material change.

Further, the BRSA published the *Communiqué on Public Disclosure regarding Risk Management of Banks*, which expands the scope of public disclosure to be made in relation to risk management (which entered into force on 31 March 2016) in line with the disclosure requirements of the Basel Committee. According to this regulation, each bank is required to announce information regarding their consolidated and/or unconsolidated risk management related to risks arising from or in connection with securitisation, counterparty, credit, market and its operations in line with the standards and procedures specified in this regulation. In this respect, banks are required to adopt a written policy in relation to its internal audit and internal control processes.

### **Financial Services Fee**

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

## Anti-Money Laundering Policies

Turkey is a member country of the Financial Action Task Force and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. In Turkey, all banks and their employees are obligated to implement and fulfil certain requirements regarding the treatment of activities that may be referred to as money laundering set forth in Law No. 5549 on Prevention of Laundering Proceeds of Crime (the “**Law on the Prevention of Laundering Proceeds of Crime**”).

Minimum standards and duties under the Law on the Prevention of Laundering Proceeds of Crime and related legislation in effect, namely, the “Regulations on Programme of Compliance with Obligations of Anti-Money Laundering and Combating the Financing of Terrorism” the “Regulation on Measures Regarding Prevention of Laundering Proceeds of Crime and Financing of Terrorism”, and the “Regulation on Suspension of the Transactions Pursuant to the Prevention of Laundering Proceeds of Crime” include customer identification, record keeping, suspicious transactions reporting, employee training, monitoring activities, designation of a compliance officer, and suspension of the suspicious transactions related to prevention of laundering proceeds of crime. Suspicious transactions must be reported to the Financial Crimes Investigation Board.

The Bank believes it is in full compliance with the Law on the Prevention of Laundering Proceeds of Crime and the related legislation. These regulations include requirements to have written policies and procedures on anti-money laundering and “know your customer” principles such as assigning a compliance officer, an audit and review function to test the robustness of anti-money laundering policies and procedures, monitoring customer activities and transactions and employee training.

New measures against the financing of terrorist activities in Turkey were introduced with the entry into force of Law No. 6415 on Combating the Financing of Terrorism on 16 February 2013 (the “**CFT Law**”). The CFT Law expands the scope of the offence of financing terrorism (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.

## Basel III

In December 2009, the Basel Committee published a draft proposal of a new regulatory regime for capital and liquidity standards for banks (“**Basel III**”). A comprehensive quantitative impact study was conducted by banks during the spring 2010 based on the Basel III draft proposal, and the Basel Committee issued a final comprehensive framework in December 2010. On 1 February 2013, the BRSA published draft regulations for the implementation of Basel III in Turkey. The consultation period for these draft regulations ended on 1 March 2013 and the BRSA made a public announcement on 1 July 2013 that Basel III requirements to be adopted with the regulations will be effective as of 1 January 2014. On 5 September 2013, the regulation on equities of banks (i.e. the Equity Regulation) and the amendments to the regulation on capital adequacy requirements (i.e. the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks, which regulation was later replaced by the 2016 Capital Adequacy Regulation, effective as of 31 March 2016) were published in the Official Gazette numbered 28756 both of which entered into effect on 1 January 2014. In addition to these new regulations: (a) regulation on the Capital Maintenance and Cyclical Capital Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, was published in the Official Gazette dated 5 November 2013 and numbered 28812 (the “Regulation on the Capital Maintenance and Cyclical Capital Buffer”), (b) the Regulation on the Measurement and Evaluation of Leverage Levels of Banks, through which regulation the BRSA would seek to constrain leverage in the banking system and maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks (including measurement error in the risk based capital measurement approach), was published in the Official Gazette dated 5 November

2013 and numbered 28812 (the “**Regulation on the Measurement and Evaluation of Leverage Levels of Banks**”) and (c) in order to ensure that a bank maintains an adequate level of unencumbered, high quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period, the BRSA has published the Regulation on Liquidity Coverage Ratios in the Official Gazette dated 21 March 2014 and numbered 28948. In the future, Turkish banks’ capital adequacy requirements may be further affected by the requirements of Basel III regarding regulatory capital, liquidity adequacy, leverage ratio and counterparty credit risk measurements. On 6 August 2014, the BRSA announced that a number of draft regulations, including a guide for stress tests on liquidity and regulation on the calculation of internal capital adequacy, presented for public opinion as part of BRSA’s efforts of promulgating Basel III requirements by April 2014, had been finalised and announced in the Official Gazette. On 6 September 2014 an amendment to the Equity Regulation, the draft of which was presented for public opinion in June 2014, was published in the Official Gazette and entered into force. This amendment introduced certain novelties as to BRSA’s authority to write off Tier 1 and Tier 2 debt instruments. In addition to this amendment, on 6 September 2014, an amendment to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks was published in the Official Gazette as well as other regulations as to calculation of capital adequacy as part of BRSA’s efforts to adopt Basel III requirements.

On 23 October 2015, the BRSA issued certain amendments to regulatory capital regulations with a view to align the Turkish regulatory capital regime with Basel III requirements, which are all published in the Official Gazette numbered 29511 and which are all to enter into force on 31 March 2016. Briefly these new regulations foresaw (i) certain amendments to the Equity Regulation, introducing certain clarifications to the eligibility requirements of Additional Tier 1 and Tier 2 instruments and also amending the regulatory treatment of certain capital items that are taken into account for the purposes of calculating regulatory capital of the banks; (ii) certain amendments to the Internal Systems Regulation imposing new regulatory requirements to enhance the effectiveness of the internal risk management and internal capital adequacy assessment including among others, introduction of new stress test requirements; and, (iii) the introduction of the 2016 Capital Adequacy Regulation to replace the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks. The BRSA also issued draft regulation to amend the existing equity regulation with the intention to revise the regulatory capital treatment of certain Additional Tier 1 notes and Tier 2 notes issued by Turkish banks issued before 1 January 2014 based on their issuance dates, maturity and certain terms and conditions in accordance with Basel III requirements.

On 23 February 2016, the BRSA issued the domestic systemically important banks (“**D-SIBs**”) regulation introducing a methodology for assessing the degree to which banks are systemically important in the domestic market. The contemplated methodology requires the identification of the Turkish D-SIBs under four different categories based on their 2014 year-end consolidated financial statements, and requires the banks falling within these categories to hold 1% to 3% of additional core capital (*ilave çekirdek sermaye*) of their total risk-weighted assets. This additional core capital requirement entered into effect on 31 March 2016, subject to a transition period as set out below.

Groups	D-SIBs Buffer Ratios (%)			
	2016	2017	2018	from 1 January 2019
4th group (empty)	0.75	1.5	2.25	3
3rd group	0.5	1	1.5	2
2nd group	0.375	0.75	1.125	1.5
1st group	0.25	0.5	0.75	1

As of the date of this Base Prospectus, the Bank is classified in the second group, although the Bank expects be classified into the first group as of 1 January 2020, resulting in a decrease of 50 bps with respect to its required D-SIBs buffer ratio.

The Basel III framework includes several key initiatives, which change the capital adequacy framework the Basel Committee previously published in 1999 (“**Basel II**”). The key changes are, among others:

The quality, consistency and transparency of the capital base are increased. In the new framework, the regulatory deductions should mainly be applied to the common equity component of the capital base. Further, to be eligible as Tier 1 and Tier 2 capital, instruments will need to meet more stringent requirements.

The risk coverage is further strengthened, which impacts the calculations of risk-weighted assets. These changes concern increased capital requirement for trading book and re securitisation activities, and were implemented in December 2011 throughout Europe. Further changes, to be implemented from 2013, are proposed under the Basel III framework for counterparty credit risk in OTC instruments and exposures to banks and other financial intermediaries. In particular, a new capital requirement is proposed for risk of changes in the credit value adjustment.

New minimum requirements and capital buffer requirements are increased. The Basel Committee has defined increased minimum thresholds that banks should at all times exceed, that is, minimum 4.5% common equity Tier 1 ratio, 6% Tier 1 ratio and 8% capital ratio. In addition, the Basel III framework introduces a capital conservation buffer of 2.5% on top of these minimum thresholds. If banks do not meet this buffer, constraints will be imposed on the bank’s capital distribution, such as dividends. Also, in periods of excess growth, banks will be required to hold an additional countercyclical buffer of up to 2.5% in order not to face restrictions.

As the quality of the capital base is already high with common equity constituting the majority of the capital base, the Bank expects that the impact of the Basel III framework on its capital base will be limited and believes that it is already in compliance with the capital requirements set forth within the Basel III framework.

The Basel Committee has also proposed that the risk sensitive capital framework should be supplemented with a non risk based measure, the leverage ratio. The leverage ratio will be calculated as the Tier 1 capital divided by the exposure (on and off balance sheet exposures, with certain adjustments for selected items such as derivatives). A minimum leverage ratio of 3% will be evaluated during a parallel run period. Another new key component of the Basel III framework is the introduction of increased regulations for liquidity risks. The objective of the liquidity reform is to improve the banking sector’s ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy. The Basel Committee has developed two new quantitative liquidity standards as part of the Basel III framework, which are the liquidity coverage ratio (“**LCR**”) and the net stable funding ratio (“**NSFR**”). The LCR aims to ensure that a bank maintains an adequate level of unencumbered, high quality assets that can be converted into cash to meet its liquidity needs for a 30-day time horizon under an acute liquidity stress scenario. The NSFR, on the other hand, establishes a minimum acceptable amount of stable funding, based on the liquidity characteristics of an institution’s assets and activities over a one-year horizon. These standards aim to set the minimum levels of liquidity for internationally active banks.

