

PROSPECTUS



TEB
BNP PARIBAS JOINT VENTURE

TÜRK EKONOMİ BANKASI A.Ş.

(incorporated with limited liability in the Republic of Turkey)

U.S.\$65,000,000 Floating Rate Subordinated Callable Notes due 2024

Issue price: 100 per cent.

The U.S.\$65,000,000 Floating Rate Subordinated Callable Notes due 2024 (the **Notes**) are issued by Türk Ekonomi Bankası A.Ş. (the **Issuer** and the **Bank**), subject to the Banking Regulation and Supervision Agency (Bankacılık Düzenleme ve Denetleme Kurumu) (the **BRSA**) of the Republic of Turkey (**Turkey**)'s prior permission and registered with the Capital Market Board (the **CMB**) in accordance with the relevant laws.

The Notes have been registered with the CMB only for the purpose of sale of the Notes outside Turkey in accordance with Article 15/b of the Decree No. 32 on Protection of the Value of Turkish Currency (published in the Official Gazette dated 11 August 1989 and numbered 20249) (the **Decree No. 32**), Articles 6 and 25 of Communiqué Serial No.II/22 on the Principles on the Board Registration and Sale of Debt Securities (the **Communiqué**) and Article 8 of the BRSA Regulation on the Equity of Banks (published in the Official Gazette dated November 1, 2006, No. 26333) (the **BRSA Regulation**).

Interest will be payable semi-annually in arrear on the 14th day in May and November of each year (each an **Interest Payment Date**) from and including 14th May 2012 to and including 14th May 2024, provided that if any such date is not a Business Day (as defined below), then such payment will be made on the next Business Day, subject to adjustment in accordance with Condition 3.3 and will accrue at a rate of 5.750 per cent. per annum above the London interbank offered rate, expressed as a percentage rate per annum, for six month U.S. dollar deposits commencing on the first day of the relevant Accrual Period as further described, and except as mentioned, under "*Conditions of the Notes - Interest*".

The Issuer, subject to having obtained all necessary approvals from the BRSA and, where applicable, the French Autorité de Contrôle Prudentiel (the **ACP**) and/or the National Bank of Belgium (the **NBB**), may redeem all (but not some only) of the Notes at their principal amount together with interest accrued to but excluding the date of redemption on the Interest Payment Date falling on 14 May 2019 (the **Optional Early Redemption Date**), on any Interest Payment Date in the event of certain tax changes or on the occurrence of a capital disqualification event. The Notes mature on the Interest Payment Date falling in May 2024. See "*Conditions of the Notes - Redemption and Purchase*".

Application has been made to the Luxembourg Stock Exchange in its capacity as market operator of the Luxembourg Stock Exchange's Euro MTF market (**Euro MTF**) under the Luxembourg act relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) to list the Notes on Euro MTF. References in this Prospectus to Notes being **listed** (and all related references) shall mean that the Notes have been admitted to trading on Euro MTF and have been listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's Euro MTF market is not a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

The Notes are represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which have been deposited on 14 May 2012 (the **Closing Date**) with a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 25 June 2012 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances - see "*Summary of Provisions relating to the Notes while represented by the Global Notes*".

An investment in Notes involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 6.

Structuring Advisor and Lead Manager

BNP PARIBAS

Co-Lead Managers

BANQUE FÉDÉRATIVE DU CRÉDIT MUTUEL

STANDARD CHARTERED BANK

The date of this Prospectus is 9 May 2012

This Prospectus comprises a prospectus for the purposes of the Luxembourg Act dated 10 July 2005 on prospectuses for securities.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer, having made all reasonable enquiries, confirms that this Prospectus contains all material information with respect to the Issuer and the Notes (including all information which, according to the particular nature of the Issuer and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes), that the information contained or incorporated in this Prospectus is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Prospectus are honestly held and that there are no other facts the omission of which would make this Prospectus or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

Where third party information has been included in this Prospectus, the source of such information has been identified. 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 such third party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Prospectus should be read and construed on the basis that such documents are incorporated and form part of the Prospectus.

BNP Paribas (the **Lead Manager**), Banque Fédérative du Crédit Mutuel and Standard Chartered Bank (the **Co-Lead Managers** and, together with BNP Paribas, the **Managers**) have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes. The Managers do not accept any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes or their distribution.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Managers.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or the Managers that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Managers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time

subsequent to the date hereof or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this document, see "*Subscription and Sale*" below.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Managers do not represent that this Prospectus may be lawfully distributed, or that the Notes 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 or the Managers which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the United Kingdom and the Republic of Turkey, see "*Subscription and Sale*".

All references in this document to **U.S. dollars**, **U.S.\$** and **\$** refer to the currency of the United States of America and to **euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE NOTES

Political, Economic and Legal Risks relating to Turkey

The Turkish economy is undergoing continued transformation to a free market system and is subject to significant macroeconomic risks.

Since the early 1980s, the Turkish economy has undergone a transformation from a highly protected and regulated system to a free market system. Although the Turkish economy has responded well in general to this transformation, it has continued to experience severe macroeconomic imbalances and has frequently resorted to support from the International Monetary Fund (the **IMF**). While the economy has been significantly stabilised due, in part, to IMF requirements, Turkey may experience another significant economic crisis. If IMF or similar support is not provided or available in any future crisis, then this lack of assistance could have a material adverse effect on the Bank's business, financial condition and/or results of operations. Investors should note that notwithstanding Turkey's history of resort to the IMF in times of macroeconomic imbalance, as at the date of this Prospectus, no IMF support has been requested in connection with the global financial crisis in recent years.

Difficult macroeconomic and financial market conditions have affected and could continue to materially adversely affect the Bank's business, financial condition, results of operations and prospects

Disruptions in global capital and credit markets, coupled with the re-pricing of credit risk have been creating difficult conditions in financial markets. These conditions have resulted in historically high levels of volatility across many markets (including capital markets) at times, volatile commodity prices, decreased or no liquidity, widening of credit spreads, lack of price transparency in certain markets and the failure of a number of financial institutions in the United States and Europe.

Ongoing problems in the euro zone, particularly in Greece, Spain, Portugal, Ireland and Italy, and the development of broader concerns about the liquidity and solvency of certain countries and their banking systems, has accentuated uncertainty and volatility in the global credit markets.

In response to the global financial crisis and the ongoing sovereign debt crisis, the government of the United States, a number of European governments and international monetary organisations have taken steps intended to help stabilise the financial system and increase the flow of credit in the global economy. There can be no assurance as to the actual impact that these measures and related actions will have on the financial markets and consumer and corporate confidence generally and on the Bank specifically, including the levels of volatility and limited credit availability in wholesale markets that have recently characterised the financial

markets. The failure of these measures and related actions to help stabilise the financial markets and a continuation or worsening of current financial market conditions could lead to a further decline in investor and consumer confidence, further market volatility and decline, further economic disruption and, as a result, could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The global financial crisis and related economic slowdown significantly impacted the Turkish economy and the principal external markets for Turkish goods and services. During the global financial crisis, Turkey suffered reduced domestic consumption and investment and a sharp decline in exports, which led to an increase in unemployment. Turkey's GDP contracted by 4.7 per cent. in 2009. However, with the resumption of capital flows and as a result of the government's initiatives to stimulate the economic activity, Turkey's real GDP grew by 8.9 per cent. in 2010. GDP growth exceeded 8 per cent. in 2011.

The Central Bank attempted to slow down credit growth since the latter half of 2010 by using various policy tools, including increasing reserve requirements. See "*The Central Bank's policy on reserve requirements and interest rates could materially and negatively affect the Bank's business, financial condition, results of operations and prospects*".

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

The Central Bank's policy on reserve requirements and interest rates could materially and negatively affect the Bank's business, financial condition, results of operations and prospects

In December 2010, the Central Bank announced a policy of reducing interest rates while increasing Turkish lira reserve requirements in order to tackle Turkey's current account deficit. Since that time, the Central Bank has announced significant increases in bank reserve requirements for Turkish lira deposits as part of its strategy to lengthen the maturities of assets flowing into the country and to address concerns that maturities of liabilities in the Turkish banking sector are shorter than those of assets, which in turn exposes the sector to liquidity and interest rate risk. In order to deal with capital outflows in late 2011, the Central Bank increased the interest rate corridor and cost of its funding rate to banks.

As a consequence of these changes, the Bank was required to increase its capital reserves and may need to access more expensive sources of financing to meet its funding requirements. No assurances can be given that the Bank will be able to obtain additional funding on commercially reasonable terms as and when required, or at all, which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's customer deposits are highly concentrated in Turkish lira accounts (42 per cent. of customer deposits as at 31 December 2011) (see "*Concentration Risk*"). A significant portion of these deposits are short term. If the Bank is not able to increase the term of its deposits or attract foreign currency deposits, its Turkish lira reserve requirements and associated costs will increase, which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

International investors consider Turkey to be an emerging economy

Despite significant political and economic reform, Turkey is considered by many international investors to be an emerging market which involves a higher degree of risk than investing in more-developed markets.

Emerging markets such as Turkey are subject to greater risk of being perceived negatively by investors based upon external events than are more-developed markets, and financial turmoil in any emerging market (or global markets generally) could disrupt the business environment in Turkey. The market for securities issued by Turkish companies is influenced by economic and market conditions in Turkey, as well as, to varying degrees, market conditions in other emerging market countries, Europe and the United States. Although economic conditions differ in each country, the reaction of investors to developments in one country may cause capital markets in other countries to fluctuate. Developments or economic conditions in other emerging market countries have at times significantly affected the availability of credit to the Turkish economy and resulted in considerable outflows of funds and declines in the amount of foreign investments in Turkey. Crises in other emerging market countries may diminish investor interest in securities of Turkish issuers, including the Bank's, which could adversely affect the market price of the Notes.

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 markets that are perceived to be more stable and economically developed. An increase in the perceived risks associated with investing in emerging economies could dampen capital flows to Turkey and adversely affect the Turkish economy. As a result, investors' interest in the Notes (and thus their price) may be subject to fluctuations that may not necessarily be related to economic conditions in Turkey or the financial performance of the Bank.

Turkey's economy remains vulnerable to external shocks as evidenced by the global financial crisis, see "*difficult macroeconomic and financial market conditions have affected and could continue to materially adversely affect the Bank's business, financial condition, results of operations and prospects*". Although Turkey's growth dynamics are to some extent dependent on domestic demand, Turkey is also dependent on trade with Europe and a significant decline in the growth of any of Turkey's major trading partners, such as the EU, could have an adverse impact on Turkey's balance of trade and adversely affect Turkey's economic growth. Although Turkey has diversified its export market in recent years, the EU remains Turkey's largest export market. A decline in demand from the EU could have a material adverse effect on Turkish exports and Turkey's economic growth. In particular, Turkey's high current account deficit makes Turkey vulnerable to changes in global risks sentiment and hence to direction of capital flows.

There can be no assurance that investors' interest in Turkey will not be negatively affected by events in other emerging markets or the global economy in general, which could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

Turkey's economy has been subject to a current account deficit and significant inflationary pressures

In 2011, the Turkish current account deficit widened significantly to U.S.\$77.1 billion from U.S.\$48.6 billion in 2010, and U.S.\$14.0 billion in 2009, raising concerns regarding financial stability in Turkey. In response, the Central Bank, the Banking Regulation and Supervision Agency (Bankacılık Düzenleme ve Denetleme Kurumu) (the **BRSA**) and the Turkish Ministry of Finance have initiated coordinated measures to lengthen the maturity of deposits, reduce short-term capital inflows and curb domestic demand with the aim of slowing down the current account deficit by controlling the rate of loan growth. Unless there is a decline in credit growth, the Minister of Finance has stated that bank-specific actions might be implemented which are likely to reduce economic growth and might materially adversely affect the Bank's business, financial condition and/or results of operations. The Turkish government has also declared its intention to take additional measures to decrease the current account deficit, identifying the high growth rate of loans as one of the target areas. See "*The Central Bank's policy on reserve requirements and interest rates could materially and negatively affect the Bank's business, financial condition, results of operations and*

prospects" and "- Risks relating to the Turkish Banking industry - The Bank is subject to numerous banking and other laws and regulations that are subject to change and such changes may have a material adverse effect on the Bank". There can be no assurances that any regulations that have been, or might in the future be, introduced by the BRSA or the Central Bank with respect to loan growth ratios would not have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The Turkish economy has experienced significant inflationary pressures in the past with year-over-year inflation rates as high as 68.6 per cent. in the early 2000s; however, weak domestic demand and declining energy prices in 2009 caused the domestic year-over-year Consumer Price Index to decrease to 6.5 per cent. at the end of 2009, the lowest level in many years. Consumer price inflation was comparable in 2010, reaching 6.4 per cent.; however, headline inflation reached 10.45 per cent. as at year end 2011 principally as a result of depreciation of the Turkish Lira and tax increases on alcohol and tobacco. The Central Bank's official inflation target remains at 5 per cent. If the level of inflation in Turkey were again to fluctuate or increase significantly, 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 Bank's ability to access foreign financial markets and may lead to further governmental intervention in the economy, including the introduction of government polices by the Turkish government that may have an adverse impact on the Turkish economy. These factors may have an adverse impact of Bank's business, financial condition, result of operations, prospects, and thereby affect the Bank's ability to perform its obligations under the Notes.

Turkey is subject to external and internal unrest, border conflicts and the threat of terrorism

Political uncertainty within Turkey and in certain neighbouring countries, such as Iran, Iraq, Georgia, Armenia and Syria, has historically been one of the potential risks associated with investment in Turkish companies. Political instability in the Middle East and elsewhere remains a concern. Since December 2010, political instability has increased markedly in a number of countries in the Middle East and North Africa, such as Iran, Tunisia, Egypt, Jordan, Syria, Libya and Yemen. Unrest in those countries or a military conflict in the region may also have implications for the wider global economy and may negatively affect market sentiment towards other countries in the region, including Turkey, and towards securities originating in Turkey. There can be no assurance that the disturbances will not have political repercussions within Turkey. The situation may therefore have a negative impact on the Turkish economy which could in turn materially adversely affect the Bank's business, financial condition, results of operations and prospects.