### **Liquidity Coverage Ratio (LCR)**

LCR is a metric measuring the adequacy of unencumbered free liquid assets (“**High quality liquid assets**”) to meet expected net cash flows over the next 30 days. LCR is an important Basel regulation metric that measures short-term liquidity and is closely monitored in the Group.

High quality liquid assets included in the LCR calculation consist of cash, effective money, CBRT accounts and reserves and debt instruments issued by the Treasury of the Republic of Turkey which are treated as high quality liquid assets.

Cash outflows from derivative transactions in the LCR calculation are based on inclusion of net cash flows with maturity of 30 days in the calculation. Additionally, transactions having a margin possibility are included in LCR calculation by taking the largest amount according to absolute value of net margin flows realized in the last 24 months in respect the of 30-days period or for liability into consideration as cash outflow.

Secured funding consists of repo and secured loan transactions. A large part of securities which are subject of guaranteed funding transactions consist of Sovereign Bonds issued by Treasury of the Republic of Turkey and transactions are carried out both in the CBRT market and interbank market.

All cash inflow and outflow items related to liquidity profile of the Bank are included in liquidity coverage ratio tables below. The Group's LCR based on the simple average of the last nine months LCR for 30 September 2019 was 176.41%. The table below shows the calculation of LCR for the periods indicated:

	30 September 2019 <sup>(1)</sup>				31 December 2018 <sup>(1)</sup>			
	Unweighted Amounts		Weighted Amounts		Unweighted Amounts		Weighted Amounts	
	TL+FC	FC	TL+FC	FC	TL+FC	FC	TL+FC	FC
<b>High Quality Liquid Assets</b>								
High Quality Liquid Assets .....			81,640,846	42,208,954			72,363,955	44,615,297
<b>Cash Outflows</b>								
Retail and Small Business Customers Deposits	131,486,610	69,833,672	11,859,472	6,983,266	117,062,064	56,132,353	10,549,624	5,613,177
Stable deposits .....	25,783,783	2,015	1,289,189	101	23,131,651	1,161	1,156,583	58
Less stable deposits .....	105,702,827	69,831,657	10,570,283	6,983,165	93,930,413	56,131,192	9,393,041	5,613,119
Unsecured Funding other than Retail and Small Business Customers Deposits .....	85,307,593	45,062,803	47,555,340	21,680,689	91,519,027	56,615,062	50,542,765	28,231,119
Operational deposits	—	—	—	—	—	—	—	—
Non-Operational deposits .....	65,433,619	41,121,242	30,796,829	17,739,127	70,939,732	49,721,502	32,717,588	21,338,775
Other Unsecured funding .....	19,873,974	3,941,561	16,758,511	3,941,562	20,579,295	6,893,560	17,825,177	6,892,344
Secured funding .....	—	—	43,746	32,410	—	—	70,039	69,517
Other Cash Outflows .....	2,379,309	2,379,309	2,379,309	2,379,309	9,572,692	16,589,239	9,572,692	16,589,239
Liquidity needs related to derivatives and market valuation changes on derivatives transactions .....	2,379,309	2,379,309	2,379,309	2,379,309	9,572,692	16,589,239	9,572,692	16,589,239
Debts related to the structured financial products .....	—	—	—	—	—	—	—	—
Commitment related to debts to financial markets and other off balance sheet liabilities...	—	—	—	—	—	—	—	—
Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments .....	92,964,085	64,902,301	4,648,204	3,245,115	95,711,522	67,934,687	4,785,576	3,396,734
Other irrevocable or conditionally revocable commitments .....	80,743,257	17,312,887	8,525,530	4,127,624	78,407,939	17,588,666	6,129,908	1,277,846
<b>Total Cash Outflows .....</b>			<b>75,011,601</b>	<b>38,448,413</b>			<b>81,650,604</b>	<b>55,177,632</b>
<b>Cash Inflows</b>								
Secured Lending Transactions .....	—	—	14,920	—	—	—	467	—
Unsecured Lending Transactions .....	35,313,782	21,119,057	28,091,515	19,052,947	35,311,991	19,588,304	26,372,518	16,764,278
Other Contractual Cash Inflows .....	626,784	21,895,435	626,783	21,895,435	2,183,137	18,712,637	2,183,137	18,712,637
<b>Total Cash Inflows .....</b>	<b>35,940,566</b>	<b>43,014,492</b>	<b>28,733,218</b>	<b>40,948,382</b>	<b>37,495,128</b>	<b>38,300,940</b>	<b>28,556,122</b>	<b>35,476,915</b>
<b>Capped Amounts</b>								
<b>Total High Quality Liquid Assets .....</b>			<b>81,640,846</b>	<b>42,208,954</b>			<b>72,363,955</b>	<b>44,615,297</b>
<b>Total Net Cash Outflows .....</b>			<b>46,278,383</b>	<b>9,612,103</b>			<b>53,094,483</b>	<b>19,700,717</b>
<b>Liquidity Coverage Ratio (%) .....</b>			<b>176,41</b>	<b>439,12</b>			<b>136,29</b>	<b>226,47</b>

(1) Figures are calculated based on the simple average between figures for the last three months.

## Loan-Deposit Spreads and Loan Yields

The table below shows the calculation of Loan-Deposit Spreads and Loan Yields as of 30 September 2019 and 30 September 2018:

	30 September 2019	30 September 2018
	<i>(TL thousands, except %)</i>	
<b>Daily Annualisation .....</b>	20,789,097	17,634,523
<b>Interest income on Performing Loans .....</b>	16,200,674	13,175,624
TL .....	215,803,514	238,837,899
<b>Total Performing Loans .....</b>	126,595,915	126,243,565
TL .....	214,179,561	215,860,237
<b>Average Performing Loans<sup>(1)</sup> .....</b>	123,429,232	124,946,443
TL .....	13.0%	10.9%
Performing Loan Yield .....	17.5%	14.1%
TL Performing Loan Yield .....	12,538,346	9,249,230
<b>Interest cost on Deposits .....</b>	10,667,621	7,278,001

TL.....	210,943,701	211,023,507
<b>Deposits</b> .....	94,107,101	90,477,463
TL.....	206,746,418	190,185,362
<b>Average Deposits<sup>(1)</sup></b> .....	<u>93,444,559</u>	<u>83,205,786</u>
TL.....	8.1%	6.5%
Cost of Deposit .....	15.3%	11.7%
Cost of Deposit (TL).....	4.9%	4.4%
Performing Loan - Deposit spreads .....	2.3%	2.4%
Performing Loan - Deposit spreads (TL).....	20,789,097	17,634,523

(1) Average figures are calculated as the average between the figures for the beginning and end of the period.

## Personal Data Protection

The Law on Protection of Personal Data (“**Law No. 6698**”) was accepted on 24 March 2016 and published in the Official Gazette dated 7 April 2016 and No. 29677. A majority of the provisions of Law No. 6698 became effective from 7 April 2016.

Under Law No. 6698, the main requirement to collect and process personal data is to obtain explicit consent of the person whose data will be collected and processed (the “**Data Subject**”). However, personal data can also be collected and processed without the Data Subject’s consent if any of the conditions stated below exists:

- if collection and processing is permitted by any specific law provision;
- if the Data Subject is under a circumstance that prevents him/her from providing consent (due to an actual impossibility or lack of legal capacity) and processing is mandatory for the protection of the Data Subject’s or third parties’ life or physical integrity;
- if processing is necessary for the formation or performance of a contract to which the Data Subject is a party;
- if processing is mandatory for a data controller to perform his/her legal duties;
- if personal data has been made available to the public by the Data Subject himself/herself;
- if processing is mandatory for assigning, using or protecting a right; and
- if processing is necessary for purposes within the scope of work and services provided by the data controller, which are considered by Turkish law its “legitimate interest”, provided that the fundamental rights and freedoms of the Data Subject are protected.

Any personal data that is related to a Data Subject’s race, ethnicity, political views, philosophical beliefs, religion, sect or other beliefs, appearance and way of dressing, association, foundation or union memberships, information related to health, sex life, past criminal convictions and biometric data are considered sensitive personal data. Under Law No. 6698, sensitive personal data may only be processed upon the Data Subject’s explicit consent. The conditions to legally process sensitive personal data are as follows:

- obtaining explicit consent of the Data Subject; and
- taking necessary precautions determined by the data protection board of the Republic of Turkey (the “**Data Protection Board**”).

However, explicit consent of the Data Subject is not required to legally process the above noted sensitive data under any of the conditions set out below:

- sensitive data, except for data concerning health and sexual life, can be processed if explicitly permitted by law;
- data concerning health or sexual life can only be processed for the purposes of protection of public health and planning or sustaining healthcare services by an authorised body or persons who are under an obligation of confidentiality;
- collection and processing is permitted by any specific law provision; and
- collection and processing is mandatory for assigning, using or protecting a right.

According to Law No. 6698, personal data may only be transferred to third parties with the Data Subject's explicit consent. In the absence of such consent, personal data may still be transferred to third parties if the conditions mentioned above for the processing of personal and sensitive data are met.

Personal data can also be transferred to third countries with the explicit consent of the Data Subject. In the absence of such consent, personal data may still be transferred to third countries if the conditions mentioned above for the processing of personal and sensitive data are met and the laws of the country to which the personal data will be transferred adequately protect personal and sensitive data.

In case there is no adequate legal protection for personal and sensitive data in the third country, the data controllers in Turkey and in the relevant country must undertake in writing to adequately protect such data and the Data Protection Board must also approve such transfer. The Data Protection Board determines the list of countries which adequately protect and to which personal data may be transferred without the explicit consent of the Data Subject.