Turkey has also experienced problems with domestic terrorist and ethnic separatist groups. For example, Turkey has been in conflict for many years with the People's Congress of Kurdistan, formerly known as the PKK. The issue of civil rights for Kurdish citizens remains a potential source of political instability, which may be exacerbated by continuing instability in Iraq. Such circumstances and domestic terrorist attacks have had and could continue to have a material adverse effect on the Turkish economy and on the Bank's business, financial condition and/or results of operations notwithstanding the fact that the Bank has wide coverage insurance policies which cover terrorism.

Turkey's accession to the EU is uncertain, which may lead to a loss of confidence in the Turkish economy

In 1963, Turkey signed an association agreement with the EU, and a supplementary agreement was signed in 1970 providing for a transitional second stage of Turkey's integration into the EU. The EU resolved in 2004 to commence accession negotiations with Turkey and affirmed that Turkey's candidacy will be judged on the same criteria applied to other candidates. These criteria require the implementation of a range of political, legislative and economic reforms. Negotiations for Turkey's accession to the EU commenced in 2005 but, although Turkey has implemented various reforms and continued harmonisation efforts with the EU, progress has been limited and appears to have stalled during the global financial crisis. While Turkey continues to attempt to implement economic and political reforms, including recently approved amendments to its constitution, it may not be successful in implementing all the necessary reforms. Although Turkey

continues to express a desire to become a member state of the EU, it may not attain membership for several more years, if at all.

In the event of a loss of market confidence as a result of deterioration in Turkey's EU accession discussions or any other international relations involving Turkey, the Turkish economy may be adversely affected, which could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

Recent changes in Turkish law may have a significant impact on the Bank's business, financial condition, results of operations and prospects

Recently, three major pieces of legislation have been subject to substantial amendment, namely the Turkish Code of Obligations, the Turkish Code of Civil Procedures and the Turkish Commercial Code. Both the Turkish Code of Obligations and the Turkish Commercial Code will come into effect as of 1 July 2012, whereas the Turkish Code of Civil Procedures came into effect on 1 October 2011. This legislation will implement substantial changes to Turkish law and it is anticipated that it will have a major impact on commercial life in Turkey and may in turn impact on the Bank's business, financial condition, results of operations, prospects and thereby affect the Bank's ability to perform its obligations under the Notes. At this stage, such potential impact cannot be quantified and it is also possible that amendments will be made to the respective laws from time to time until their effective date.

Risks Relating to the Turkish Banking Sector

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

The Bank faces significant and increasing competition from other participants in the Turkish banking sector, including both public and private banks in Turkey as well as many subsidiaries and branches of foreign banks and joint ventures between Turkish and foreign shareholders. A small number of these banks dominate the banking industry in Turkey. According to the Turkish Banking Association, as of 30 September 2011, the top five banking groups in Turkey, two of which were state-controlled, held in the aggregate approximately 57.5 per cent. of the Turkish banking sector's total loan portfolio, approximately 61.5 per cent. of total banking assets in Turkey and approximately 63 per cent. of total deposits in Turkey. State-controlled banks in Turkey have historically had access to very inexpensive funding in the form of very significant Turkish government deposits, which has provided a competitive advantage over private banks.

Foreign financial institutions have shown a strong interest in competing in the banking sector in Turkey. HSBC Bank plc, UniCredito Italiano S.p.A., the National Bank of Greece, Dexia, Citigroup, ING and Bank Hapoalim are among the many non-Turkish financial institutions that have purchased or made investments in Turkish banks or opened their own Turkish offices. The entry into the sector by foreign competitors, either directly or in collaboration with existing Turkish banks, has increased competition in the market, and further entry by foreign competitors is likely to increase competition, especially given that some of these foreign competitors have significantly greater resources and less expensive funding sources than the Bank. Competition has been particularly acute in certain sectors where state-controlled banks and foreign owned banks have been active, such as general purpose loans, for which state-controlled banks have lent funds at rates below those considered commercially viable by TEB together with its subsidiaries (the **TEB Group**). Increased competition from such state-controlled or private foreign groups or otherwise could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The Bank is subject to numerous banking and other laws and regulations that are subject to change and such changes may have a material adverse effect on the Bank

The Bank is subject to a number of banking, consumer protection, antitrust and other laws and regulations designed to maintain the safety and soundness of financial institutions, ensure their compliance with economic and other obligations, limit their exposure to risk and restrict their operations. These laws and

regulations include Turkish laws and regulations (in particular those of the BRSA), as well as laws and regulations of other countries in which the Bank operates. Additionally, the implementation process of the capital requirements directives of European Community (directives numbered 2006/48/EC and 2006/49/EC (**CRD**)) and the Basel II Framework (as discussed below) is still ongoing. In order to monitor the implementation process of the banks on CRD/Basel II Framework, a progress survey on the adaptation of CRD/Basel II is requested from banks by the BRSA every six months. These laws and regulations increase the cost of doing business and limit the Bank's activities. See "*Turkish Regulatory Environment*" for a description of the Turkish banking regulatory environment.

In June 2004, the Basel Committee on Banking Supervision (the **Basel Committee**) published a report entitled "International Convergence of Capital Measurement and Capital Standards: a Revised Framework," which set out a new capital adequacy framework (commonly referred to as the "Basel II Framework") to replace the Basel Capital Accord issued in 1988. The Basel II Framework has been adopted in many countries but has not yet been fully adopted in Turkey; however, the addition of operational risk into the capital adequacy calculation under the Basel II Framework has been in effect under BRSA regulation since June 2007. This framework requires that 15 per cent. of the last three years' average gross income is to be added to the denominator in a bank's capital adequacy calculation. The Basel II Framework was implemented on a bank-only basis as of 1 July 2011 and consolidated reporting also commenced from 1 January 2012. Between July 2011 and July 2012, capital adequacy ratios will be reported in accordance with both the regulation that is currently in effect and Basel II draft regulations. The Basel Committee recently adopted further revisions (that is, incorporating Basel III provisions), but as the Basel II Framework is still not yet implemented, there is no certainty as to whether these most recent revisions will be implemented by the BRSA in Turkey and, if so, in what form. The Bank is therefore not able to predict whether the adoption of any revisions under Basel III will have any material impact on the Bank. Although an official timetable for the adoption of Basel II regulations in Turkey has not been announced by the BRSA, the regulations are expected to be implemented between 2013 and 2018. If these or any other capital adequacy-related revisions are adopted and the Bank is unable to maintain its capital adequacy ratios above the minimum levels required by the BRSA (whether due to its inability to obtain additional capital on acceptable economic terms, if at all, or for any other reason), then this could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

In addition, a breach of any of these laws and regulations could expose the Bank to potential liabilities or sanctions and damage its reputation. As a result of the recent global financial crisis, policy makers in Turkey, the EU and other jurisdictions in which the Bank operates have enacted or proposed various new laws and regulations, including those that limit the fees and commissions that banks may charge their customers, and there is uncertainty as to what impact these changes may have. One example of such a change is the Central Bank's September 2010 announcement that, as with foreign currency reserves, it will not pay interest on reserve accounts kept in Turkish lira (which had until such time been interest-bearing), which change may cause Turkish banks to revisit the pricing of their products and services in order to minimise the impact of this change. In 2011, the Central Bank has continued to monitor reserve level requirements and may introduce further measures in coming months. Similarly, the BRSA might introduce certain limitations as to credit cards being issued by banks and the minimum monthly payments required to be paid by cardholders. Any failure by the Bank to adopt adequate responses to these or other future changes in the regulatory framework could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The Central Bank uses reserve requirement ratios (**RRR**) as an effective tool of the monetary policy. Between January and September 2011, the Central Bank increased RRR on Turkish Lira deposits by 6 percentage points for deposits with maturities up to 3 months which consists the built of Turkish Lira deposits. Nevertheless, RRR was reduced by 3 percentage points in October 2011.

In order to curb loan growth, Turkish authorities reinstated a 15 per cent. tax on consumer loans and also limited mortgage loan-to-value ratios to 75 per cent. Furthermore, recent decisions to impose a ceiling on

mutual fund fees (the announcement on 1 April 2011 of the CMB to set an annual cap of 2.73 per cent. on money market funds' management fees, which will cover approximately 70 per cent. of total mutual funds) and decrease ceiling rates on credit cards may also negatively affect revenues in Turkey.

The Turkish banking sector has experienced significant volatility in the past

The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001, this resulted in the collapse of several financial institutions. Following this crisis, the government made structural changes to the Turkish banking system to strengthen the private banking sector and allow it to compete more effectively against the state-controlled banks Türkiye Halk Bankası (**Halkbank**), Türkiye Vakıflar Bankası T.A.O. (**VakıfBank**) and T.C. Ziraat Bankası (**Ziraat**) (which remain three of the top 10 banks in the Turkish market based on total assets as of 30 September 2011 according to the Turkish Banking Association). Notwithstanding such changes, the Turkish banking sector remains subject to volatility.

If the general macro-economic conditions in Turkey, and the Turkish banking sector in particular, were to suffer another period of volatility, there can be no assurance that this would not result in further bank failures, reduced liquidity and weaker public confidence in the Turkish banking system.

Risks Related to TEB's Business

The Bank may experience credit defaults arising from adverse changes in credit and recoverability that are inherent in the Bank's businesses

The Bank's core banking businesses have historically been, and are expected to continue to be, loans to retail, SME, commercial and corporate customers. As of 31 December 2011, such loans constituted approximately 65 per cent. of the Bank's total assets. Many factors affect customers' ability to repay their loans or other obligations to the Bank. Some of these factors, including adverse changes in consumer confidence levels due to local, national and global factors, consumer spending, bankruptcy rates, and increased market volatility, may be difficult to anticipate and completely outside of the Bank's control. Other factors are dependent upon the Bank's strategy of loan growth (including sector focus) and the viability of the Bank's internal credit application and monitoring systems. See "*—The Bank's risk management strategies and internal control capabilities may leave it exposed to unidentified or unanticipated risks*". All of the aforementioned risks could have a material adverse effect on the Bank's business, financial condition, results of operations, prospects and thereby affect the Bank's ability to perform its obligations under the Notes.

The Bank is dependent on short-term funding

In common with other Turkish banks, a significant portion of the Bank's funding requirements are met through short-term funding sources, primarily in the form of customer deposits, whereas its assets are generally medium- to long-term. As at 31 December 2011, customer deposits comprised 64 per cent. of the Bank's total liabilities and, of all customer deposits, 97 per cent. had original maturities of three months or less. In the past, such deposits have been a stable source of funding, but it cannot be certain that customers will continue to roll over or maintain their deposits with the Bank. If customers fail to roll over short-term deposits with a substantial aggregate value upon maturity or withdraw their deposits from the Bank, the Bank's liquidity and financial position could be adversely affected and it may be required to seek funding from more expensive sources, which in turn could have a material adverse impact on its business, financial condition, results of operations, cash flows and prospects.

Although the Bank believes that its level of access to domestic and international inter-bank markets and its liquidity risk management policy allows, and will continue to allow, the Bank to meet its short-term and long-term liquidity needs, any maturity mismatches between the Bank's assets and liabilities (including by

reason of an unexpected withdrawal of funds by the Bank's customers) may have a material adverse effect on the Bank's business, financial condition, results of operations, cash flows and prospects.

Concentration risk

The Bank has a high concentration of loans and deposits in both geographic and customer segment terms. Geographically, the Bank's loans are highly concentrated in Turkey (96 per cent. of funded loans as at 31 December 2011) and the Bank's customer deposits are highly concentrated in Turkish lira accounts (61 per cent. of total deposits as at 31 December 2011). Accordingly, the Bank is particularly exposed to any future downturn in the economy of Turkey.

The Bank has a high concentration of loans to customers in the ores, metals and textile sectors (as at 31 December 2011, TL 5.579 million, or 21 per cent., of the Bank's total funded loans were to customers in this sector). A downturn in the above mentioned industries in Turkey could therefore have a materially adverse effect on the business, results of operations, financial condition, cash flows and prospects of the Bank. In addition, the Bank has a high concentration of its loan portfolio on its 100 largest customers (as at 31 December 2011, the Bank's 100 largest performing customers accounted for 13.6 per cent. of the Bank's loan portfolio excluding loan loss reserves).

The Bank has been, and will likely continue to be, significantly negatively affected by the recent global financial crisis and concurrent economic slowdown

The recent global financial crisis and related economic slowdown that has impacted the Turkish economy and economies around the world, including the principal external markets for Turkish goods and services, has had, and may continue to have, a significant negative impact on the business, financial condition and results of operations of the Bank.

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

Although there have been indications that the global economy has begun to recover from the economic deterioration of recent years, the recovery may not continue and concerns about the liquidity, the extent of budgetary deficits and, in some cases, even the solvency of countries such as Greece, Ireland, Spain, Italy and Portugal could adversely affect the global economic recovery. Similarly, the recent earthquake and resulting impact in Japan could adversely affect global economic conditions and the financial markets. A relapse in the global economy or continued uncertainty around the potential for such a relapse could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The interests of the Bank's controlling shareholder may not coincide with the interests of the Noteholders

BNP Paribas owns a majority of the outstanding share capital of the Bank. There can be no guarantee that the interests of BNP Paribas will coincide with those of the Noteholders. By virtue of its shareholding, BNP Paribas has the ability to significantly influence the Bank's business through its ability to control actions that require shareholder approval. If circumstances were to arise where the interests of the major shareholders conflict with the interests of the Noteholders, the Noteholders may be disadvantaged by any such conflict. Although it is the Bank's policy that transactions with parties related to, or affiliated with, its shareholders are priced at market rates, are otherwise undertaken on an arm's length basis, are in compliance with applicable Turkish legislation and are subject to the same loan or account approval procedures and limits as applied by the Bank to transactions with parties not related to or affiliated with its shareholders, there can be

no assurance that such transactions with parties related to, or affiliated with, its shareholders have been or will be extended on the above basis and terms.