All personal data processed or collected before the enactment of Law No. 6698 is required to be brought in conformity with the Articles of Law No. 6698 within two years.

## **Foreign Exchange Legislation**

### *F/X Loan Restriction*

Decree 32 was amended, effective as of 2 May 2018, in order to introduce new restrictions on Turkish corporates utilising foreign currency loans from Turkey and outside of Turkey. While the new regime continues to maintain the existing prohibition on Turkish individuals utilising foreign exchange (“F/X”) loans and foreign exchange indexed loans, it further introduces a strict prohibition on Turkish non-bank corporates (“**Corporate Borrower**”) utilising foreign currency indexed loans and also brings in new restrictions on Corporate Borrowers utilising foreign currency loans (“**F/X Loan Restriction**”).

Accordingly, a Corporate Borrower shall only be permitted to utilise foreign currency loans if: (i) it generates foreign currency-denominated revenue (which is defined as “the revenue derived from export, transit trade, sales and deliveries considered as export and foreign currency generating activities” in the new legislation) (the “**F/X Revenue Exemption**”); (ii) the purpose of the loan is to finance an activity that is exempt from the F/X Loan Restriction (the “**Activity Exemption**”); or (iii) if as of 2 May 2018, the unpaid outstanding balance of its total foreign currency loans and/or foreign currency indexed loans (“**Loan Balance**”) is more than U.S.\$15 million.

As far as the F/X Revenue Exemption is concerned, if the Loan Balance of a Corporate Borrower is below U.S.\$15 million, the sum of the foreign currency loan to be utilised and the existing Loan Balance must not be more than the combined value of its foreign currency revenues as



stated in its financial statements for the last three years. The Turkish-resident financial institutions are obliged to control whether such Corporate Borrower complies with this rule. If not, the Turkish-resident financial institutions are obliged to either cancel or convert into Turkish Lira, the portion of the foreign currency loan that exceeds this value.

In respect of the Activity Exemption, a legal entity must qualify as a public institution, bank, factoring, financial leasing or financing company resident in Turkey in order to utilise foreign currency loans. In the case of Corporate Borrowers, the Activity Exemption must relate to an activity in the context of, among others: (i) a domestic tender with an international element awarded to such Corporate Borrower; (ii) defence industry projects approved by the Undersecretariat of Defence Industry; (iii) public private partnership projects; or (iv) an export, transit trade, sales and related deliveries subject to the relevant Corporate Borrower certifying the scope of its relevant activity and its potential sources of foreign currency revenues (*muhtemel döviz geliri*). Note that in order for a Corporate Borrower to benefit from the Activity Exemption summarised in item (iv), it must not have any foreign currency revenue within the last three financial years (which otherwise, would be subject to the F/X Revenue Exemption) and the maximum amount of foreign currency loan such Corporate Borrower can utilise is limited to the amount stated in its certified sources of foreign revenue. The Ministry of Treasury and Finance is entitled to extend the scope of the Activity Exemption, and has exercised such authority and included, among others, privatisation tenders, public tenders awarded with an FX consideration and unlicensed electricity generation projects within this scope.

#### *F/X Transaction Restriction*

Pursuant to a presidential decree (No: 85) (the “**Presidential Decree**”) published on 13 September 2018, Decree 32 was amended. Accordingly, except for certain exemptions determined by the Ministry of Treasury and Finance (the “**Ministry**”), the contract price and all other payment obligations under (i) sale, purchase, and lease agreements (including financial lease) concerning movable and immovable properties, (ii) employment, (iii) service, and (iv) construction agreements entered into between Turkish and non-Turkish real and legal persons resident in Turkey must be based on Turkish Lira.

In other words, the Presidential Decree precluded Turkish and non-Turkish real and legal persons resident in Turkey from determining, or indexing to, the contract price or other payment obligations in foreign currency with regards to the aforementioned transactions.

Further, a 30-day transition period was envisaged by the Presidential Decree for the Turkish and non-Turkish real and legal persons resident in Turkey to amend their existing agreements which fall within the scope of the restrictions such that the contract price and all other payment obligations thereunder must be re-determined in Turkish Lira.

The Ministry determined on 6 October 2018 the exact scope of the restrictions above introduced by the Presidential Decree, by way of setting out the restrictions and exemptions on a contract type basis. The said restrictions and exemptions were further fleshed out by way of amendments to the Communiqué 2008-32/34 regarding Decree 32 on 16 November 2018. Among other exemptions, capital markets instruments (including the Covered Bonds) are exempted from this new set of restrictions. Accordingly, issuance, purchase and sales of capital market instruments in accordance with the Capital Markets Law No. 6362 and its secondary legislation; as well as determination of obligations in connection therewith, may be denominated in, or indexed to, foreign currency.

The impact of Decree 32 may have a negligible negative impact in the short term, but the Group’s management believes that this is a prudent action in the mid to long term in order to reduce the dependency of the Turkish economy on the U.S. dollar and to de-dollarise the Turkish economy.

## Caps on Credit Card Interest Rates and POS Commission Rates

The Central Bank adjusts from time to time the monthly cap on individual credit card interest rates, which was reduced most recently on 6 April 2019 from 2.25% to 2.15% to 2.0% on 29 June 2019 and to 1.60% on 28 September 2019. Further, on 16 October 2019, the Central Bank introduced an amendment to the Communiqué on Deposit and Loan Interest Rates and Participation Accounts Profit and Loss Participation Rates and Benefits in Credit Transactions Other than Interest (*Mevduat ve Kredi Faiz Oranları ve Katılma Hesapları Kâr ve Zarara Katılma Oranları ile Kredi İşlemlerinde Faiz Dışında Sağlanacak Diğer Menfaatler Hakkında Tebliğ*) published in the Official Gazette dated 9 December 2006 and numbered 26371 (the “**Communiqué on Deposit and Loan Interest Rates**”), capping the commission rates applied by the banks in their point of sale (“**POS**”) business. As per the Communiqué on Deposit and Loan Interest Rates, from 1 November 2019 onwards, the POS commission rates applied by the banks in goods and service purchases are capped with 1.6%, if the amounts from such purchases are transferred by the banks to the merchant’s disposal the day following the transaction. In the event that such purchase is made in instalments, for each additional instalment, this cap is increased by 0.89%. If the amounts from such purchases are not transferred by the banks to the merchant’s disposal the day following the transaction, such cap for commission rates are decreased by taking into account the number of days between the day of the transaction and the day on which the amounts from such purchases are transferred by the banks to the merchant’s disposal.

## Recent Amendments to the Turkish Insolvency and Restructuring Regime

The Enforcement and Bankruptcy Law No. 2004 prevents a contractual arrangement by which a contractual event of default clause is stipulated to be triggered in case any application is made by a Turkish company for debt restructuring upon settlement (*uzlaşma yoluyla yeniden yapılandırma*) within the scope of this law. In addition, changes were introduced to this law on 15 March 2018 that (inter alia) states that the contractual termination, default and acceleration clauses of an agreement cannot be triggered in case the debtor makes a concordat application and such application shall not constitute a breach of such agreement.

On 15 August 2018, the BRSA published the Regulation on Restructuring of Debts in the Financial Sector (the “**Restructuring Regulation**”) pursuant to which a framework agreement (the “**Framework Agreement**”) was drafted by the Banks Association of Turkey. On 19 September 2018, the Banks Association of Turkey announced that Turkish banks (including the Bank) and other financial institutions, whose shares correspond to approximately 90% of the total loans in the market, executed the Framework Agreement, which entered into force on the same date following the approval of the BRSA. The main aim of the regulation is to enhance the repayment ability of debtors in repaying their debts to the financial sector in order for these companies to sustain their operations and contribute to the employment in Turkey. The Framework Agreement determined: (a) the scope of debts to be restructured, (b) the minimum qualifications of the eligible debtors, (c) the minimum debt amount to be restructured, (d) the content of the restructuring agreements and (e) the procedure to determine a debtor’s eligibility, which is the capacity of a debtor to repay its debts following the restructuring process in line with the repayment schedule. According to the Framework Agreement, debtors that have a principal debt of more than TL 100 million (including cash and non-cash debt) are eligible to apply to restructure their debts. According to the Framework Agreement, the eligible debtor(s) and the applicable credit institutions may sign a restructuring agreement at any time through 19 September 2020. As such, certain borrowers of the Bank might apply for restructuring of their debt.

In this respect, eligible creditors (the “**Eligible Creditors**”) that have signed or will be signing the Framework Agreement will constitute a creditors’ consortium and, to the extent that a debtor is able to meet certain eligibility conditions set out in the Restructuring Regulation and the Framework Agreement (together the “**New Restructuring Framework**”), it will have the right to apply to one of the three Eligible Creditors carrying the highest three exposures to initiate the restructuring process. Pursuant to the Framework Agreement, when a debtor makes an application for

restructuring, there is a minimum 90-day standstill period, which can be extended to 150 days. If the restructuring agreement is signed, then, during the standstill period, all enforcement actions by the respective Eligible Creditors that sign the Framework Agreement are suspended and no new enforcement action can be initiated by such Eligible Creditors against such debtor. The debtor and any related party (including such debtor's subsidiaries, other affiliates and their respective shareholders) are under the "equal treatment" principle during the standstill period, which requires them not to favour any Eligible Creditor over any other Eligible Creditor. Following the negotiations, if a restructuring protocol is entered into between such number of Eligible Creditors representing at least two-thirds of the outstanding debt of the debtor that has been agreed to be restructured under the Framework Agreement, then all Eligible Creditors that have signed the Framework Agreement must restructure their loans to such debtor. According to the New Restructuring Framework, a restructuring protocol may (*inter alia*) provide for a reduction of restructured debt, extension of maturities of the restructured debt, extension of new money loans, introduction of new framework for the governance of the debtor, injection of shareholder equity contribution, disposal of certain part of the business of the debtor and the provision of additional collaterals.