The Bank is exposed to its counterparties' credit risk, which could have a material adverse effect on the Bank

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

The Bank's core banking businesses have historically been, and are expected to continue to be, loans to retail, SME and corporate clients. Many factors affect customers' ability to repay their loans or other obligations to the Bank. Some of these factors, including adverse changes in consumer confidence levels due to local, national and global factors, consumer spending, bankruptcy rates, and increased market volatility, may be difficult to anticipate and outside the Bank's control. Other factors are dependent upon the Bank's strategy of loan growth (including sector focus) and the viability of the Bank's internal credit application and monitoring systems (see "*The Bank's risk management strategies and internal control capabilities may leave it exposed to unidentified or unanticipated risks*"). All of these risks could have a material adverse effect on the Bank's business, financial condition, results of operations, cash flows and prospects.

As at 31 December 2011, 34 per cent. of the Bank's loan portfolio excluding loan loss reserves consisted of commercial loans to SMEs. The availability of accurate and comprehensive financial information and general credit information on which to base credit decisions is more limited for SMEs than is the case for large corporate clients. Therefore, notwithstanding the credit risk determination procedures that the Bank has in place, the Bank may be unable to evaluate correctly the current financial condition of each prospective borrower and to determine its long-term financial viability.

The Bank's non-performing loans (NPLs) ratio at 31 December 2011, 31 December 2010 and 31 December 2009 were 2.81 per cent., 2.96 per cent. and 4.53 per cent. respectively. It is generally accepted that lending to the SME segment represents a relatively higher degree of risk than comparable lending to other groups, and there can be no guarantee that the Bank's NPLs for SMEs, or any of its other customers, will not materially increase in the near to medium term, in particular if there is a deterioration in the macroeconomic conditions in Turkey or if the Bank is unable to accurately model the risk associated with the SME or other borrowers to which it extends credit (see "*The Bank's risk management strategies and internal control capabilities may leave it exposed to unidentified or unanticipated risks*"). Furthermore, growth in the Bank's loan portfolio is due to increasing loan demand, which may lead to deterioration in the underlying asset quality and an increase in loan to deposit ratios, due to a relatively slower growth in deposits.

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

Failure to maintain the Bank's asset quality could result in higher loan loss provisioning and higher levels of write-offs or defaults, which could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

Changes in market interest rates could lead to a deterioration of the Bank's net interest margin

The Bank's results of operations depend upon the level of its net interest income, which is the difference between interest income from interest-bearing assets and interest expense on interest-bearing liabilities. The difference between the Bank's average interest income and its average interest expense is its net interest margin. Net interest income contributed 79 per cent. and 61 per cent. of the Bank's gross income for 2011 and 2010, respectively, and the Bank's net interest margin was 4.74 per cent. and 4.77 per cent. over the same periods.

Market interest rates are highly sensitive to many factors beyond the Bank's control, including monetary policies pursued by the Turkish government, domestic and international economic and political conditions and other factors. Income from financial operations is particularly vulnerable to market interest rate volatility, as further illustrated below. In particular, the Bank may be affected by the Central Bank's policy which has recently seen a rapid reduction in market interest rates (see "*The Central Bank's policy on reserve requirements and interest rates could materially and negatively affect the Bank's business, financial condition, results of operations and prospects*").

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

The Bank is exposed to foreign currency exchange rate fluctuations, which could have a material adverse effect on the Bank

The Bank is exposed to the effects of fluctuations in foreign currency exchange rates, principally the U.S. dollar and euro, which can have an impact on its financial position and results of operations. These risks are both systemic (i.e., the impact of exchange rate volatility on the markets broadly, including on the Bank's borrowers) and unique to the Bank (i.e., due to the Bank's own net currency positions). For example, from a systemic perspective, if the Turkish lira were to depreciate materially against the U.S. dollar or the euro, then it would be more difficult for the Bank's customers with income primarily or entirely denominated in Turkish lira to repay their foreign currency-denominated loans.

In addition, the Bank is exposed to exchange rate risk to the extent that its assets and liabilities are mismatched. The Bank seeks to manage the gap between its foreign currency-denominated assets and liabilities by (among other things) matching the volumes and maturities of its foreign currency-denominated loans against its foreign currency-denominated deposits or by entering into currency hedges. However, if the Bank is unable to manage the gap between its foreign currency-denominated assets and liabilities, then material volatility in exchange rates could lead to operating losses, which could have a material adverse effect on the Bank's business, financial condition, results of operations, cash flows and prospects.

The Bank may have difficulty borrowing funds on acceptable terms, if at all

Liquidity risk is the risk that a company will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a

number of enterprise-specific factors, including over-reliance on a particular source of funding (such as short-term funding), changes in credit ratings or market-wide dislocation. Credit markets worldwide experienced a severe reduction in liquidity during the global financial crisis and liquidity remains more difficult to obtain on favorable terms. Perceptions of counterparty risk between banks also increased significantly, which led to further reductions in banks' access to traditional sources of liquidity such as the debt markets and asset sales. The Bank's access to these wholesale sources of liquidity has been, and may continue to be, restricted or available only at a high cost. In addition, the Bank's significant reliance on deposits as a funding source makes it susceptible to changes in customer perception of the strength of the banking sector and the Bank would be materially and adversely impacted by substantial customer withdrawals of deposits.

The Bank's primary source of funding is its customer deposits which are principally short-term in nature, although the Bank also obtains funding through loans from other banks and, to a limited extent, through the sale of securities in the capital markets. A mismatch between the maturity of the Bank's assets and liabilities may require the Bank to incur additional costs to liquidate assets at prices below what the Bank believes to be their values. In addition, the global demand for liquidity has increased following the global financial crisis, with increased competition for funds having reduced the Bank's ability to raise longer-term funding by way of securitisation, subordinated debt and other issuances. As a result, if the Bank may be limited in its ability to diversify funding sources and to increase the length of its funding profile.

A rising market interest rate environment could compound the risk of the Bank not being able to access funds at favorable rates. These and other factors could lead creditors to form a negative view of the Bank's liquidity, which could result in less favorable credit ratings, higher borrowing costs and less accessible funds. In addition, the Bank's ability to raise or access funds may be impaired by factors that are not specific to its operations, such as general market conditions, severe disruption of the financial markets or negative views about the prospects of the sectors to which the Bank provides its loans. While the Bank continually monitors its liquidity requirements and maturity profile of its funding base, and aims to maintain at any given time an adequate level of liquidity reserves, there can be no assurance that the Bank will not experience significant liquidity constraints and any such constraint could adversely affect the Bank's business, financial position, results of operations and prospects.

Correlation of financial risks – the occurrence of a risk faced by the Bank could exacerbate other risks that the Bank faces

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

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

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

operations during periods of material market volatility. See “*Turkish Regulatory Environment – The SDIF*” for information on the limited government support available for the Bank’s deposit obligations.

The Bank may become over-leveraged

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

The Bank may not achieve its organic growth strategy

The Bank's strategy includes enhancing the Bank’s market position through organic growth aimed at customer base expansion as well as deepened relationships with existing customers. Whether this can be achieved is largely dependent on several factors, including the performance of the Turkish economy. See “*Risk Factors — The Turkish economy is undergoing continued transformation to a free market system, is subject to significant macroeconomic risks and has been dependent upon the support of the IMF in times of economic crisis*”.

The management of the Bank's growth will require, among other things, continued development of the Bank's financial and information management control systems, the ability to integrate new products and services, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistent levels of customer services. If the Bank fails to manage its growth properly, such failure may have a material adverse effect on the Bank's business, financial condition, results of operations, cash flows and prospects.

The Bank’s operations are highly dependent upon its information technology systems

The Bank’s business, financial performance and ability to meet its strategic objectives (including rapid credit decisions, product rollout and growth) depend to a significant extent upon the functionality of its information technology (IT) systems and its ability to increase systems capacity. The proper functioning of the Bank’s financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, are critical to the Bank’s business and its ability to compete. If the Bank's IT systems fail, even for a short period of time, then it could be unable to serve some or all customers' need on a timely basis and could thus lose their business or experience negative publicity. In addition, despite its investments in IT infrastructure, the Bank may fail to update and develop its existing IT systems as effectively as its competitors. Although the Bank has developed back-up systems for cases of emergency, a disruption (even short-term) to the functionality of the Bank’s IT systems, delays or other problems in increasing the capacity of the IT systems or increased costs associated with such systems could have a material adverse effect on the Bank’s business, financial condition, results of operations, cash flows and prospects.

No assurance can be given that such failures or interruptions will not occur or that the Bank will adequately address them if they do occur. Accordingly, the occurrence of such failures or interruptions could have a material adverse effect on the Bank’s business, financial condition, results of operations, cash flows and prospects.

The Bank's risk management strategies and internal control capabilities may leave it exposed to unidentified or unanticipated risks

There can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect the Bank against, all credit, liquidity, market and other risks. In addition, certain risks could be greater than the Bank's empirical data would otherwise indicate.

The Bank also cannot give assurances that all of its staff have adhered or will adhere to its policies and procedures. The Bank is susceptible to, amongst other things, failure of internal processes or systems, unauthorised transactions by employees and operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems, and fraud by employees or outsiders (see "*Operational Risks*"). The Bank's risk management and internal control capabilities are also limited by the information tools and technologies available to it.

Any material deficiency in the Bank's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Operational Risk

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures, natural disasters or the failure of external systems (for example, those of the Bank's counterparties or vendors). Although the Bank has implemented risk controls, an efficient internal control, fraud and operational risk framework and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to entirely eliminate each of the operational risks. Any materialisation of such risks may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

RISK FACTORS RELATING TO THE NOTES

Factors which are material for the purpose of assessing the market risks associated with the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and

- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Independent review and advice

Each prospective investor in the Notes must determine, based on its own independent review and such professional advice as it deems appropriate under the circumstances, that its acquisition of the Notes is fully consistent with its financial needs, objectives and condition, complies and is fully consistent with all investment policies, guidelines and restrictions applicable to it and is a fit, proper and suitable investment for it, notwithstanding the clear and substantial risks inherent in investing in or holding the Notes.

Each prospective investor should consult its own advisers as to legal, tax and related aspects of an investment in the Notes. A prospective investor may not rely on the Issuer or the Managers or any of their respective affiliates in connection with its determination as to the legality of its acquisition of the Notes or as to the other matters referred to above.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Risks related to the structure of the Notes

The Notes have features which contain particular risks for potential investors. Set out below is a description of such features:

Optional early redemption

The Notes may be redeemed at par together with interest accrued to but excluding the date of redemption on the Interest Payment Date falling on 14 May 2019 (the **Optional Early Redemption Date**) subject to having obtained prior approval from the BRSA in accordance with Condition 5.3 of the Notes. This optional redemption feature is likely to limit their market value. During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem the Notes on the Optional Early Redemption Date if its cost of borrowing is lower than the interest rate on the Notes. 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 Notes 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.

Optional early redemption upon the occurrence of a Capital Disqualification Event

The Notes may be redeemed at par by the Issuer following the occurrence of a Capital Disqualification Event subject (in each case, only if required) to having obtained prior approval from the BRSA, the ACP (provided that at the time of exercise of such option, the Notes constitute regulatory capital of the BNP Paribas Group under the ACP Regulation) and the NBB (provided that at the time of the exercise of such option, the Notes constitute regulatory capital of any relevant member(s) of the BNP Paribas Group under the Belgian Regulations). This optional redemption feature is likely to limit their market value. During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

A **Capital Disqualification Event** will occur if, as a result of any change in applicable law, the BRSA Regulation, (or the application or official interpretation thereof), the principal amount of the Notes ceases to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) for inclusion as regulatory capital of the Issuer.

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 Notes 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.

The Issuer will have the right to redeem the Notes upon the occurrence of certain legislative changes requiring it to pay withholding taxes in excess of current levels, if any, applicable to interest or other payments on the Notes

The withholding tax rate on interest payments in respect of Turkish bonds issued outside Turkey varies depending on the original maturity of such bonds as specified under decree numbered 2011/1854 dated 26 April 2011 (the **Decree**). Pursuant to the Decree, (i) with respect to bonds with a maturity of less than one year, the withholding tax rate on interest is 10%, (ii) with respect to bonds with a maturity between one and three years, the withholding tax rate on interest is 7%, (iii) with respect to bonds with a maturity between three and five years, the withholding tax rate on interest is 3%, and (iv) with respect to bonds with a maturity of five years and more, the withholding tax rate on interest is 0%. Accordingly, the current withholding tax rate on interest on the Notes is 0%. The Issuer will have the right to redeem the Notes, on any Interest Payment Date prior to the maturity date of the Notes, if (a) upon the occurrence of a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 6.3), or (b) any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 14 May 2012, on the next Interest Payment Date the Issuer would be required: (i) to pay additional amounts of Taxes (as defined in Condition 6.1); and (ii) 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 rate currently applicable to such bonds and such requirement cannot be avoided by the Issuer taking reasonable measures available to it. The Issuer cannot assure Noteholders that, upon such a redemption, they will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Notes.

The Issuer's obligations under the Notes are subordinated

The Issuer's obligations under the Notes will be direct, unsecured and subordinated and will rank subordinate in right of payment to the payment of all Senior Obligations. **Senior Obligations** means any of the Issuer's present and future indebtedness and other obligations (including, without limitation (i) obligations for Taxes, statutory preferences and other legally-required payments, (ii) obligations to depositors and trade creditors, and (iii) obligations under hedging and other financial instruments), other than its obligations under (a) the Notes, (b) any Parity Obligations and (c) any Junior Obligations (each capitalised term used and not otherwise defined having the meaning given in Condition 2.3). Although the Notes may pay a higher rate of

interest than comparable notes which are not subordinated, there is a real risk that an investor in the Notes will lose all or some of his investment in the case of a Subordination Event. **Subordination Event** means any distribution of the assets of the Issuer on a dissolution, winding-up or liquidation of the Issuer whether in bankruptcy, insolvency, receivership, voluntary or mandatory reorganisation or indebtedness (*konkordato*) or any analogous proceedings referred to in the Banking Act (Law No. 5411), the Turkish Commercial Code (Law No. 6762) and the Turkish Execution and Bankruptcy Code (Law No, 2004).

Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification

The conditions of the Notes contain provisions for convening meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

EU Savings Directive

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

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

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Denominations involve integral multiples: definitive Notes

The Notes have denominations consisting of a minimum of U.S.\$200,000 plus one or more higher integral multiples of U.S.\$1,000. It is possible that the Notes may be traded in amounts that are not integral multiples of U.S.\$200,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than U.S.\$200,000 in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to U.S.\$200,000.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of U.S.\$200,000 may be illiquid and difficult to trade.

Risks related to the market generally

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

The secondary market generally

There can be no assurance that an active trading market for the Notes will develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. The Notes may be designed for specific investment objectives or strategies and therefore may 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 Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in U.S. dollars. 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 U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or 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 U.S. dollars would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus shall be incorporated in, and form part of, this Prospectus:

- (a) the auditor's audit report and audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2011 prepared in accordance with International Financial Reporting Standard (**IFRS**); and
- (b) the auditor's audit report and audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2010.

The documents incorporated by reference are available free of charge from the registered office of the Issuer and from the specified office of the Paying Agent.

CONDITIONS OF THE NOTES

*The following is the text of the Conditions of the Notes (**Conditions**) which (subject to modification) will be endorsed on each Note in definitive form:*

The U.S.\$65,000,000 Floating Rate Subordinated Callable Notes due 2024 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 12 and forming a single series with the Notes of Türk Ekonomi Bankası A.Ş. (the **Issuer**) are issued subject to and with the benefit of an Agency Agreement dated 14 May 2012 (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer, BNP Paribas Securities Services, Luxembourg Branch as fiscal agent, principal paying agent and agent bank (the **Fiscal Agent**) and the other initial paying agents named in the Agency Agreement (together with the Fiscal Agent, the **Paying Agents**). The holders of the Notes (the **Noteholders**) and the holders of the interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons** are deemed to have notice of, and are entitled to the benefit of, and are bound by the Agency Agreement. The original of the Agency Agreement is held by the Fiscal Agent on behalf of the Noteholders and Couponholders at its specified office.

A copy of the Agency Agreement is available for inspection during normal business hours by the Noteholders and Couponholders at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent and the Paying Agents shall include any successor appointed under the Agency Agreement.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are in bearer form, serially numbered, in the denomination of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof up to and including U.S.\$399,000 with Coupons attached on issue. No Notes in definitive form will be issued with a denomination above U.S.\$399,000.

1.2 Title

Title to the Notes and to the Coupons will pass upon delivery.

1.3 Holder Absolute Owner

The Issuer and any Paying Agent may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon).

2. STATUS

2.1 The Notes and any related Coupons will constitute direct, unsecured, subordinated obligations of the Issuer and shall, in the case of a Subordination Event and for so long as that Subordination Event subsists, rank:

- (i) subordinate in right of payment to the payment of all Senior Obligations;
- (ii) *pari passu* without any preference among themselves and equally with all Parity Obligations; and

(iii) senior to all payments in respect of Junior Obligations.

By virtue of such subordination under this Condition, no amount will, in the case of a Subordination Event and for so long as that Subordination Event is in existence, be paid, until all payment obligations in respect of Senior Obligations have been satisfied.

2.2 No Set-off or Counterclaim

All payments made by the Issuer relating to the Notes or the Coupons must be calculated and made without set-off or counterclaim. In addition, by virtue of the subordination hereunder, following a Subordination Event that is existing and prior to all Senior Obligations being satisfied, no holder of the Notes or Coupons shall exercise any right of set-off or counterclaim, whether contractual or statutory, in respect of any amount owed to such holder by the Issuer and any such right shall be deemed to be waived.

2.3 No Link to Derivative Transactions

The Notes will not be linked to any derivative transaction or derivative contract in a way which would result in violation of articles 8(1)(c) and (d) of the Banking Regulation and Supervision Agency (*Bankacılık Düzenleme ve Denetleme Kurumu*) (the **BRSA**) of the Republic of Turkey (**Turkey**) Regulation on the Equity of Banks (*published in the Official Gazette dated November 1, 2006, No.26333*) (as amended from time to time) (the **BRSA Regulation**) or the subject of any guarantees in any manner.

In these Conditions:

Junior Obligations means any class of share capital (including ordinary and preferred shares) of the Issuer along with any present and future undated or perpetual subordinated indebtedness including any obligations arising out of any other subordinated loans or debt (as defined in Article 7 of the BRSA Regulation) that are expressed to rank junior to the Issuer's obligations under the Notes.

Parity Obligations means any securities or other instruments issued by the Issuer, including any future or existing dated subordinated loans (as defined in Article 8 of the BRSA Regulation) that are expressed to rank *pari passu* with the Issuer's obligations under the Notes.

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

Subordination Event means any distribution of the assets of the Issuer on a dissolution, winding-up or liquidation of the Issuer whether in bankruptcy, insolvency, receivership, voluntary or mandatory reorganisation or indebtedness (*konkordato*) or any analogous proceedings referred to in the Banking Act (Law No. 5411), the Turkish Commercial Code (Law No. 6762) and the Turkish Execution and Bankruptcy Code (Law No. 2004).

Tax means any tax, levy, fund, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest) including, without limitation, the Banking and Insurance Transactions Tax (*Banka Sigorta Muameleleri Vergisi*) imposed by Article 33 of the Expenditure Law (No: 6802), income withholding tax pursuant to the Decree of the Council of Ministers of Turkey (Decree No. 2011/1854) regarding Articles 15 and 30 of the Corporations Income Tax Law (No: 5520) and Article 94 and Temporary Article 67 of the Income Tax Law (No: 193), any reverse VAT imposed by VAT Law (Law No. 3065), any stamp tax imposed by Stamp Tax Law (Law No.

488) and any anti-tax haven tax imposed by Article 30.7 of Corporations Income Tax Law (Law No. 5520).

3. INTEREST

3.1 Interest Payment Dates

The Notes bear interest from and including 14 May 2012 (the **Interest Commencement Date**), and interest will be payable semi-annually in arrear on the 14th day of May and November in each year from and including 14 November 2012 to and including 14 May 2024, save as provided below (each, an **Interest Payment Date**). If there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur, such Interest Payment Date shall be the last day that is a Business Day (as defined below) in the relevant month. If any Interest Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month, in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. If an Interest Payment Date falls on the last Business Day of a month, each subsequent Interest Payment Date shall be the last Business Day of the sixth month after the month in which the preceding Interest Payment Date fell. The period from and including the Interest Commencement Date to but excluding the first Interest Payment Date, and each successive period from and including an Interest Payment Date to but excluding the next succeeding Interest Payment Date, is called an **Accrual Period**.

3.2 Interest Accrual

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

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 10.

3.3 Rate of Interest

The rate of interest payable from time to time in respect of the Notes will be determined on the basis of the following provisions:

- (a) On the second London Banking Day before the first day of each Accrual Period (the **Interest Determination Date**), the Fiscal Agent or its successor duly appointed pursuant to the Agency Agreement (in such capacity, the **Agent Bank**) will determine the Reference Rate (as defined below) for the relevant Accrual Period which appears, for information purposes only, at or about 11.00 a.m. (London time) on that Interest Determination Date in question, on the display designated as page LIBOR01 on Reuters (or such other page or service as may replace it for the purpose of displaying the London interbank offered rate (**LIBOR**)).
- (b) If the Reference Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks (as defined below) to provide the Agent Bank with the rate at which deposits in U.S. dollars are offered by it to prime banks in the London interbank market for six months (expressed as a percentage rate per annum) at approximately 11.00

a.m. (London time) on the Interest Determination Date in question. If the Reference Rate is unavailable, and at least two of the Reference Banks provide such rates, the Reference Rate for such Accrual Period shall be the arithmetic mean of such rates (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) as determined by the Agent Bank.

- (c) If fewer than two rates are provided as requested, the Reference Rate for that Accrual Period will be the most recent Reference Rate that was in effect for a preceding Accrual Period.
- (d) In these Conditions (except where otherwise defined), the expression:
 - (i) **Business Day** means a day which is both 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 Luxembourg, Istanbul and New York City;
 - (ii) **London Banking Day** means any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London;
 - (iii) **Margin** means 5.750 per cent.;
 - (iv) **Reference Banks** means the principal London office of each of the four major banks engaged in the London inter-bank market (excluding for such purposes the Fiscal Agent and its affiliates) selected by the Agent Bank, provided that once a Reference Bank has been selected by the Agent Bank, that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such; and
 - (v) **Reference Rate** means LIBOR, expressed as a percentage rate per annum, for six (6) month U.S. dollar deposits commencing on the first day of the relevant Accrual Period

3.4 Determination of Rate of Interest and Interest Amount

The Agent Bank shall, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Reference Rate and amount of interest payable (each an **Interest Amount**) (if any) on the relevant Interest Payment Date in respect of each U.S.\$1,000 principal amount of Notes for the relevant Accrual Period. The Interest Amount shall be determined by applying the sum of the Reference Rate and the Margin to such principal amount, multiplying the resulting amount by the actual number of days in the Accrual Period concerned divided by 360 and rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

3.5 Publication of Rate of Interest and Interest Amounts

The Agent Bank shall cause the Rate of Interest and the Interest Amount for each Accrual Period and the related Interest Payment Date to be notified to the Issuer, the Fiscal Agent and to any stock exchange or other relevant authority on which the Notes are at the relevant time listed (by no later than the first day of each Accrual Period) and to be published in accordance with Condition 10 as soon as possible after their determination, and in no event later than the second Business Day thereafter. The Reference Rate and Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Accrual Period.

3.6 Notifications, etc. to be Final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition, whether by the Reference Banks (or any of them) or the Agent Bank, will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agents and all Noteholders and Couponholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer or the Noteholders or the Couponholders shall attach to the Reference Banks (or any of them), the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

3.7 Agent Bank

The Issuer shall procure that, so long as any of the Notes remains outstanding, there is at all times an Agent Bank for the purposes of the Notes and the Issuer may terminate the appointment of the Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or failing duly to determine the Rate of Interest and the Interest Amount for any Accrual Period, the Issuer shall appoint the London office of another major bank engaged in the London interbank market to act in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed.

4. PAYMENTS

4.1 Payments in respect of Notes

Payments of principal and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

4.2 Method of Payment

Payments will be made by credit or transfer to a U.S. dollar account (or any other account to which U.S. dollars may be credited or transferred) specified by the payee or, at the option of the payee, by U.S. dollar cheque.

4.3 Missing Unmatured Coupons

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 6.2) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 7) or, if later, five years after the date on which the Coupon would have become due, but not thereafter. Upon the date on which any Note becomes due and repayable, all unmatured Coupons appertaining to the Note (whether or not attached) shall become void and no payment shall be made in respect of such Coupons.

4.4 Payments subject to Applicable Laws

Payments in respect of principal and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 6.

4.5 Payment only on a Presentation Date

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 3, be entitled to any further interest or other payment if a Presentation Date is after the due date.

Presentation Date means a day which (subject to Condition 7):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a U.S. dollar account as referred to above, is a Business Day in New York City.

In this Condition, **Business Day** means, in relation to any place, 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 that place and New York City.

4.6 Initial Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

- (a) there will at all times be a Fiscal Agent and an Agent Bank;
- (b) there will at all times be at least one Paying Agent (which may be the Fiscal Agent) having its specified office in a European city which so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market of the Luxembourg Stock Exchange shall be Luxembourg; and
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices given to the Noteholders promptly by the Issuer in accordance with Condition 10.

5. REDEMPTION AND PURCHASE

5.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on the Interest Payment Date falling in May 2024.

5.2 Redemption for Taxation Reasons

If:

- (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 6.2), or any change in the official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 14 May 2012, on the next Interest Payment Date;
 - (i) the Issuer would be required to pay additional amounts as provided or referred to in Condition 6.3; and
 - (ii) the Issuer would be required to make any withholding as deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction, beyond the prevailing applicable rates on 14 May 2012; and
- (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 10 (which notice shall be irrevocable) and subject (in each case only if required) to having obtained approval from the BRSA for the redemption of the Notes prior to the publication of such notice and from the ACP (provided that at the time of such notice the Notes constitute regulatory capital of the BNP Paribas Group under the ACP Regulation) and/or the NBB (provided that at the time of such notice the Notes constitute regulatory capital of any relevant member(s) of the BNP Paribas Group under the Belgian Regulations), redeem all the Notes, but not some only, on the next Interest Payment Date at their principal amount together with interest accrued to but excluding the date of redemption. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall also deliver to the Fiscal Agent: (i) a certificate signed by two authorised signatories of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it; (ii) the BRSA's approval for such redemption of the Notes; and (iii) an opinion of independent tax 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.

In these Conditions:

ACP means the French Autorité de contrôle prudentiel.

ACP Regulation means the Règlement 90-02 dated 23 February 1990, as amended, of the Comité de la Réglementation Bancaire et Financière or any Regulation of the European Parliament and of the Council or any capital adequacy regulation of the Ministère de l'économie, des finances et de l'Industrie or of the ACP or any succeeding or other supervisory authority having authority to adopt capital adequacy regulation with respect to BNP Paribas SA on a consolidated basis.

Belgian Regulations means (i) the Belgian Law of 22 March 1993 on the status and supervision of credit institutions and its implementing royal decrees and (ii) any implementing measures adopted by the Belgian Financial Services and Markets Authority (or its predecessor, the Banking, Finance and Insurance Commission) or by the NBB.

BNP Paribas Group means BNP Paribas SA and its consolidated subsidiaries.

NBB means the National Bank of Belgium.