The Restructuring Regulation was further amended on 21 November 2018 to enable foreign credit institutions to participate in the restructuring process under the Framework Agreement. According to the Restructuring Regulation, only debtors that are expected to gain the financial ability to repay their obligations in a reasonable period of time are allowed to benefit from financial restructuring. To this end, the solvency of such debtors that would like to benefit from a restructuring scheme is to be determined by the entities specified in the Framework Agreement. Furthermore, the Banking Law has been amended on 19 July 2019 to incorporate, among others, a provisional article which forms the legislative basis of the Restructuring Regulation. Such amendments contemplate certain tax exemptions for, and suspension of execution proceedings against, debtors subject to restructuring, as well as a provision which states that reduction of collateral pool, write off of principal or other receivables or such other actions taken by banks to effectuate the restructuring of loans shall not constitute embezzlement offence set out under Article 160 of the Banking Law.

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this “Book-Entry Clearance Systems” section concerning the Clearing Systems has been obtained from sources that the Bank’s management believes to be reliable, but neither the Bank nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

*Pursuant to the Debt Instruments Communiqué, the Issuer is required to inform the Central Securities Depository within three Istanbul Business Days from the Issue Date of a Tranche of Covered Bonds of the amount, Issue Date, ISIN (if any), interest commencement date, maturity date, interest rate, name of the custodian and currency of such Covered Bonds and the country of issuance.*

### Book-entry Systems

#### *DTC*

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the U.S. Securities Exchange Act of 1934, as amended. DTC holds securities that its direct participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**” and, together with Direct Participants, “**Participants**”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “**DTC Rules**”), DTC makes book-entry transfers of Registered Covered Bonds among Direct Participants on whose behalf it acts with respect to Covered Bonds accepted into DTC’s book-entry settlement system (“**DTC Covered Bonds**”) as described below and receives and transmits distributions of principal and interest on DTC Covered Bonds. The DTC Rules are on file with the SEC. Participants with which beneficial owners of DTC Covered Bonds (“**Beneficial Owners**”) have accounts with respect to the DTC Covered Bonds similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Beneficial Owners. Accordingly, although Beneficial Owners who hold interests in DTC Covered Bonds through Participants will not possess Registered Covered Bonds, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Covered Bonds.

Purchases of DTC Covered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Covered Bonds on DTC’s records. The ownership interest of each Beneficial Owner is in turn to be recorded on the relevant Direct Participant’s and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of each transaction, as well as periodic statements of their holdings,

from the Participant through which the Beneficial Owner holds its interest in the DTC Covered Bonds. Transfers of ownership interests in the DTC Covered Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Covered Bonds, except in the event that use of the book-entry system for the DTC Covered Bonds is discontinued.

To facilitate subsequent transfers, all DTC Covered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Covered Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Covered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Covered Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Covered Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Covered Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Issuer as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Covered Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal and interest payments on the DTC Covered Bonds will be made to DTC or its nominee. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC or its nominee is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Participants.

Under certain circumstances, including if there is an Event of Default under the Covered Bonds, DTC will exchange the DTC Covered Bonds for definitive Registered Covered Bonds, which it will distribute to its Direct Participants in accordance with their requests and proportionate entitlements and that will be legended as set forth under "*Subscription and Sale and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge its interest in DTC Covered Bonds to persons or entities that do not participate in DTC, or otherwise take action with respect to such DTC Covered Bonds, will be required to effect such pledge through DTC and its Participants or, if not possible to so effect it, to withdraw its Registered Covered Bonds from DTC as described below.

The laws in some jurisdictions might require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer an interest in Covered Bonds represented by a Registered Global Covered Bond to such persons might depend upon the ability to

exchange such interest for Covered Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to pledge such interest to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Covered Bonds may depend upon the ability to exchange such interest for Covered Bonds in definitive form. The ability of any holder of Covered Bonds represented by a Registered Global Covered Bond accepted by DTC to resell, pledge or otherwise transfer such interests might be impaired if the proposed transferee of such interests is not eligible to hold such interests through a Participant.

### ***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 U.S. dollars and Turkish Lira. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in several countries through established depository and custodial relationships.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the *Commission de Surveillance du Secteur Financier* and the *Banque Centrale du Luxembourg*, which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg's customers are recognised financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream, Luxembourg and Euroclear.

The ability of an owner of a beneficial interest in a Covered Bond held through Clearstream, Luxembourg to pledge such interest to persons or entities that do not participate in the Clearstream, Luxembourg system, or otherwise take action in respect of such interest, may be limited by the lack of a Definitive Covered Bond for such interest because Clearstream, Luxembourg can act only on behalf of Clearstream, Luxembourg's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions might require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Covered Bonds to such persons may be limited. In addition, beneficial owners of Covered Bonds held through the Clearstream, Luxembourg system will receive payments of principal, interest and any other amounts in respect of the Covered Bonds only through Clearstream, Luxembourg accountholders.

### ***Euroclear***

Euroclear holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between its accountholders. Euroclear provides various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear also deals with domestic securities markets in several countries through established depository and custodial relationships. Euroclear customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear is available to other institutions that clear through or maintain a custodial relationship with accountholders in Euroclear.

The ability of an owner of a beneficial interest in a Covered Bond held through Euroclear to pledge such interest to persons or entities that do not participate in the Euroclear system, or otherwise take action in respect of such interest, may be limited by the lack of a Definitive Covered Bond for such interest because Euroclear can act only on behalf of Euroclear's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions might require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Covered Bonds to such persons may be limited. In addition, beneficial owners of Covered Bonds held through the Euroclear system will receive payments of principal, interest and any other amounts in respect of the Covered Bonds only through Euroclear accountholders.

### **Book-entry Ownership of and Payments in respect of Global Covered Bonds**

The Issuer has applied to each of Euroclear and Clearstream, Luxembourg to have Global Covered Bond(s) accepted in its book-entry settlement system. Upon the issue of any such Global Covered Bond, Euroclear and/or Clearstream, Luxembourg, as applicable, will credit, on its internal book-entry system, the respective nominal amounts of the interests represented by such Global Covered Bond to the accounts of persons who have accounts with Euroclear and/or Clearstream, Luxembourg, as applicable. Such accounts initially will be designated by or on behalf of the relevant Dealer or investor. Interests in such a Global Covered Bond through Euroclear and/or Clearstream, Luxembourg, as applicable, will be limited to accountholders of Euroclear and/or Clearstream, Luxembourg, as applicable. Interests in such a Global Covered Bond will be shown on, and the transfer of such interests will be effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg or its nominee (with respect to the interests of direct Euroclear and/or Clearstream, Luxembourg accountholders) and the records of direct or indirect Euroclear and/or Clearstream, Luxembourg accountholders (with respect to interests of indirect Euroclear and/or Clearstream, Luxembourg accountholders).

Payments with respect to interests in the Covered Bonds held beneficially through Euroclear and Clearstream, Luxembourg will be credited to cash accounts of Euroclear and Clearstream, Luxembourg accountholders in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg, respectively, to the extent received by each of them.

The Issuer may apply to DTC in order to have any Tranche of Covered Bonds represented by a Registered Global Covered Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Covered Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Covered Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer or investor. Ownership of beneficial interests in such a Registered Global Covered Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Registered Global Covered Bond, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Covered Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Covered Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Covered Bond. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Fiscal Agent on behalf of DTC or its nominee and the Fiscal Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Covered Bond in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Covered Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Fiscal Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Covered Bonds to DTC is the responsibility of the Issuer.

### **Transfers of Covered Bonds Represented by Registered Global Covered Bonds**

Transfers of any interests in Covered Bonds represented by a Registered Global Covered Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under “*Subscription and Sale and Selling Restrictions*”, cross-market transfers between Participants in DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian (“**Custodian**”) with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Covered Bonds of such Series between account holders in Clearstream, Luxembourg and Euroclear and transfers of Covered Bonds of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and Participants in DTC will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Covered Bonds will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC Participants cannot be made on a delivery-versus-payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and account holders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or 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 Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.



## TAXATION

*The following summary of certain Turkish and other tax considerations in connection with an investment in the Covered Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Base Prospectus, all of which are subject to change (possibly with retroactive effect). This summary does purport to be a comprehensive description of all the tax considerations that may be relevant in connection with an investment in the Covered Bonds and does not purport to discuss all of the tax consequences that might be relevant to an investor in light of such investor's particular circumstances or to investors subject to special rules. Persons considering an investment in the Covered Bonds should consult their own tax advisers concerning the tax consequences of such investment in the Covered Bonds.*

### General

Prospective purchasers of Covered Bonds are advised to consult their tax advisers as to the consequences, under the tax laws of the countries of their respective citizenship, residence or domicile, of a purchase of Covered Bonds, including, but not limited to, the consequences of receipt of payments under the Covered Bonds and their disposal or redemption.