5.3 Redemption at the Option of the Issuer

The Issuer may, at its option, having given:

- (a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 10; and
- (b) notice to the Fiscal Agent not less than 15 days before the giving of the notice referred to in (a);

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes on the Interest Payment Date falling on 14 May 2019 (the **Optional Early Redemption Date**) at their principal amount together with interest accrued to but excluding the date of redemption provided that the Issuer has obtained the prior approval for such redemption from:

- (i) the BRSA; and
- (ii) the ACP (provided that at the time of publication of any notice of redemption pursuant to this Condition 5.3 the Notes constitute regulatory capital of the BNP Paribas Group under the ACP Regulation); and
- (iii) the NBB (provided that at the time of publication of any notice of redemption pursuant to this Condition 5.3 the Notes constitute regulatory capital of the of any relevant member(s) of the BNP Paribas Group under the Belgian Regulations).

5.4 Optional Redemption Following a Capital Disqualification Event

The Issuer may, at its option, having given:

- (a) not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 10; and
- (b) notice to the Fiscal Agent not less than 15 days before the giving of the notice referred to in (a);

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all but not some only of the Notes at their principal amount together with interest accrued to but excluding the date of redemption following the occurrence of a Capital Disqualification Event subject (in each case, only if required) to having obtained prior approval from the BRSA, the ACP (provided that at the time of exercise of such option, the Notes constitute regulatory capital of the BNP Paribas Group under the ACP Regulation) and the NBB (provided that at the time of the exercise of such option, the Notes constitute regulatory capital of any relevant member(s) of the BNP Paribas Group under the Belgian Regulations).

A **Capital Disqualification Event** will occur if, as a result of any change in applicable law, the BRSA Regulation, (or the application or official interpretation thereof), the principal amount of the Notes ceases to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) for inclusion as regulatory capital of the Issuer.

5.5 Purchases/Assignments

Pursuant to Article 8 of the BRSA Regulation, the Notes shall not be assigned and/or transferred to any of the Issuer's affiliates (the term affiliate as defined in the Banking Law (Law No. 5411)) or

Subsidiaries. The Issuer, to the extent permitted by applicable laws and subject to approval by the BRSA, the ACP (provided that at the time of such purchase, the Notes constitute regulatory capital of the BNP Paribas Group under the ACP Regulation) and the NBB (provided that at the time of such purchase, the Notes constitute regulatory capital of any relevant member(s) of the BNP Paribas Group under the Belgian Regulations), may at any time after the Interest Payment Date falling on 14 May 2019, purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price.

In these Conditions:

Subsidiary means in relation to any person (the **first person**) at any particular time, any other person (the **second person**):

- (a) whose affairs and policies the first person controls or has power to control or has a significant influence, whether by ownership or share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.

5.6 Cancellations

All Notes which are (a) redeemed or (b) purchased by the Issuer will forthwith be cancelled, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, and accordingly may not be reissued or resold.

5.7 Notices Final

Upon the expiry of any notice as is referred to in paragraph 5.2, 5.3 or 5.4 above, the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

6. TAXATION

6.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and 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 the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or
- (b) presented for payment by or on behalf of a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or

- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Presentation Date (as defined in Condition 4.5).

6.2 Interpretation

In these Conditions:

- (a) **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 10; and
- (b) **Relevant Jurisdiction** means the Republic of Turkey or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes and Coupons.

6.3 Additional Amounts

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

7. PRESCRIPTION

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 4.

8. ENFORCEMENT

Subject to Condition 2, the holder of any Note may give notice to the Issuer that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment, if (a)(i) any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer or (ii) a Subordination Event shall have occurred (each an **Event of Default**) and (b) such event is continuing.

9. REPLACEMENT OF NOTES AND COUPONS

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent or the Paying Agent in Luxembourg, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to

evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

10. NOTICES

10.1 Notices to the Noteholders

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Issuer may decide and, so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market of the Luxembourg Stock Exchange and the rules of that exchange so require, in one daily newspaper published in Luxembourg. It is expected that publication will normally be made in the *Financial Times* and the *Luxemburger Wort* or the *Tageblatt*. For so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market of the Luxembourg Stock Exchange, notices may also be published on the website of the Luxembourg Stock Exchange. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any 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. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition 10.

11. MEETINGS OF NOTEHOLDERS AND MODIFICATION

11.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification of certain of these Conditions the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

11.2 Modification

The Fiscal Agent may agree, without the consent of the Noteholders or Couponholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in any other manner which is not materially prejudicial to the interests of the Noteholders. Any modification shall be binding on the Noteholders and the Couponholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 10.

12. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes.

13. GOVERNING LAW AND SUBMISSION TO JURISDICTION

13.1 Governing Law

The Agency Agreement, the Deed of Covenant, the Notes and the Coupons, including Condition 13.2 (and any non-contractual obligations arising out of or in connection with any of them) are governed by, and will be construed in accordance with, English law, except for the provisions related to subordination specifically set forth under Turkish banking legislation which are governed by, and will be construed in accordance with, the laws of Turkey.

13.2 Arbitration

Any dispute, controversy or claim arising out of or relating to (1) the Deed of Covenant, the Notes and the Coupons, (2) the breach, termination or invalidity hereof or (3) any non-contractual obligations arising out of or in connection with the Deed of Covenant, the Notes or the Coupons shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force. There shall be one arbitrator, who shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions and the appointing authority shall be LCIA (London Court of International Arbitration). The seat and place of arbitration shall be London, England and the English language shall be used throughout the arbitral proceedings. The parties hereby waive any rights under the Arbitration Act 1996 or otherwise to appeal any arbitration award to, or to seek determination of a preliminary point of law by, the courts of England. The arbitral tribunal shall not be authorised to grant, and the Issuer agrees that it shall not seek from any judicial authority, any interim measures or pre-award relief against any Noteholder or Couponholder, any provisions of the UNCITRAL Arbitration Rules notwithstanding.

The arbitral tribunal shall have authority to consider and include in any proceeding, decision or award any further dispute properly brought before it by any Noteholder or Couponholder insofar as such dispute arises out the Notes or the Coupons, but, subject to the foregoing, no other parties or other disputes shall be included in, or consolidated with, the arbitral proceedings. In any arbitral proceeding, the certificate of a Noteholder or Couponholder as to any amount due to such Noteholder or Couponholder under the Notes or the Coupons shall be prima facie evidence of such amount.

13.3 Turkish Proceedings

The Issuer agrees, without prejudice to the enforcement and recognition of any arbitral award obtained pursuant to this Condition 13 according to the provisions of Articles 60, 61 and 62 of the International Private and Procedure Law of Turkey (Law No. 5718), that in the event that any action is brought in relation to the Issuer in a court in Turkey in connection with the Notes or the Coupons (and any non-contractual obligations arising out of or in connection with the Notes or the Coupons), in addition to other permissible legal evidence, an arbitral award obtained pursuant to this Condition 13 in connection with such action shall constitute conclusive evidence of the existence and amount of the claim against the Issuer pursuant to the first paragraph of Article 193 of the Civil Procedure

Code of Turkey (Law No. 6100) and Article 63 of the International Private and Procedure Law of Turkey (Law No. 5718).

14. RIGHTS OF THIRD PARTIES

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

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

*The following is a summary of the provisions to be contained in the Temporary Global Note and the Permanent Global Note (together the **Global Notes**) which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.*

1. Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only if:

- (a) an event of default (as set out in Condition 8) has occurred and is continuing; or
- (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 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 Notes in definitive form.

The Issuer will promptly give notice to Noteholders if an Exchange Event occurs. In the case of (a) or (b) above, the holder of the Permanent Global Note, acting on the instructions of one or more of the Accountholders (as defined below), may give notice to the Issuer and the Fiscal Agent and, in the case of (c) above, the Issuer may give notice to the Fiscal Agent of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall surrender the Permanent Global Note to or to the order of the Fiscal Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given, being a day on which banks are open for general business in the place in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

2. Payments

On or after 25 June 2012, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Global Note will, subject as set out below, be made to the bearer of such Global Note against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, against surrender of such Global Note to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. Payments of interest on the Temporary Global Note (if permitted by the first

sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 10, provided that, so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market of the Luxembourg Stock Exchange and the rules of that exchange so require, notice will also be given by publication in a daily newspaper published in Luxembourg if and to the extent that the rules of the Luxembourg Stock Exchange so require or published on the website of the Luxembourg Stock Exchange (www.bourse.lu). Any such notice shall be deemed to have been given to the Noteholders on the day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

4. Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Fiscal Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose. Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or 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 Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of that principal amount for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notices to the Issuer pursuant to Condition 8) other than with respect to the payment of principal and interest on the principal amount of such Notes, the right to which shall be vested, as against the Issuer solely in the bearer of the relevant Global Note in accordance with and subject to its terms. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

5. Prescription

Claims against the Issuer in respect of principal and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 6.2).

6. Cancellation

Cancellation of any Note represented by a Global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Fiscal Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

7. Euroclear and Clearstream, Luxembourg

Notes represented by a Global Note are transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as appropriate. References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system through which interests in the Notes are held.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, amounting to approximately U.S.\$65,000,000 will be applied by the Issuer for its general banking purposes.

DESCRIPTION OF THE ISSUER

OVERVIEW AND HISTORICAL BACKGROUND

Türk Ekonomi Bankası A.Ş (the **Bank** or **TEB** and, together with its subsidiaries, the **TEB Group**) was established for an unlimited duration in 1927 as a joint-stock company in Turkey. The Bank's Istanbul trade registration number is 189356, its registered address is TEB Kampüs, C & D Blok Saray Mah. Sokullu Cad. No:7A-7B, Ümraniye 34768, Istanbul and telephone number is: +90 216 6353535.

The Bank (originally incorporated on 26 January 1927 under the name Kocaeli Halk Bankası A.S.) began life as a small-scale regional bank. The Çolakoğlu Group acquired Kocaeli Halk Bankası A.S. in 1982 with a view to developing it into a full service financial institution. The Bank's name was subsequently changed to Türk Ekonomi Bankası A.S. and its services were expanded to cover corporate and commercial banking as well as treasury activities and private and retail banking. TEB has been expanding its branch network over the last decade and currently offers its products and services through 507 branches throughout Turkey, three in Northern Cyprus and one off-shore branch in the Kingdom of Bahrain. The Bank also has Turkish subsidiaries which offer, amongst other things, factoring, brokerage and investment banking and asset management services and a subsidiary bank incorporated in The Netherlands.

In February 2000, the Bank's shares were listed for the first time on the Istanbul Stock Exchange and (in the form of global depositary receipts) on the London Stock Exchange plc as part of the Bank's initial public offering of shares. As at 31 December 2011, the Bank had an authorised and issued share capital of TRY 2,204,390,000. The Bank's shares have a nominal value of TRY 1.00 each.

On 10 February 2005, shares representing 50 per cent of TEB Holding A.Ş. were acquired by BNP Paribas (the **Acquisition**); the remaining shares being owned by the Çolakoglu Group. TEB Mali Yatirimlar A.S. owned 84.25 per cent. of the Bank and, as a result of the Acquisition, BNP Paribas became an indirect shareholder of the Bank controlling 42.125 per cent. of its share capital.

In 2009, BNP Paribas acquired 75 per cent. of Fortis Bank, Asset Management and Private Banking and 25 per cent. of Fortis Insurance Belgium via Fortis Bank; as well as 66 per cent. of BGL in Luxembourg. In June 2010, BNP Paribas and the Çolakoğlu Group, the indirect majority shareholders in TEB, entered a memorandum of understanding relating to a proposed merger of TEB and Fortis Bank Turkey, a subsidiary of Fortis Bank Belgium. The merger (the **Merger**) was legally completed in February 2011 through the transfer of all the assets and liabilities in Fortis Bank Turkey to TEB. Shortly after that, the operational merger was started and completed successfully three months ahead of schedule. This successful and rapid merger enabled the Bank to focus on growth in the second half of 2011. Following the Merger, TEB's market share of both loans and deposits increased to 3.7 per cent. and 3.1 per cent., respectively, from 2.3 per cent. and 1.7 per cent., respectively, at 31 December 2011.

CAPITAL STRUCTURE

The table below describes TEB's ownership structure at 31 December 2011.

Shareholder	Nominal value of	
	shares owned	Percentage owned
	(TRY)	
TEB Holding A.Ş ⁽¹⁾	1,212,414,499.99	55.00
BNP Paribas Yatirimlar Holding A.Ş. ⁽²⁾	514,615,804.52	23.34
BNP Paribas Fortis Yatirimlar Holding A.Ş. ⁽²⁾	376,583,806.50	17.08

Public shareholders	99,555,987.05	4.52
Other shareholders	1,219,901.84	0.06
Total	2,204,390,000.00	100.00

Notes:

- (1) 50 per cent. owned by BNPP Fortis Yatırım Holding A.Ş. and 50 per cent. owned by Çolakoğlu Group Joint Venture.
- (2) A BNP Paribas Group Company.

TEB is listed on the Istanbul Stock Exchange and 4.52 per cent. of its shares are currently publicly traded. TEB's publicly traded shares have also been listed and traded as global depository receipts on the London Stock Exchange plc since 2000.

CREDIT RATINGS

The Bank's current ratings by Moody's Investor Services, Inc. (**Moody's**) and Fitch Ratings Ltd (**Fitch**) are as follows:

August 2011 / Moody's

Bank Financial Strength	D+
Long Term Foreign Currency Deposits	Ba3/NP

November 2011 / Fitch

Foreign Currency Commitments

Long Term Deposits	BBB-
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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 organisation.

STRATEGY

The Bank's overall business strategy is to:

- Maintain the strong market share achieved through the merger with Fortis Bank Turkey;
- Increase profitability through merger related synergies while effectively managing costs;
- Further enhance the Bank's market position through organic growth aiming at customer base expansion as well as deepened relationships with existing customers;
- Provide innovative products to the market with a financial market philosophy to address customer expectations and necessities;
- Deliver best-in class customer experience;
- Promote alternative distribution channels; and
- Excel in human resources, information technology and operational competency.