### Certain Turkish Tax Considerations

The following discussion is a summary of certain Turkish tax considerations relating to an investment by a person who is a non-resident of Turkey in notes (including any covered bonds) 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 Covered Bonds that may be relevant to a decision to make an investment in the Covered Bonds. Furthermore, the discussion only relates to the beneficial interest of a person in the Covered Bonds where the Covered Bonds will not be held in connection with the conduct of a trade or business through a permanent establishment in Turkey. Each investor should consult its own tax advisers concerning the tax considerations applicable to its particular situation. This discussion is based upon laws and relevant interpretations thereof in effect as of the date of this Base Prospectus, all of which are subject to change, possibly with a retroactive effect. In addition, it does not describe any tax consequences: (a) arising under the laws of any taxing jurisdiction other than Turkey; or (b) applicable to a resident of Turkey or a permanent establishment in Turkey resulting either from the existence of a fixed place of business or appointment of a permanent representative.

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile is in Turkey or its effective place of management is in Turkey. A resident legal entity is subject to Turkish taxes on its worldwide income, whereas a non-resident legal entity is only liable for Turkish taxes on its trading income made through a permanent establishment or on income otherwise sourced in Turkey.

An individual is a resident of Turkey if such individual has established domicile in Turkey or stays in Turkey for more than six months in a calendar year. On the other hand, foreign individuals who stay in Turkey for six months or more for a specific job or business or particular purposes that are specified in the Turkish Income Tax Law (Law No. 193) (the “**Turkish Income Tax Law**”) may not be treated as a resident of Turkey, depending on the characteristics of their stay. A resident individual is liable for Turkish taxes on his or her worldwide income, whereas a non-resident individual is only liable for Turkish taxes on income sourced in Turkey.

Income from capital investment is sourced in Turkey when the principal is invested in Turkey. Capital gain is considered sourced in Turkey when the activity or transaction generating such income is performed or accounted for in Turkey. The term “accounted for” means that a payment is made in Turkey or, if the payment is made abroad, it is recorded in the books in Turkey or

apportioned from the profits of the payer or the person on whose behalf the payment is made in Turkey.

Any withholding tax levied on income derived by a non-resident person is the final tax for the non-resident person and no further declaration is required. Any other income of a non-resident person sourced in Turkey that has not been subject to withholding tax will be subject to taxation through declaration where exemptions are reserved.

Interest paid on notes (including any covered bonds) issued abroad by Turkish corporates is subject to withholding tax. Through the Tax Decrees, the withholding tax rates are set according to the original maturity of notes (including covered bonds) issued abroad as follows:

- 7% withholding tax for covered bonds with an original maturity of less than one year;
- 3% withholding tax for covered bonds with an original maturity of at least one year and less than three years; and
- 0% withholding tax for covered bonds with an original maturity of three years and more.

In general, capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the Covered Bonds may be subject to declaration. However, pursuant to Provisional Article 67 of the Turkish Income Tax Law, as amended by Law No. 6111, special or separate tax returns will not be submitted for capital gains from the notes (including covered bonds) of a Turkish corporate issued abroad when the income is derived by a non-resident. Therefore, no tax is levied on non-resident persons in respect of capital gains from the Covered Bonds and no declaration is required. Provisional Article 67 is valid until the end of 2020.

A non-resident holder will not be liable for Turkish estate, inheritance or similar tax with respect to its investment in the Covered Bonds, nor will it be liable for any Turkish stamp issue, registration or similar tax or duty relating thereto.

In the case of early redemption of any Covered Bonds for taxation reasons, the redemption date might be considered to be the maturity date of those Covered Bonds and (if so) higher withholding tax rates might apply accordingly.

### ***Reduced Withholding Tax Rates***

Under current Turkish laws and regulations, interest payments on notes (including covered bonds) issued abroad by a Turkish corporate to a non-resident holder will be subject to a withholding tax at a rate between 7% and 0% in Turkey, as detailed above.

If a double taxation treaty is in effect between Turkey and the country of the holder of the notes (including covered bonds) (in some cases, for example, pursuant to the treaties with the United Kingdom and the United States, the term “beneficial owner” is used), which 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 tax at a reduced rate that benefits from the provisions of a double tax treaty concluded between Turkey and the country 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 applicable treaty is required, together with a translated copy translated by a translation office, to verify that the investor is subject to taxation over its worldwide gains in the relevant country on the basis of resident taxpayer status, as a resident of such country to the related tax office directly or through the banks and intermediary institutions prior to the application of withholding tax. In the event the certificate of residence is not delivered prior to the application of withholding tax, then upon the subsequent delivery of the certificate of residence, a refund of the excess tax shall be granted pursuant to the provisions of the relevant double taxation treaty and the Turkish tax legislation.

### ***Amendments to certain tax laws***

“The Law Introducing Amendments to Certain Tax Laws and Some Other Laws” No. 7061 (“**Law No. 7061**”) was published in the Official Gazette dated 5 December 2017 and has come into force, except for certain articles with different dates. Provisional Article 10 has been added to the Corporation Tax Law with Article 91 of Law No. 7061. Provisional Article 10 has increased the corporate income tax rate for all companies from 20% to 22% for the 2018, 2019 and 2020 fiscal years.

### ***Value Added Tax***

Bond issuances and interest payments on notes (including covered bonds) are exempt from value added tax pursuant to the Article 17/4(g) of the Value Added Tax Law (Law No. 3065), as amended by the Turkish Tax Bill Regarding Improvement of the Investment Environment (Law No. 6728), published in the Official Gazette dated 9 August 2016 and No. 29796.

### **The Proposed Financial Transactions Tax**

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transactions tax (“**FTT**”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has a very broad scope and could, if introduced, apply to certain dealings in Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds is, however, expected to be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states may decide to participate.

Prospective holders of Covered Bonds are advised to seek their own professional advice in relation to the FTT.

### **Foreign Account Tax Compliance Act (FATCA) Withholding**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including Turkey) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant

to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, such withholding would not apply prior to 1 January 2019 and Covered Bonds issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. However, if additional Covered Bonds (as described under Condition 18 (*Further Issues*) of the Conditions) that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Covered Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Covered Bonds, no person will be required to pay additional amounts as a result of the withholding.

## SUBSCRIPTION AND SALE AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement dated 21 October 2016 (as amended and restated on 24 January 2018 and on or about the date of this Base Prospectus, the “**Programme Agreement**”), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds. Any such agreement will extend to those matters stated under “*Form of the Covered Bonds*” and “*Terms and Conditions of the Covered Bonds*”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme. Subject to the terms agreed for any specific Tranche of Covered Bonds, the Issuer has agreed to reimburse any relevant Dealer(s) for certain expenses in connection with the issue of a Tranche of Covered Bonds under the Programme and to indemnify any relevant Dealer(s) against certain liabilities which may be incurred by them in connection therewith.

### Selling Restrictions

#### *Turkey*

The Issuer has obtained the CMB Approval from the CMB required for the issuance of Covered Bonds under the Programme. Pursuant to the CMB Approval, the offer, sale and issue of Covered Bonds under the Programme has been authorised and approved in accordance with Decree 32, the Banking Law and related legislation and the Capital Markets Law and related regulations. In addition, Covered Bonds (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the CMB Approval. Under the CMB Approval, the CMB has authorised the offering, sale and issue of any Covered Bonds within the scope of such CMB Approval on the condition that no transaction that qualifies as a sale or offering of Covered Bonds (or beneficial interests therein) by way of public offering or private placement in Turkey may be engaged in. Notwithstanding the foregoing, pursuant to the BRSA decision dated 6 May 2010 No. 3665, the BRSA decision dated 30 September 2010 No. 3875 and in accordance with Decree 32, residents of Turkey: (a) may purchase or sell Covered Bonds denominated in a currency other than Turkish Lira (or beneficial interests therein) offshore on an unsolicited (reverse enquiry) basis in the secondary markets only; and (b) may purchase or sell Covered Bonds denominated in Turkish Lira (or beneficial interests therein) offshore on an unsolicited (reverse enquiry) basis both in the primary and secondary markets; provided that such purchase or sale is made through licensed banks or licensed brokerage institutions authorised pursuant to the BRSA and/or CMB regulations and the purchase price is transferred through licensed banks authorised by the BRSA. As such, Turkish residents should use licensed banks or licensed brokerage institutions while purchasing the Covered Bonds (or beneficial interests therein) and transfer the purchase price through the licensed banks authorised by the BRSA.

A written approval (whether in form of a tranche issuance certificate (*tertip ihraç belgesi*) or in any other form required under the applicable legislation) in respect of each Tranche of Covered Bonds and the CMB approval thereof shall be obtained by the Issuer prior to the issue date of each such Tranche of Covered Bonds. The Issuer shall maintain the authorisation and approval of the CMB as necessary for the offer, sale and issue of Covered Bonds under the Programme. In particular, in order to issue any further Tranche of Covered Bonds after 5 December 2020, the Bank will be required to renew its CMB approval which, in line with the relevant regulations, was granted for a one-year period. Furthermore, until 5 December 2020, if and when the aggregate nominal amount of all Covered Bonds issued and sold following 5 December 2020 under the Programme exceeds €500,000,000 the Bank will be required to obtain a new CMB approval prior to the issuance and sale of any further Tranche of Covered Bonds. Moneys paid for purchases of Covered Bonds are not protected by the insurance coverage provided by the SDIF.

#### *United States*

The Covered Bonds have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold

within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this “—United States” section have the meanings given to them by Regulation S under the Securities Act.

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

The applicable Final Terms will identify whether TEFRA C or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Covered Bonds: (a) as part of their distribution at any time; or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Covered Bonds on a syndicated basis, the relevant lead manager, of all Covered Bonds of the Tranche of which such Regulation S Covered Bonds are a part, other than in an offshore transaction to, or for the account or benefit of, persons that are not U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Covered Bonds during the applicable distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Covered Bonds other than in an offshore transaction to, or for the account or benefit of, persons that are not U.S. persons. Terms used in this “—United States” section have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Covered Bonds, an offer or sale of such Covered Bonds other than in an offshore transaction to a person that is not a U.S. person by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

#### ***Prohibition of sales to EEA Retail Investors***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one or more of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
  - (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”); and
- (b) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be

offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds.

### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Covered Bonds which have a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000, as amended (the “FSMA”) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

### ***PRC***

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that neither it nor any of its affiliates has offered, sold or delivered or will offer, sell or deliver any of the Covered Bonds to any person for reoffering or resale or redelivery, in any such case directly or indirectly, in the PRC (excluding Hong Kong Special Administrative Region of the PRC, the Macau Special Administration Region of the PRC and Taiwan) in contravention of any applicable laws.

### ***Hong Kong***

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Covered Bonds other than: (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding-Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Covered Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Covered Bonds which are or are intended to be

disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

### ***Japan***

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended, the “FIEA”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any Resident of Japan (as defined under Item 5 of Paragraph 1 of Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a Resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Switzerland***

In Switzerland, this Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in Covered Bonds described herein. The Covered Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Covered Bonds constitutes a prospectus as such term is understood pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland or a simplified prospectus as such term is understood pursuant to Article 5 of the Swiss Collective Investment Schemes Act, and neither this Base Prospectus nor any other offering or marketing material relating to the Covered Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Base Prospectus nor any other offering or marketing material relating to the offering of the Covered Bonds has been or will be filed with or approved by any Swiss regulatory authority. The Covered Bonds do not constitute a participation in a collective investment scheme in the meaning of the Swiss Collective Investment Schemes Act and are not subject to the approval of, or supervision by, any Swiss regulatory authority, such as the Swiss Financial Markets Supervisory Authority, and has not and will not be authorised under the Swiss Federal Act on Collective Investment Schemes and investors in the Covered Bonds will not benefit from protection or supervision by any Swiss regulatory authority.

### ***Italy***

The offering of Covered Bonds has not been cleared by the *Commissione Nazionale per la Società e la Borsa* (“CONSOB”) pursuant to Italian securities legislation. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or delivered, directly or indirectly, any Covered Bonds to the public in the Republic of Italy.

For the purposes of this provision, the expression “**offer of Covered Bonds to the public**” in Italy means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, including the placement through authorised intermediaries.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer, sell or deliver, directly or indirectly, any Covered Bond or distribute copies of this Base Prospectus or of any other document relating to the Covered Bond in the Republic of Italy except:



- (a) to qualified investors (*investitori qualificati*), as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “**Italian Financial Act**”), as implemented by paragraph 1(d) of Article 26 of CONSOB Regulation No. 16190 of 29 October 2007, as amended (“**Regulation No. 16190**”), pursuant to letter (b) of paragraph 1 of Article 34-ter of CONSOB Regulation No. 11971 of 14 May 1998, as amended (“**Regulation No. 11971**”); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Financial Act and its implementing CONSOB regulations including Regulation No. 11971.

Any such offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy must be in compliance with the selling restrictions under paragraphs (a) and (b) above and:

- (i) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the relevant provisions of the Italian Financial Act, Regulation No. 16190, Legislative Decree No. 385 of 1 September 1993 as amended (the “**Banking Act**”) and any other applicable laws or regulation;
- (ii) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy or by Italian persons outside of Italy; and
- (iii) in compliance with any other applicable laws and regulations or requirements imposed by CONSOB or the Bank of Italy or any other competent authority.

Any investor purchasing the Covered Bonds is solely responsible for ensuring that any offer, sale, transfer, delivery or resale of the Covered Bonds by such investor occurs in compliance with applicable Italian laws and regulations.

### ***Singapore***

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been and will not be registered as a prospectus with the MAS. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Covered Bonds (or beneficial interests therein) or caused the Covered Bonds (or beneficial interests therein) to be made the subject of an invitation for subscription or purchase and will not offer or sell any Covered Bonds (or beneficial interests therein) or cause any Covered Bonds (or beneficial interest therein) to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Covered Bonds (or beneficial interests therein), whether directly or indirectly, to any person in Singapore other than: (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Covered Bonds (or beneficial interests therein) are subscribed or purchased under Section 275 of the SFA by a relevant person that is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of

which is owned by one or more individuals, each of whom is an accredited investor;  
or

- (b) a trust (where the trustee is not an accredited investor) the sole purpose of which is to hold investments and each beneficiary of such trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust, as applicable, has acquired the Covered Bonds (or beneficial interests therein) pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

The Final Terms in respect of any Covered Bonds may include a legend entitled "Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore" that will state the product classification of the applicable Covered Bonds pursuant to Section 309B(1) of the SFA; however, unless otherwise stated in the applicable Final Terms, all Covered Bonds shall be prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the MAS Notice SFA 04 N12: Notice on the Sale of Investment Products and MAS Notice FAA N16: Notice on Recommendations on Investment Products). This notification or any such legend included in the relevant Final Terms will constitute notice to "relevant persons" for purposes of Section 309B(1)(c) of the SFA.

### ***General***

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe any applicable restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds.

## **GENERAL INFORMATION**

The Issuer is registered at the Istanbul Trade Registry under number 32736. It has its principal office at Yapi Kredi Plaza, D Blok, Levent 34330 Istanbul, Republic of Turkey. Its telephone number is +90 212 339 7011 and its website is <https://yapikredi.com.tr>.

### **Authorisation**

The establishment and update of the Programme and the issue of Covered Bonds (subject to the limit provided under the CMB Approval) have been duly authorised by the resolutions of the Board of Directors of the Issuer dated 22 July 2015, 26 July 2018 and 25 July 2019, respectively.

### **Listing of Covered Bonds**

Application has been made to Euronext Dublin for Covered Bonds issued under the Programme to be admitted to the Official List and to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of MiFID II. If a Series of Covered Bonds is to be listed on Euronext Dublin or any other stock exchange, then any information required by such exchange to be in the applicable Final Terms will be included therein.

### **Listing Agent**

Arthur Cox Listing Services Limited is acting solely in its capacity as Irish listing agent for the Issuer in connection with the Programme and is not itself seeking admission of Covered Bonds issued under the Programme to the Official List or to trading on the Regulated Market for the purposes of the Prospectus Regulation.

### **Documents Available**

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will be available for inspection on the website of the Bank at <https://www.yapikredi.com.tr/en/investor-relations/mortgage-backed-covered-bond>:

- (a) the articles of association (with a certified English translation thereof) of the Issuer;
- (b) the Agency Agreement, the Deed of Covenant, the Deed Poll, the Cover Monitor Agreement, the Security Assignment, the Security Agency Agreement, the Offshore Bank Account Agreement, the Calculation Agency Agreement, the Hedging Agreements and the forms of the Global Covered Bonds, the Covered Bonds in definitive form, the Coupons and the Talons;
- (c) a copy of this Base Prospectus; and
- (d) when published, any future base prospectuses, prospectuses, information memoranda, supplements and Final Terms (save that a Final Terms relating to a Covered Bond that is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation will only be available for inspection by a holder of such Covered Bond, and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Covered Bonds and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference.

Each Final Terms relating to Covered Bonds which are admitted to trading on Euronext Dublin's regulated market will also be available on the website of Euronext Dublin.

## **Clearing Systems**

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg, which are the entities in charge of keeping the records. The appropriate Common Code and ISIN for each Tranche of Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

## **Conditions for determining price**

For Covered Bonds to be issued to one or more Dealer(s), the price and amount of Covered Bonds to be issued in a Tranche will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions. For Covered Bonds to be issued to one or more investor(s) purchasing Covered Bonds directly from the Issuer, the price and amount of the relevant Covered Bonds to be issued under the Programme will be determined by the Issuer based on prevailing market conditions, or by agreement between the Issuer and the relevant investor(s).

## **Significant or Material Change**

There has been no significant change in the financial performance or position of either the Issuer or the Group since 30 September 2019 and no material adverse change in the financial position or prospects of either the Issuer or the Group since 31 December 2018.

## **Litigation**

Save as disclosed on page 225 under the title “*Business of the Bank—Legal Proceedings*” of this Base Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), which may have, or have had, during the 12 months prior to the date of this Base Prospectus, a significant effect on the Issuer’s financial position or profitability, or on the Group’s consolidated financial position or profitability.

## **Independent Auditors**

The BRSA Financial Statements incorporated by reference into this Base Prospectus have been audited, without qualification as of and for the years ended 31 December 2018, 31 December 2017 and 31 December 2016 in accordance with the communiqué “Independent Audit of Banks” published by the BRSA in the Official Gazette No.29314 dated 2 April 2015 and with the Independent Auditing Standards which is a part of the Turkish Auditing Standards promulgated by the POA.

The Interim BRSA Financial Statements as of and for the nine month period ended 30 September 2019 (with 30 September 2019 comparatives) and as of and for the nine-month period ended 30 September 2018 incorporated by reference into this Base Prospectus have been reviewed in accordance with the Standard on Review Engagements (SRE) 2410, “Limited Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. With respect to the Interim BRSA Financial Statements, PwC has reported that it applied limited procedures in accordance with professional standards for a review of such information; however, its reports state that it did not audit and does not express an opinion on such interim financial information.

See the English convenience translations of the relevant PwC and EY reports incorporated by reference herein.