In the near future, the strategic priority is to leverage the strengths in a number of important business areas described below.

Corporate Banking

Corporate marketing, cash management and international banking have traditionally been among the Bank's strongest areas of business in terms of market share in Turkey and continue to be at the core of TEB's business following the Merger. TEB intends to increase further its market share of business with the most significant companies in Turkey and to enhance its multinational client base by leveraging BNP Paribas' global network and relationships.

SME Banking

TEB's SME Banking Group serves enterprises that have an annual turnover not exceeding TRY 30 million in three different sub-segments, being Micro Business, SME and SME Plus Banking and two domains, being Gold and Agriculture Banking. TEB aims to analyse the financial and non-financial needs of its SME customers and to design products and services to meet these needs, see "*Business Activities - SME Banking Group*".

Retail Banking

In line with the developments in Turkey's economy and market conditions, Retail Banking, including consumer banking, affluent banking, bancassurance, alternative distribution channels and credit cards, is expected to continue to be a major contributor to TEB's loan growth and profitability.

Retail banking is an area where TEB enjoys synergies with BNP Paribas and working groups are continuing to create new retail products to offer to clients as well as to improve the Bank's service quality, risk management and credit scoring models.

Private Banking

Private banking is an important funding source for the Bank which seeks to differentiate itself from its competitors through the quality of service and the wide range of products it provides. The Bank's management believes that synergies exist with BNP Paribas Wealth Management that could provide scope for further expansion and intends to focus on developing these synergies in the near future. Following the Merger, the Bank established a new "TEB Private Banking" unit by combining the existing units of each merged bank. The new unit targets customers with assets of at least TL 500.000 (previously the Bank had focussed on customers with assets of at TL 1 million) and a single point of contact approach has been adopted by the new unit. Additionally, the Merger delivered three new private banking locations, increasing these locations to a total of eight.

Targeted Geographic Expansion

Following the Merger, TEB has 598 branches throughout Turkey, almost twice the size of its pre-merger network. In the period between 2011 and 2013, TEB plans to open new branches and to relocate, merge or close certain overlapping branches. As of year-end 2011, the number of branches has been reduced to 507 due to the implementation of the aforementioned plan for network optimisation and efficiency purposes. However, the Bank aims to have 650 branches by the end of 2013. TEB also has approximately 1,000 automated teller machines (ATMs) across the country to serve its customers.

Improving Cost Efficiency and Risk Management

Following the Merger, TEB initiated a re-engineering project jointly with BNP Paribas with the goal of ensuring that TEB's operations are capable of sustaining future growth in a cost efficient and less risky manner. TEB's target is to maintain an efficient bank with a low cost /income ratio. To achieve this, all business lines and supporting groups are revising their structures. Group Risk Management has also established a new five divisional organisation to assess, monitor and report market, liquidity, interest rate and

credit and counterparty risks. New functions and responsibilities for Group Risk Management include rating modelling and validation, subsidiaries risk management, senior credit officers, counterparty risk and collateral management monitoring. .

GROUP STRUCTURE

TEB is the parent company within the TEB Group. As at 31 December 2011, TEB's principal subsidiaries included the following:

Subsidiary	Country of incorporation	Holding (%)
The Economy Bank N.V. (TEB NV)	Netherlands	100.00
TEB Yatırım Menkul Değerler A.S.. (TEB Yatırım)	Turkey	100.00
TEB Faktoring A.S.. (TEB Faktoring)	Turkey	100.00
TEB Portföy Yönetimi A.S.. (TEB Portföy)	Turkey	54.75

Set out below is a brief description of these principal subsidiaries.

TEB N.V.

TEB NV was founded in 1998 in The Netherlands. TEB NV provides services in the areas of international trade finance, forfeiting, treasury and private banking, offering a wide range of professional services and financing to companies engaged in international trade.

TEB Yatırım

Established in 1996, TEB Yatırım is active in capital market operations such as securities and derivatives brokerage, securities repo commitments, investment consultancy, short selling and securities borrowing and lending transactions and related custody services.

TEB Faktoring

TEB Faktoring was founded in September 1997 to offer factoring services in Turkey and abroad. TEB Faktoring aims to offer a wide range of factoring services to companies of various sizes in different sectors. TEB Faktoring was awarded the "Best Export Factoring Company" in 2010 by the members of Factors Chain International.

TEB Portföy

Established in 1999, TEB Portföy is a discretionary portfolio manager. At 31 December 2011, TEB Portföy managed a total of 409 portfolios, consisting of 35 TEB, 5 TEB Yatırım, 2 Fortis Bank and 3 Fortis Yatırım mutual funds. At the same time, TEB Portföy managed 2 pension funds for Anadolu Hayat Emeklilik, 8 pension funds for BNP Paribas Cardif Emeklilik and provided portfolio management services for its corporate and individual customers.

BUSINESS ACTIVITIES

Overview

The Bank has five profit-generating business lines: Corporate Banking, SME Banking, Retail Banking, Private Banking and ALM and Treasury. The TEB Group provides banking, leasing, factoring, brokerage, insurance, portfolio management and investment banking services through these groups and separate subsidiary companies to customers resident in Turkey and abroad.

For accounting purposes, the TEB Group’s business activities are classified within three business segments: “retail banking”, “corporate banking” and “other”. For these purposes, “retail banking” principally comprises the TEB Group’s retail and small business and private banking business lines, “corporate banking” principally comprises corporate and commercial business lines and The Economy Bank N.V. and “other (including ALM and Treasury)” principally comprises activities associated with TEB’s headquarters and its other principal subsidiaries.

A summary of certain financial information for each of these segments for the twelve months period ended 31 December 2011 is set out below. Comparative information for prior periods does not exist as the Bank adopted new segments following the Merger:

	Year ended at 31 December 2011				
	Retail Banking	Corporate Banking	Other	Eliminations	Group Banking
	<i>(TRY thousands)</i>				
Total revenues	457,650	1,062,651	273,942	(1,821)	1,792,422
Operating profit	106,111	552,084	(292,569)	(1,425)	364,201
Net profit	106,111	552,084	(352,482)	(19,895)	285,818
Total assets	7,637,870	19,221,946	13,562,140	(237,092)	40,184,864
Total liabilities	11,781,235	12,288,533	11,654,355	(57,978)	35,666,145

Corporate Banking

Overview

As at 31 December 2011, the Bank had approximately 3,000 Corporate Banking customers.

The TEB Group, through the Corporate Banking business line, offers diversified products and services to multinationals and the most significant Turkish companies through 20 Corporate Banking Centres located in eight cities throughout Turkey. These products include a range of traditional banking products, such as unsecured working capital loans and cash management services (see further below).

The Corporate Banking business line also offers a range of other products to certain clients, including:

- Commodity finance;
- Letters of credit;
- Receivables and lease receivables financing;
- Promissory notes and bills of exchange financing;
- Trade finance;
- Project finance; and
- Investment banking services (including in connection with corporate mergers and acquisitions, initial public offers of securities and corporate bonds). These products are offered in conjunction with TEB Yatirim and BNP Paribas.

In addition to the Bank's local experience in Turkey, BNP Paribas' global knowledge, distribution network and project finance solutions can also be provided to clients of the Bank. In particular, the Bank believes that it offers advantageous terms in tenor, pricing and service for transactions in emerging markets such as Morocco, Tunisia, Algeria and Qatar.

Cash Management Services

Corporate Banking provides cash management services relating to the collection and payment transactions carried out by corporate and commercial customers. These services are divided into collection and payment services. Collection services include automated cheque clearing, domestic incoming wire transfers, export collection, cash collection, automated mail order and automated virtual point of sale. Payment services include automated supplier payments, automated import payments, cheques, utility payments, tax payments and custom duty payments. In addition, TEB has unique mobile cash management systems for its corporate customers, including Mobile Direct Debit System (a mobile phone application for direct debit services), MobiliTEB (a computer application for the same purpose) and Mobil-ink (an internal workflow and bank instruction management portal that enables the Bank's customers to create and sign bank instructions by electronic or mobile electronic signature and send them to the Bank for processing).

Cross Selling and Incentives

The Cross Selling and Incentives Division coordinates cross selling activities in Corporate Banking Group. The division's functions include developing cross sales and synergies with BNP CIB (Corporate Investment Banking) Group and TEB's subsidiaries and Business Lines (TEB Arval, TEB Factoring, Leasing, TEB Investment), offering structured loan products, cooperating with BNPP Bahrain for Structured Finance products and developing cooperation opportunities with supranational institutions.

The synergy between TEB and BNP Paribas increased the number of banking transactions through TEB performed by TEB customers who have investments in Turkey. Relations with BNP Paribas Corporate and Investment Banking (CIB) product groups has continued to evolve. The aim is to create new business opportunities in diversified products in other CIB products, to communicate with respective BNP Paribas Business Lines on a transaction basis. Creating synergy with the business lines within the Bank and the subsidiaries is a crucial strategy for the division. The objective is to establish regular communication between the two sides to capitalise on business opportunities.

The mid-sized Structured Finance department targets the openings in the market for transactions in acquisition financing, CAPEX financing, refinancing and restructuring. Depending on the nature and scope of the transaction, the Group also considers syndicated transactions.

SME Banking

Overview

As at 31 December 2011, the SME Banking business line served approximately 657,000 customers in three sub-segments, consisting of Micro Business, SME and SME Plus Banking and two domains consisting of Gold and Agriculture Banking. The Micro Business sub-segment serves customers whose annual turnover is less than TRY 1.5 million and SME Banking sub-segment serves customers with annual turnover of between TRY 1.5 and 15 million whilst the SME Plus sub-segment serves customers who have annual turnover of between TRY 15 and TRY 30 million. The Agriculture and Gold Banking domains concentrate on customers who are specifically operating in these sectors.

The SME Banking Business Line offers its clients a range of products and services, including:

- Cash and non-cash loans;

- Project finance products, investment loans and letters of credit; and
- Cash management services, see “- *Corporate Banking - Cash Management Services*”

The SME Banking Business Line aims to analyse the financial and non-financial needs of its SME customers and to design products and services to meet those needs.

In 2005, TEB entered into a co-operation agreement with the Credit Guarantee Fund (**CGF**) which allows SMEs to make greater use of loans, allowing them to benefit from long-term and cost-efficient loans. As part of its cooperation with the CGF, the Bank encourages entrepreneurship and contributes to economic growth and development by creating an additional credit facility opportunity.

In 2010, TEB received a loan of €50 million from the French Development Agency (*Agence Française de Développement*) (**AFD**) to be used to enable SMEs to finance their energy saving related investment projects with credits of up to eight years in maturity.

Examples of the non-financial services which the SME Banking Business Line offers its customers include TEB SME Academy Corporate Development Training sessions which focus on areas such as strategy, foreign trade, marketing and institutionalisation, TEB SME TV, consultancy services, and a multilingual communications platform.

TEB SME TV offers a platform where experts answer questions raised by SMEs on matters such as taxation, social security, business law, state incentives, business management and, since 2010, foreign trade. A total of more than 5,000 questions were forwarded to TEB SME TV experts in 2011, with the service receiving 4.5 million visitors annually. Members of TEB SME TV also have free access to KOBILINGO, a multilingual communications platform which allows SME executives to communicate in their own language through instantaneous translation. Currently more than 60 languages are supported.

Retail Banking

Overview

As at 31 December 2011 the Retail Banking business line had approximately 3,200,000 customers. The Retail Banking business line includes the TEB Group's consumer banking, affluent banking, bancassurance, alternative distribution channels and credit card units.

Consumer Banking

Retail Banking offers the Bank's customers a wide range of retail products, including: demand and time deposit accounts and a range of different loan products such as housing, car and personal loans, overdraft accounts, credit cards (issued in association with Visa and MasterCard) and debit cards. Applications for personal loans can be made by SMS, over the internet (through teb.com.tr) and through the Bank's call centre.

Retail Banking also offers investment products such as A & B type mutual funds, Capital Guaranteed funds, “Damla” Gold Account (which enables customer to save money through monthly instalment payments and was launched in September 2011), Marifetli Account (which is a deposit product that pays interest daily and allows flexibility to customers such as depositing money, withdrawing money and accumulation, was launched in December 2011), Gold demand and time deposits (which is a deposit account that enables the customer to buy grams of gold by secure means) and the ‘Pratik Account’ (which is an excess liquidity management account that invests extra cash in a customer's account in money market funds, sells mutual funds as the need arises and pays all utility bills, credit cards and other payments).

Retail Banking aims to build the image of an innovative and dynamic bank by offering products and services that respond to target customer needs. Through this strategy, TEB aims to develop advanced deposit instruments to target core deposits and improve its deposit distribution, acquisition and retention.

The TEB Doctors Package and TEB Dentists Package have also been launched, which aims to cover daily needs and support professional development beyond banking transactions.

As of 31 December 2011, there were a total of 507 branches, with 503 branches across Turkey, three in Northern Cyprus and one branch in the Kingdom of Bahrain. The Bank's current branch footprint covers 59 out of the 81 cities in Turkey.

Out of the 503 domestic branches, 20 are corporate branches and 470 are mixed branches serving individuals, SMEs and micro businesses. There are three mixed branches in Northern Cyprus. The remaining branches in the domestic market are more specialised and comprise branches located in car dealerships or focussing on specific aspects of banking such as custody, private banking and payroll banking.

Affluent Banking

TEB provides affluent banking services in 90 of its branches through 93 representatives.

Affluent banking customers are defined as those with assets in excess of TRY 100,000. Affluent Banking customers are offered advantageous pricing and credit card services as well as asset management services, including mutual funds, principal protected funds, Yildiz PRO (a close ended portfolio management service), options, gold and currency trades.

Affluent Banking targets owners of SME's, senior managers of large companies, retirees and professionals such as doctors and lawyers as its core customer base and aims to become a leading provider of affluent banking services within three years in terms of the number of customers serviced.

Bancassurance

TEB offers both life and non-life insurance and pension products to its customers through its branches and call centre. TEB has exclusive agency agreements with:

- BNP Paribas Cardif Life for the sale of payment protection life and unemployment insurance;
- BNP Paribas Cardif Pension for the sale of private pension plans and term life insurance; and
- Zurich Insurance for the sale of non-life insurance.

TEB aims to position itself as a single provider where a customer can get all the insurance products that it requires and, in this respect, seeks to analyse the insurance needs of its customers and to offer them the most appropriate insurance product range. TEB continually seeks to improve the range of products that it offers and to improve the quality of service it provides. TEB also believes that its retail, affluent and private banking customers offer significant scope for growing its bancassurance business.

Alternative Distribution Channels

At 31 December 2011, TEB had 885 ATMs throughout Turkey. Through an ATM sharing agreement with Ortak, which is an ATM sharing alliance between 26 banks, TEB's customers have access to over 32,000 ATMs in Turkey. TEB's customers may withdraw cash, check their balances and receive cash advance through their credit cards on all these ATMs. TEB intends to expand the number of its ATMs and to improve their functionality with a view to increasing profitability and awareness of the TEB brand.

Although TEB has a 2.07 per cent. market share in terms of the number of ATMs, in the eight month period to 31 December 2011 it had a 13.01 per cent. share of international card transactions, being cash withdrawal or cash advance transactions made by foreign tourists using the Bank's ATMs.

TEB has an extensive network of point of sale terminals with a 6.11 per cent. market share (in terms of volume of transactions) and a 6.86 per cent. market share (in terms of number of terminals) in December 2011, in each case the fifth largest share.

TEB was the first financial institution in Turkey to launch an I-phone application and its mobile banking service, CEPTETEB, is currently used by 4.1 per cent. of all Internet Banking users. TEB has also launched a debit card with an LCD display which can be used to produce a One Time Password (OTP) for internet branch login. At the launch date, this was the first debit card producing OTP in the world.

TEB's online banking service, "Practical Internet Branch", is an innovative financial service which was ranked second in the 2010 "Altın Örümcek" Web Awards and third in the 2011 awards (www.altinorumcek.com). TEB's web site, teb.com.tr, is visited around 3.5 million times by around 1.4 million people per month. In 2010 and 2011, TEB won nine awards at Web Awards, the most prestigious competition of the online world, with TEB Practical Internet Branch and its websites. In the Financial Services category of Interactive Media Awards 2011, which recognises the highest standards of excellence in website design and development, TEB won four awards which are "Best in Class Award" with its corporate website www.teb.com.tr and TEB Star Banking website www.tebyildiz.com, "Outstanding Achievement Award" with TEB Private Banking website www.tebozel.com and TEB University Banking website www.universiteb.com.tr. TEB also won two Silver Awards in Davey Awards 2011 with www.tebbonus.com and Outstanding Website Award with TEB Practical Internet Branch's advergame www.aztuslupiyano.com.

Credit Cards

TEB currently has approximately 2 million credit cards in issue. TEB seeks to differentiate its credit cards through discounts and specific benefits offered with the cards and continue to increase its customer satisfaction levels through offering a different and unique product range.

TEB also has a significant footprint within the "business card" segment in the market, with a sound market share at 4.88 per cent.. As of 31 December 2011 based on figures released by Turkish Interbank Credit Card Centre.

Private Banking

TEB believes that it was the first institution to offer private banking services in Turkey when it began offering these services in the 1980s. TEB's Private Banking group offers its customers (usually high net worth individuals) a range of products, including those relating to wealth management, banking products, investment products, discretionary portfolio management and secondary products including advisory services such as commercial real estate, tax and other advisory services.

First Private Banking iPad Application from TEB Private Banking

TEB Private Banking launched first Private Banking iPad Application in Turkey. Application is accessible only by TEB Private Banking Clients. Clients can download the application via Apple's AppStore and they can view daily financial updates, realtime market data, update on the TEB Private Banking Campaign and news. Through the TEB Private Public Board they can post adverts and articles that they want to share with the other clients within TEB Private Banking Network and view posted items.

TEB's Private Banking business line operates in a centralised format from its head office, which is located in Etiler, İstanbul, and through eight regional sales management teams. The regional areas are Istanbul-Asia,

Istanbul-Europe 1 and 2, Izmir, Bursa, Ankara, Antalya and Adana. The sales teams offer qualified Private Banking services to all high net worth clients of the branches in their designated regional area.

Apart from the Private Banking central team and the Private Banking representatives located in regional offices, Private Banking activities are also carried on by qualified private bankers located in corporate branches in which there is a relatively high number of private banking clients sourced from corporate banking relationships. Clients referred to these branches are mostly the owners, shareholders and executives of companies and their families who use TEB's corporate or commercial branches.

The major aim of the Private Banking business line is to develop a deep, long-term banking relationship with its customers, to understand their investment profiles and risk concerns fully and to be able to offer them exclusively tailored products and solutions

ALM and Treasury

The ALM and Treasury Group directs the Bank's policy relating to asset and liability management in accordance with the policies set by the Asset and Liabilities Management Committee (**ALCO**) (see "*Management – Committees*" below). The ALM department assesses and manages the TEB Group's balance sheet, its interest and liquidity gap positions and its available for sale and held to maturity securities portfolios, reporting to the ALCO and Board of Directors on these matters.

The Bank's ALM and Treasury group is divided into two units:

The ALM Division is responsible for administering the balance sheet of the bank by assigning the transfer pricing cost for all products to the network, controlling the Bank's long-term interest rate and liquidity gaps, hedging the Bank asset/liabilities book and managing the investment portfolio. While aiming to achieve the Net Interest Income budgeted by the Bank, the ALM is also responsible for making sure the Bank adheres to the financial ratios either internally set up by the Board of Directors or externally dictated by formal financial governing bodies such as the BRSA. Furthermore, the ALM cooperates with global financial institutions to manage the bank's balance sheet more precisely under a financial engineering scope, investigating all alternatives from bank bond issuance to complex derivative transactions. The ALM uses state-of-the-art Risk and ALM software, and with the help of the IT department, has become one of the pioneering ALM desks in Turkey.

The Treasury Division is responsible for managing the short term liquidity needs of the bank by funding the bank's balance sheet or placing excess liquidity. As needed, it searches for alternative funding sources, developing new funding techniques or products and improving currently used ones. The Treasury is also responsible for managing the EFT system and closely monitoring Central Bank of Turkey's monetary policies in order to maximize the profit and minimize the risk of the bank.

Foreign Trade Finance

Based on trade statistics as of the year end 2011, new TEB's share reached in international payments up to 9.5%. The number of the international guarantees sent from our bank reached up to 11% market share while the received guarantees reaching to 8.3%. The export L/C share of the new bank exceeded 8.5% while the same ratio reached to 5% for the import L/C's. TEB is targeting to reach 10 per cent market share by the end of 2013 for the foreign trade volume of the country. Including import and export figures, the yearly volume of foreign trade transactions of new TEB was around U.S.\$ 19 billion as of 2011. TEB has a correspondent relationship with over 2,500 banks in 120 countries. As a result of the Acquisition and Merger with Fortis, TEB's international trade position has been strengthened through access to BNP Paribas' 90 Trade Centres in more than 55 countries, including five in Turkey offering all international trade finance products and services including advisory service focusing client portfolio basis.

The Bank also acts as an intermediary for the medium and long term capital goods imports of its clients in different countries under various export credit agency schemes.

INFORMATION TECHNOLOGY

TEB's Information Technology group is responsible for the TEB Group's information technology (IT) strategy and planning and all related technical services. It assesses the TEB Group's future operational needs and develops and implements, or identifies and acquires, new IT systems to meet them, in each case with reference to the TEB Group's overall technology strategy and primary aim of delivering efficient, cost-effective systems and solutions.

The TEB Group's key strategic objectives in relation to IT are:

- To continue to support the business strategy by translating banking and financial business requirements into cost-effective technology solutions;
- To improve the productivity, cost efficiency and operational efficiency of its IT processes;
- To provide and support alternative product distribution channels such as telephone banking and internet banking for all of its customer base (both corporate and retail);
- To promote synergy across the TEB Group through common and, where possible, integrated applications for cross selling products and services; and
- To ensure security, data backup, disaster recovery, network support and maintenance throughout all the IT systems in the TEB Group.

HUMAN RESOURCES

As at 31 December 2011, the Bank and the TEB Group employed 9,356 and 10,359 members of staff, respectively.

The Human Resources group aims to ensure, through best practices and reward programmes, that a sufficient number of talented and high quality individuals are recruited and retained. To further that aim, the Bank has recently implemented a job evaluation programme which seeks to motivate and reward high performers and compensate staff for their work in accordance with market rates.

RISK MANAGEMENT

Overview of the TEB Group's Risk Policy

In common with other financial institutions, the TEB Group's activities involve risk taking. These risks include (i) market risks (such as interest rate, currency exchange rate and equity, bond and commodity price risks), (ii) credit risk, (iii) liquidity risk and (iv) operational risk. Each of these risks is described in more detail below.

Group Risk Management (**GRM**) supervises the overall risk management process within the TEB Group. The function of GRM is to work in co-operation with executive management in order to ensure that the risks assumed by the TEB Group are in accordance with the GRM's policies and are compatible with its profitability and credit-rating objectives. GRM reports to the Board of Directors through the Audit Committee (see "*- Management - Committees*" below) and is responsible for identifying, measuring, monitoring and reporting the principal risks assumed by the TEB Group.

GRM works as part of the Audit Committee and its primary function is to identify and assess risks. In this connection, GRM cooperates with both the compliance and internal control and the internal audit departments during the process of identifying, detecting and evaluating risks in accordance with the Audit Committee's charter and policies. GRM is also responsible for preparing the risk management strategies and policies of the TEB Group and for submitting them through the Audit Committee for approval by the Board of Directors.

GRM has a number of permanent responsibilities:

- **Policy:** formulating recommendations for risk-taking policies and contributing to approving new products or activities from a risk standpoint;
- **Follow-up and monitoring:** guaranteeing the quality and efficiency of the procedures used to monitor risks and verifying compliance by those to whom power has been delegated. GRM also monitors data relating to the TEB Group's positions and prices; monitors risk exposure; identifies and monitors violations of credit limits; analyses possible risk scenarios; outlines and reports risk exposures; and ensures coordination with other units and business areas;
- **Validation:** approving risk analysis and measurement tools and techniques for new models and approving specific methods and tools used by various business lines to measure risk; including, where relevant, obtaining approval of relevant banking authorities or regulators for the use of such internal measurement techniques; and
- **Reporting:** ensuring exhaustive and reliable reporting of the Bank's risks to the Board, Audit Committee, General Management, auditors, banking authorities, rating agencies and, eventually, financial markets as well as managing relationships with the banking authorities, auditors and rating agencies in so far as risk management issues are concerned.

Each operating company within the TEB Group is required to implement the TEB Group's risk management policies and procedures. A senior risk manager is appointed within the GRM to ensure the effective monitoring of risks.

Market Risk

Market risks arise from changes in interest rates, currency exchange rates and equity, bond and commodity prices. The objective of the TEB Group's market risk management is to manage and control market risk exposures in order to optimise returns while maintaining the TEB Group's conservative risk profile. Market risks are continually monitored and controlled according to the policies and limits set by the Board of Directors through the Risk Capital Market Division.

The Board of Directors determines market risk limits which are monitored on a daily basis. These limits are revised periodically in line with the strategies of the TEB Group and BNP Paribas. The TEB Group uses a range of measures to monitor market risk, including value at risk (**VaR**) analysis, PVO1 (a price sensitivity measure in relation to bond yields), stop loss and nominal position limits. Market risk is calculated for TEB using an historical simulation method with a one year observation period (250 working days), a 99 per cent. confidence interval and a one-day holding period. Regular stress tests and scenario analysis are also applied to the TEB Group's trading portfolios.

All trading positions are marked to market on a daily basis in compliance with the regulatory requirements of the BRSA, the Turkish Central Bank (the **Central Bank**) and other authorities.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the value of financial instruments. The TEB Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period.

The first priority of the Bank is to protect its position from interest rate volatility. ALCO manages interest rate risk and the GRM analyses interest rate duration, maturity and sensitivity using risk management programmes and reports to ALCO and the Board of Directors.

Simulations on interest income are performed in connection with the forecasted economic indicators used in the Bank's budget. In addition, stress testing by applying interest rate shocks to the balance sheet is also used to assess and understand interest rate risk. Interest rate shocks are applied to each interest rate sensitive instrument by currency breakdown and can be immediate shocks, linear increasing or decreasing shocks and non-parallel shocks.

The Bank's management follows the market interest rates daily and revises the interest rates of the Bank when necessary.

The table below sets out the TEB Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date as at 31 December 2011 and 31 December 2010.