EY (a member firm of Ernst & Young Global Limited) and PwC (a member firm of PricewaterhouseCoopers International Limited) are authorised by the CMB, BRSA, Turkish Treasury, Energy Market Regulatory Authority and Public Oversight Accounting and Auditing Standard Authority Board to conduct independent audits. The Bank's financial statements are prepared on a quarterly basis, semi-annual and annual basis in accordance with BRSA.

Due to mandatory regulatory requirements, the Bank rotated its auditors following completion of its annual audit as of and for the year ended 31 December 2016. Accordingly, the Bank appointed PwC as its independent auditor effective as of 1 January 2017 and for a term of three years.

### **Dealers and Arrangers transacting with the Issuer**

Certain of the Arrangers, the Dealers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and/or its affiliates in the ordinary course of business. Certain of the Dealers may from time to time also enter into swap and other derivative transactions with the Issuer and its affiliates, including in relation to the hedging of the Covered Bonds.

The Dealers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Dealers, the Arrangers and their respective affiliates may have performed investment banking and advisory services for the Issuer and its affiliates from time to time for which they may have received fees, expenses, reimbursements and/or other compensation. The Dealers or their respective affiliates may, from time to time, engage in transactions with and perform advisory and other services for the Issuer and its affiliates in the ordinary course of their business. Certain of the Dealers and/or their respective affiliates have acted and expect in the future to act as a lender to the Issuer and/or other members of the Group and/or otherwise participate in transactions with the Group.

In addition, in the ordinary course of their business activities, the Arrangers, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. The Arrangers, certain of the Dealers and their respective affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Arrangers, such Dealers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of Covered Bonds issued under the Programme. The Arrangers, the Dealers and their respective affiliates 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 and instruments.

### **Foreign Text**

The language of this Base Prospectus is English. Certain legislative references and technical terms may be cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

## GLOSSARY OF DEFINED TERMS

\$	xi	Bond Basis	125
£	xii	Borrower	76
€	xi	bps	2
30/360	119, 125	BPV	237
30E/360	125	Breach of Statutory Test	80
30E/360 (ISDA)	126	Broken Amount	100
360/360	125	BRSA	viii
Accrual Period	119	BRSA Annual Audits	311
Accrual Yield	135	BRSA Financial Health Report	311
Activity Exemption	322	BRSA Financial Statements	ix
Actual/360	125	BRSA Principles	ix
Actual/365 (Fixed)	125	BRSAAS	117
Actual/365 (Sterling)	125	BRSB	299
Actual/Actual	125	Business Day	121
Actual/Actual (ICMA)	119	Business Day Convention	120
Actual/Actual (ISDA)	125	Business Plan	192
ADCs	55, 188	Calculation Agency Agreement	168
Additional Amounts	140	Calculation Agent	59, 122
Additional Business Centre	100	Capital Adequacy Regulation	305
Administrator	75	Capital Markets Law	iv
Affiliate	118	Capital Strengthening Plan	192
Affiliate Transaction	117	Cash Flow Matching Test	77
Agency Account	167	CBA	220
Agency Agreement	111	CBRT	xii
Agents	112	Central Bank	xii
AKP	10	Central Securities Depository	45
Amortised Face Amount	137	CFT Law	317
Ancillary Rights	72, 160	CGF	3
Annual BRSA Financial Statements	ix	clearing corporation	326
Annulled Corporate Governance		Clearing Systems	xii, 70
Communiqué	265	Clearstream, Luxembourg	xii, 114
Applicable Exchange Rate	68	CMB	iv
applicable Final Terms	111	CMB Approval	vii
Appointment Meeting	41	Code	129
Arranger	58	Collection Account	86
Arrangers	58	Collection Period	91
Authorised Investments	86	Commission's Proposal	333
Available Funds	68	Common Depositary	92
AY	138	Common Safekeeper	92
Bank	iii, xii	Communiqué on Deposit and Loan	
Banking Act	339	Interest Rates	324
Banking Law	5	Communiqué on the Calculation	302
Base Prospectus	97	Communiqué Regarding Reserve	
Basel Committee	305	Requirements	308
Basel II	319	Conditions	97, 111
Basel III	317	CONSOB	338
BCP	218	control	118
Bearer Covered Bonds	iii	controlled by	118
Bearer Definitive Covered Bond	44	controlling	118
Bearer Global Covered Bonds	92	Corporate Borrower	322
Benchmarks Regulation	iv, 46	Corporate Governance Communiqué	265
beneficial owner	332	Couponholders	112
Beneficial Owners	326	Coupons	111

Cover Monitor .....	34, 58	English Law Transaction Documents .....	153
Cover Monitor Agreement .....	175	Equity Regulation .....	305
Cover Monitor Calculation Date .....	77	ESMA .....	iv, 49
Cover Monitor Report .....	177	EUR .....	xi
Cover Pool .....	71	EURIBOR .....	122, 135
Cover Pool Asset .....	71	euro .....	xi, 113
Cover Pool Asset Substitution .....	74	Eurobond Basis .....	125
Cover Register .....	75	Euroclear .....	xii, 114
Covered Bond .....	116	Euronext Dublin .....	iii
Covered Bond Swap Rate .....	78	Event of Default .....	90, 145
Covered Bondholder .....	114	Excess Hedge Collateral .....	64
Covered Bondholder Representative .....	155	Exchange Agent .....	59, 111
Covered Bondholders .....	111	Exchange Date .....	92
Covered Bonds .....	iii, 111	Exchange Event .....	93, 94
Covered Bonds Communiqué .....	viii	Extended Maturity Date .....	38, 66
CRA Regulation .....	iv	Extraordinary Resolution .....	173
CRM .....	207	EY .....	x
CSD .....	45	F/X .....	322
Currency Hedging Agreement .....	78	F/X Loan Restriction .....	322
Current Base Prospectus .....	97	F/X Revenue Exemption .....	322
Custodian .....	330	FATCA .....	129
Data Protection Board .....	321	FIEA .....	338
Data Subject .....	321	Final Maturity Date .....	66
Day Count Fraction .....	119, 124	Final Redemption Amount .....	135
Dealer .....	iii	Final Terms .....	iv
Dealers .....	iii	First Issue Date .....	72
Debt Instruments Communiqué .....	viii	Fiscal Agent .....	59, 111
Decree 32 .....	viii	Fitch .....	iv
Deed of Covenant .....	95, 112	Fixed Coupon Amount .....	118
Deed Poll .....	112	Fixed Interest Period .....	119
Definitive Covered Bonds .....	111	Fixed Rate Covered Bonds .....	61
Definitive IAI Registered Covered Bond .....	105	Floating Rate .....	122
Definitive Regulation S Registered Covered Bond .....	94	Floating Rate Convention .....	120
Delegate .....	156	Floating Rate Covered Bonds .....	61
Designated Account(s) .....	87	Floating Rate Option .....	122
Designated Bank .....	130	Following Business Day Convention .....	121
Designated Maturity .....	122, 127	foreign passthru payments .....	333
Determination Period .....	120	Framework Agreement .....	324
Direct Participants .....	326	FSMA .....	337
Direct Recourse Securities .....	116	FTT .....	333
distributor .....	iii, 96	GAAP .....	xi
Dodd-Frank .....	171	General Account Cover Pool Collections .....	176
DSF .....	205	Global Covered Bond .....	45
D-SIBs .....	318	Government .....	5
DTC .....	114	Group .....	xii
DTC Covered Bonds .....	326	Halkbank .....	25
DTC Rules .....	326	HDP .....	10
Early Redemption Amount .....	137	Hedge Collateral .....	89
ECB .....	109	Hedge Collateral Account .....	89
ECL .....	234	Hedging Agreements .....	174
EEA .....	iii, 96	Hedging Counterparty .....	59
EFT .....	221	High quality liquid assets .....	319
Eligible Creditors .....	324	holder of Covered Bonds .....	114
EMIR .....	171	holders .....	111

IAI Global Covered Bond .....	105	Majority Instructing Creditor .....	155
IASB .....	116	Mandatory Excess Cover .....	64
ICAAP .....	231	Mandatory Excess Cover Cover Pool	
ICAAP Report .....	298	Asset .....	64
IFRS .....	116	Margin .....	102
IGAs .....	333	Master Definitions and Construction	
IMF .....	22	Schedule .....	113
Indebtedness for Borrowed Money .....	144	Material Subsidiary .....	144
Indirect Participants .....	326	Maximum Rate of Interest .....	102
Individual Asset Eligibility Criteria .....	29, 75	ME .....	232
Initial Appraised Value .....	76	MiFID II .....	iii, 96, 171, 336
Instalment Amount .....	138	MiFID II Product Governance .....	iii
Instalment Covered Bonds .....	138	MiFID II Product Governance Rules .....	iii
Instalment Dates .....	99	Minimum Rate of Interest .....	102
Insurance Distribution Directive .....	96, 336	Ministry .....	323
Interest Amount .....	124	Modified Following Business Day	
Interest Commencement Date .....	98	Convention .....	121
Interest Determination Date .....	101	Moody's .....	iv
Interest Payment Date .....	120	Mortgage Assets .....	71
Interest Period .....	120	Mortgage Rights .....	72
Interim BRSA Financial Statements .....	ix	Natixis .....	58
Internal Systems Regulation .....	297	Net Present Value Test .....	77
Investor Report .....	90	New Dodd-Frank Requirements .....	82
Investor Report Date .....	90	New Economic Programme .....	23
Investor's Currency .....	49	New EMIR Requirements .....	82
ISDA .....	61	New Issuer .....	34
ISDA Definitions .....	122	New MiFID II Requirements .....	82
ISDA Master Agreement .....	64	New Restructuring Framework .....	324
ISDA Rate .....	122	New Turkish Law Regulatory	
Issue Date .....	viii	Requirements .....	82
Issue Date Rating .....	78	NFC .....	203
Issue Price .....	66	NGCB .....	92
Issuer .....	iii, 111	Nominal Value .....	78
Issuer Call .....	136	Nominal Value Test .....	77
Issuer Event .....	84, 142	Nomination Committee .....	266
Istanbul Business Day .....	72	Non-Statutory Security .....	156
Italian Financial Act .....	339	Non-TL Designated Account(s) .....	87
KFE .....	30	Non-TL Hedge Collection Account .....	89
KFS .....	8	Notice of Default .....	145
Koç Group .....	8	NPLs .....	1
KOSGEB .....	206	NSFR .....	319
Law No. 6698 .....	321	NSS .....	94
Law No. 7061 .....	333	OECD .....	73
Law on the Prevention of Laundering		OFAC .....	17
Proceeds of Crime .....	317	offer .....	336
LCR .....	319	offer of Covered Bonds to the public .....	338
LIBOR .....	122, 135	Official List .....	iii
Liquidation Proceeds .....	67, 139	Offshore Account Bank .....	58
Lira Amount .....	133	Offshore Account Bank Event .....	168
listed .....	iii	Offshore Account Bank Required	
Listing Agent .....	60	Rating .....	168
Loan Balance .....	322	Offshore Bank Account Agreement .....	163
London Business Day .....	127, 163	Offshore Bank Accounts .....	58
Long Maturity Covered Bond .....	129	Optional Redemption Amount .....	135
LTV .....	76, 233	Optional Redemption Date .....	103



Order .....	ii	Regulation on Liquidity Coverage Ratios.....	308
Other Secured Creditors .....	65	Regulation on the Measurement and Evaluation of Leverage Levels of Banks ....	318
OTP .....	215	Regulation S.....	iii, 92
Overcollateralisation Ratio Covenant .....	34	REGULATION S.....	i
Participants .....	326	Regulation S Registered Global Covered Bond .....	94
participating Member States.....	333	Related Payment.....	72
Paying Agents .....	59, 111	Relevant Date .....	141
Payment Day .....	132	relevant Dealer .....	iii
Permanent Bearer Global Covered Bonds.....	92	Relevant Exchange Rate.....	133
Permissions.....	117	Relevant Financial Centre .....	101
Permitted Business .....	118	Relevant Indebtedness.....	117
Person .....	118	Relevant Jurisdiction .....	141
POA.....	ix	Relevant Member State .....	vi
POS.....	26, 203, 324	Relevant Payment Date .....	133
Potential Breach of Statutory Test .....	80	relevant persons.....	ii
PRC .....	vi	Relevant Rating Agencies .....	60
Preceding Business Day Convention .....	121	Relevant Rating Agency.....	60
Presidential Decree.....	323	Relevant Screen Page .....	135
PRIIPs Regulation.....	iii, 96	relevant Stock Exchange .....	170
Principal Amount Outstanding.....	69	Replacement Cover Monitor Agreement ....	177
Proceedings .....	151	Reserve Fund.....	167
Programme .....	iii	Reserve Fund Required Amount .....	167
Programme Agreement .....	335	Reserve Fund Secured Creditors .....	167
Programme Closing Date .....	65	Reset Date .....	122
Programme Limit .....	60	Restructuring Regulation.....	324
Programme Meeting.....	174	retail investor.....	336
Programme Overcollateralisation Percentage .....	79	RP .....	137
Programme Reserved Matter.....	174	S&P .....	iv
Programme Resolution.....	174	Screen Rate 1.....	124
Property Price Change Ratio .....	30	Screen Rate 2.....	124
Prospectus Regulation.....	iii, 96, 336	Screen Rate Determination.....	135
PwC .....	x	SDF.....	15
QR code.....	203	SDIF .....	viii, 29
Rate of Interest .....	135	SEC .....	vi
Rating Agency.....	iv	Secured Creditors .....	65
Rating Agency Confirmation .....	79	Secured Obligations .....	166
receivable .....	33	Securities Act.....	iii
Receiver.....	65	SECURITIES ACT .....	i
Reconciliation.....	165	Security Agency Agreement .....	59
Reconciliation Event .....	164	Security Agent.....	59
Reconciliation Reporting Event .....	165	Security Assignment .....	153
Record Date.....	130	Security Assignment Security .....	63
Redeemed Covered Bonds .....	137	Security Interest.....	116
Reference Banks.....	123	Security Update Registration .....	63
Reference Rate .....	135	Selection Date .....	137
Register.....	130	Series .....	112
Registered Covered Bonds.....	iii	Series Overcollateralisation Percentage .....	79
Registered Definitive Covered Bonds.....	94	Series Reserved Matter.....	172
Registered Global Covered Bonds .....	94	Shareholders' Agreement.....	268
Registrar .....	59, 111	SME.....	2
Regulated Market.....	iii	Soft Bullet Covered Bonds.....	90
Regulation No. 11971 .....	339	Specified Account .....	130
Regulation No. 16190 .....	339		

Specified Currency .....	49	Tranche .....	112
Specified Denomination .....	44	Transaction Security .....	65
Specified Interest Payment Date .....	100	Transaction Security Documents .....	66
Specified Period .....	100	Transfer Agent .....	59
Specified Time .....	101	Transfer Agents .....	111
Spot Rate .....	69	Transferability and Convertibility Event .....	88
Statutory Segregation .....	62	TRLIBOR .....	135
Statutory Test .....	76	Turkey .....	iv
Statutory Test Date .....	76	Turkish Accounting Standards .....	ix
Statutory Tests .....	28, 76	Turkish Commercial Code .....	ix
Sterling .....	xii	Turkish Covered Bonds Legislation .....	38
Stress Test .....	77	Turkish Income Tax Law .....	331
Stub Period .....	99, 100, 118	Turkish Lira .....	xi
Subscription Agreement .....	170	Turkish Lira Equivalent .....	79
Subsidiary .....	69, 118	TurkStat .....	xii
Substitute Asset Limit .....	76	TWF .....	25
Substitute Assets .....	73	U.S. dollars .....	xi
sub-unit .....	120	U.S. persons .....	iii
Talons .....	111	U.S.\$ .....	xi
TARGET2 System .....	121	UK .....	24
TAS .....	ix	under common control with .....	118
Tax Decrees .....	42	UniCredit .....	8
Tax Sharing Laws .....	142	UniCredit Bank .....	58
Taxes .....	62, 140	UniCredit Group .....	269
TEFRA C .....	70	Union .....	9
TEFRA D .....	70	USD Election Period .....	133
Temporary Bearer Global Covered		USD Payment Election .....	133
Bonds .....	92	Vakifbank .....	25
TFRS 9 .....	300	VaR .....	235
TL .....	xi	y .....	138
TL Designated Account .....	87	Zero Coupon Covered Bonds .....	61
Total Capital .....	243, 244, 246, 249, 252	Ziraat .....	25

## **APPENDIX A**

### **OVERVIEW OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND BRSA ACCOUNTING PRINCIPLES**

The BRSA Principles differ from IFRS. Such differences are primarily related to the presentation of financial statements, disclosure requirements (e.g., IFRS 7) and certain accounting policies. BRSA presentation and disclosure requirements are prescribed by relevant regulations and do not always meet IFRS or IAS 34 standards. Among the differences in accounting policies, some of the most important are:

#### *Consolidation and equity accounting*

Only financial sector subsidiaries and associates are consolidated and equity accounted, respectively, under BRSA Principles, others are carried at cost or fair value.

#### *Specific provisioning for loan losses*

BRSA provisioning for loan losses is different from IAS 39 and is based on minimum percentages related to the number of days overdue prescribed by relevant regulations, whereas in IFRS, provision for loan loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Furthermore, according to BRSA, collaterals are included in the calculation of specific reserves using the percentages provided in the regulation by type of collateral; in IAS 39, the calculation of the present value of the estimated future cash flows of a collateralised financial asset is based on the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

#### *General loan loss provisioning*

This is required under BRSA Principles but prohibited under IFRS.

BRSA requires general loan loss provisions to be calculated over on- and off-balance sheet financial instruments that carry credit risk using specific percentages as defined in the regulation. Instead, IFRS requires portfolio/collective provisioning for groups of loans and receivables sharing similar characteristics and not individually identified as impaired.

#### *Assets held for sale*

Definitions and accounting treatment according to BRSA Principles are different from those under IFRS (based on regulations prescribed by the BRSA).

Under BRSA Principles, depreciation of assets held for sale is taken into account for assets with a probability of disposal within one year, whereas pursuant to IFRS 5, non-current assets held for sale are classified to this category only if their sale is highly probable and is expected to be completed within one year and they are carried at the lower of cost or fair value less cost to sell.

#### *Deferred taxation*

Certain differences exist in this area. According to IAS 12, income taxes' deferred taxation is calculated based on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the relevant issuer, whereas under BRSA Principles, it is not permitted to recognise deferred tax on general loan loss provisions.

### *Application period for hyperinflationary accounting*

Under the BRSA Principles, this period ends at 1 January 2005 whereas under IFRS it ends at 1 January 2006, constituting a one year difference between the two.

### *Related Party Disclosures*

Related party transactions and balances are disclosed in IFRS based on the definition provided in IAS 24, whereas in BRSA such disclosures are based on “risk group” as defined in the Banking Law.

Similar differences with IFRS also exist in the accounting policies and disclosure requirements applied to consolidated subsidiaries, especially those providing factoring and leasing services which are subject to specific BRSA policies/requirements.

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