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non- interest bearing	Total
<i>(TRY thousands)</i>						
As at 31 December 2011						
Assets:						
Cash and balances with central banks	137,030	-	-	-	4,087,832	4,224,862
Deposits with and loans due from banks and other financial institutions	444,640	126,312	243,863	-	155,173	969,988
Other money market placements	510,975	-	-	-	-	510,975
Financial assets at fair value through profit and loss	205,912	102,628	287,930	373,832	306,415	1,276,717
Derivatives used for hedging purposes	-	-	1,526	15,838	5,436	22,800
Available-for-sale financial assets	643,573	383,893	1,730,785	1,914,681	25,013	4,697,945
Loans and receivables	9,391,315	1,976,894	4,032,079	10,489,618	204,045	26,093,951
Remeasurement adjustment on interest rate risk hedged portfolios	-	-	-	11,554	-	11,554

Held to maturity investments	-	-	362	20,862	-	21,224
Factoring receivables, net	467,221	235,645	112,918	-	2,649	818,433
Premises and equipment	-	-	-	-	264,311	264,311
Intangible assets	-	-	-	-	20,133	20,133
Goodwill	-	-	-	-	420,645	420,645
Deferred tax asset	-	-	-	-	117,381	117,381
Other assets	417	-	-	-	713,528	713,945
Total assets	11,801,083	2,825,372	6,409,463	12,826,385	6,322,561	40,184,864
Liabilities						
Deposits from other banks	931,858	3,780	4,141	-	192,648	1,132,427
Customers' deposits	15,248,433	3,389,472	404,507	102,295	3,820,316	22,965,023
Other money market deposits	1,104,748	-	-	-	-	1,104,748
Financial liabilities at fair value through profit and loss	3,943	14,135	16,374	6,311	233,036	273,799
Derivative financial instruments held for hedging	-	-	4,281	46,166	-	50,447
Factoring payables	-	-	-	-	6,510	6,510
Marketable securities issued	249,107	-	-	-	-	249,107
Funds borrowed	2,226,381	2,421,923	3,024,009	488,856	-	8,161,169
Other liabilities	180,613	2,063	-	-	1,344,240	1,526,916
Provisions	-	-	-	-	169,251	169,251
Income taxes payable	-	-	-	-	26,748	26,748
Total liabilities	19,945,083	5,831,373	3,453,312	643,628	5,792,749	35,666,145
Balance sheet interest sensitivity gap	(8,144,000)	(3,006,001)	2,956,151	12,182,757	529,812	4,518,719
As at 31 December 2010						
Total assets	6,830,795	1,464,573	3,113,384	6,432,756	3,228,062	21,069,570
Total liabilities	10,343,925	2,837,740	2,141,686	477,451	3,287,836	19,088,638

Net interest sensitivity gap	(3,513,130)	(1,373,167)	971,698	5,955,305	(59,774)	1,980,932
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Currency Exchange Rate Risk

Currency exchange rate risk is the risk of a loss arising through exchange rate movements in the market. In assessing this risk, all foreign currency assets, and liabilities and off balance sheet derivative transactions of the Bank are taken into consideration. To assess the possible losses that the Bank could face, VaR is calculated using the historical method.

All fixed income traders are given VaR limits for their FX positions and FX position limits that are set by currency breakdown are followed up and reported daily. As an additional element of the Bank's risk management strategies, foreign currency liabilities are hedged against exchange rate risk using derivative instruments.

The table below summarises the TEB Group's exposures in foreign currencies as at each of 31 December 2011 and 31 December 2010

	Turkish lira	Euro	U.S. dollars	Other	Total
	<i>(TRY thousands)</i>				
As at 31 December 2011					
Total assets	27,075,456	4,892,180	7,012,378	1,204,850	40,184,864
Total liabilities	20,953,700	5,897,092	7,855,596	959,757	35,666,145
Net balance sheet position	6,121,756	(1,004,912)	(843,218)	245,093	4,518,719
Off balance sheet position	(2,193,261)	1,647,059	876,693	(237,808)	92,683
Net position	3,928,495	642,147	33,475	7,285	4,611,402
As at 31 December 2010					
Total assets	14,138,975	2,454,506	3,930,326	545,763	21,069,570
Total liabilities	12,012,443	3,389,498	3,397,045	289,652	19,088,638
Net balance sheet position	2,126,532	(934,992)	533,281	256,111	1,980,932
Off balance sheet position	45,890	1,210,668	(694,898)	(229,470)	332,190
Net position	2,172,422	275,676	(161,617)	26,641	2,313,122

Credit Risk

Credit risk is the risk that one party to a contract will fail to discharge an obligation and cause the other party to incur a financial loss. The TEB Group is exposed to credit risk through its lending, trade finance; treasury and leasing activities but credit risk may arise in other circumstances. Concentrations of credit risk arise when a number of customers are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The TEB Group's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard

is a function of carrying assets on the consolidated balance sheet. In addition, the TEB Group is exposed to off balance sheet credit risk through contingent liabilities assumed by it.

The authority to extend lies with the Board of Directors which has delegated part of this authority to the Credit Committee and the General Manager. In turn, the General Manager has delegated part of his authority to Credit Groups on the basis of rules approved by the Board of Directors.

Credit decisions are taken after loan proposals are first approved by a credit analyst together with the credit department and the related business line. Credit limits are allocated to borrowers identified as having the ability to generate cashflow, the ability to make repayments from their business operations, reliable financial data, strong shareholder's equity and an administration and partnership structure made up of people having high morality and business experience.

In general, the TEB Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, continually assessing the creditworthiness of counterparties, diversifying its lending activities to avoid undue concentrations of risks with individuals or groups of customers or industries, and by obtaining collateral when appropriate. The credit limits applied are determined in accordance with counterparty's financial structure, certain qualitative criteria (as described below) and the quality of any collateral to be provided.

The Bank uses an in-house credit rating system, named TEBCORE (TEB Counterparty Risk & Rating Evaluation), which consists of several rating models for corporates and SMEs in the production, service, construction and precious metal sectors. The TEBCORE rating models are hybrid models combining both statistical and expert aspects. Each rating model incorporates a financial module derived from the borrower's financial statements (balance sheet and income statement) and a non-financial module resulting from a qualitative questionnaire. A final layer, called warning signals, captures recent negative triggers such as a material increase in indebtedness or negative risk occurrences related to the company and/or shareholders of the company concerned. The proposed borrower is then assigned a rating within a 30 point master scale (with 1+ being the best and 10- the worst ratings assigned). Two further scales, 11 and 12, are used for defaulting borrowers. TEB uses the same master scale used by BNP Paribas.

The stand alone rating at this stage represents the intrinsic rating and parental support can then be applied in accordance with predetermined criteria. In addition, an expert or a committee can apply override principles to a rating. The rating after taking account of parental support (if any) and an override (if any) is the counterparty rating and is used for the purposes of assessing IFRS general provisions, credit reporting, portfolio management and stress testing.

The three main groups of ratings and their ratio in the Bank's total performing credit portfolio as at 31 December 2011 is shown below:

Credit Rating System

Credit risk is assessed through the internal rating system of the Issuer, by classifying loans from the highest to lowest grade according to the probability of default.

Consumer loans and Micro SME loans are excluded from such internal rating system (as they are subject to a separate scoring and decisional system).

As of 31 December 2011, these loans constitute of 35 per cent of the loan portfolio. The risks that are subject to rating models can be allocated as follows:

Category	Description of Category	Share in the Total Per cent.
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1st Category	Where the borrower has a very strong financial structure	29.22
2nd Category	Where the borrower has a good financial structure	30.16
3rd Category	Where the borrower has an intermediate level of financial structure	32.53
4th Category	Where the financial structure of the borrower has to be closely monitored in the medium run	8.09
Total		100.00

As of 31 December 2010, these loans are 37 per cent. of the total loan portfolio. The risks that are subject to rating models can be allocated as follows:

Category	Description of Category	Share in the Total Per cent.
1st Category	Where the borrower has a very strong financial structure	28.56
2nd Category	Where the borrower has a good financial structure	19.63
3rd Category	Where the borrower has an intermediate financial structure	33.68
4th Category	Where the financial structure of the borrower has to be closely monitored in the medium term	18.13
Total		100.00

In the case of retail credit applications; the branch receives an application form and all other required documents from the customer and enters the required information into TEB's banking system (TEBIS) to start the application process. The application passes through a decisional workflow system which applies policy rules, internal-external controls and scoring metrics. The application is then accepted, rejected or referred by the workflow system. All applications which are referred are evaluated manually by the Retail Credits Allocation Division.

GRM reports to the Board of Directors and the Audit Committee on a regular basis presenting risk concentrations, a breakdown of the Bank's loan portfolio by ratings, specific segments of the loan portfolio, large exposures, large non-performing accounts and impairment allowances as well as default and recovery rates.

The credit risks and limits related to financial institutions are determined by the Financial Institutions and Counterparty Risk Committee, which is a sub-committee of the Credit Committee. The limits and exposure set are monitored daily by GRM.

Where a loan is granted subject to collateral being given, the Bank's policy is to require the collateral to be perfected before funds are advanced and to avoid currency and maturity mismatches. All collateral (including real estate) should be given in a legally valid manner and should be liquid in nature. The Bank applies loan to value (LTV) limits in relation to collateral given with a view to eliminating its exposure to volatility through marking-to-market the value of collateral. All physical collateral must be insured.

For retail instalment loans, limits and terms given are defined according to a payment to income ratio, a loan to income ratio and an LTV ratio. LTV ratios are used in particular for car loans and mortgage loans and are computed as the ratio between the limit of the new credit and the value of the good financed. For mortgage loans, the maximum LTV is 75 per cent.

The Bank classifies as non-performing any loan which is 90 days or more overdue as to either principal or interest. Both collective and specific provisions are made with methodologies which are compliant with both IFRS standards and BNP Paribas methodologies.

Collective provisions aim to cover all expected losses on facilities which have similar characteristics. For the corporate, commercial and SME portfolios, collective provisions are calculated on facility basis (using an exposure by exposure approach) and the internal portfolio based rating systems determine whether there will be a collective provision or not. For the other portfolios, such as retail and micro SME; a collective provision is calculated for delinquent customers according to their probabilities of default and recovery performances.

For each non-performing loan (NPL) in excess of TRY 250,000 and all Corporate non-performing loans; specific provisions are calculated manually, taking guarantees and the risks of the companies into account. Probable collections under the affected loans for the next three years are estimated and then discounted to the balance sheet date. When discounting the probable collections, the interest rate used for the discounting is the loan's original interest rate. The specific impairment is provided after deducting these discounted expected cash flows from the total risk.

For NPLs of less than TRY 250,000, a statistical methodology is applied under which the current capital amount, the capital amount as of the follow-up date, the NPL period, the follow-up date and details of any guarantees are obtained from the system. Current recovery rates are then calculated and discounted reference recovery rates are used in order to calculate the specific provisions. The Credit Monitoring and Administrative Follow-up Division is responsible for reporting the update regarding NPL and specific provisions monthly. GRM also analyses the movement in NPL and specific provisions and reports to Audit Committee.

NPLs are only written-off after all legal action for the collection of the debt has been exhausted and no further collection is expected or in the case of the bankruptcy of the debtor.

The table below provides certain ratios in relation to the Bank's NPLs at 31 December 2011 and 31 December 2010.

	31 December 2011		31 December 2010	
	_____		_____	
Total loan loss provision (excluding portfolio reserve)/non-performing loans	73.00	per	65.44	per
	cent.		cent.	
Total loan loss provision (excluding portfolio reserve)/gross loans	2.05 per cent.		1.94 per cent.	

Liquidity Risk

Liquidity risk occurs when there is insufficient cash or cash inflows to meet net funding requirements when due. Liquidity risk may also occur when open positions cannot be closed quickly at suitable prices. The Bank's policy is to establish an asset structure that is sufficiently liquid to meet all kinds of liabilities as they fall due.

The management of liquidity and funding is primarily carried out by the operating companies within the TEB Group in accordance with TEB Group liquidity standards and the limits set by their respective Boards of Directors. It is the general policy of the TEB Group that each operating entity should be self sufficient in funding its own operations. The TEB Group's liquidity management process includes projections of cash flows, monitoring balance sheet ratios against internal and regulatory requirements, maintaining a diverse range of funding sources, managing the concentration of risk, managing maturity mismatches and maintaining contingency plans with regard to liquidity and funding. See "*Selected Financial Information – Funding*".

In relation to funding and liquidity sources, the Bank covers the majority of its liquidity needs by deposits from customers and, in addition to this source, makes use of pre-financing and syndication products to generate additional sources of liquidity. The Bank's investments held on its balance sheet principally comprise Turkish sovereign indebtedness. The Turkish central bank guarantees a liquid market in most of these securities.

The table below summarises the maturity profile of the TEB Group's assets and liabilities as at 31 December 2011 and 31 December 2010 based on contractual repayment arrangements.

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Unallocat ed	Total
<i>(TRY thousands)</i>						
As at 31 December 2011						
Assets						
Cash and balances with central banks	4,224,862	-	-	-	-	4,224,862
Deposits with and loans from banks and other financial institutions	489,619	126,312	280,133	73,924	-	969,988
Other money market placements	510,975	-	-	-	-	510,975
Financial assets at fair value through profit and loss	247,858	166,898	456,314	405,647	-	1,276,717
Derivatives used for hedging purposes	-	-	1,526	21,274	-	22,800
Available-for-sale financial assets	185,245	75,948	1,305,528	3,106,211	25,013	4,697,945
Loans and receivables	9,217,168	1,497,717	4,037,719	11,137,302	204,045	26,093,951
Remeasurement adjustment on interest rate risk hedged portfolio	-	-	-	11,554	-	11,554
Held-to-maturity investments	-	-	362	20,862	-	21,224
Factoring receivables, net	467,221	235,645	112,918	-	2,649	818,433
Premises and equipment	-	-	-	-	264,311	264,311
Intangible assets	-	-	-	-	20,133	20,133
Goodwill	-	-	-	-	420,645	420,645
Deferred tax asset	-	-	-	-	117,381	117,381
Other assets	6,425	245	273	-	707,002	713,945

Total assets	15,349,373	2,102,765	6,194,773	14,776,774	1,761,179	40,184,864
Liabilities						
Deposits from other banks, customers' deposits	1,124,506	3,780	4,141	-	-	1,132,427
Customers' deposits	19,068,749	3,389,472	404,507	102,295	-	22,965,023
Other money market deposits	1,104,748	-	-	-	-	1,104,748
Financial liabilities at fair value through profit and loss	83,443	57,785	115,962	16,609	-	273,799
Derivatives used for hedging purposes	-	-	4,281	46,166	-	50,447
Factoring payables	6,510	-	-	-	-	6,510
Marketable securities issued	249,107	-	-	-	-	249,107
Funds borrowed	1,833,767	1,951,491	2,579,528	1,796,383	-	8,161,169
Other liabilities	1,499,486	4,555	10,285	128	12,462	1,526,916
Provisions	-	-	-	-	169,251	169,251
Income taxes payable	-	-	26,748	-	-	26,748
Total liabilities	24,970,316	5,407,083	3,145,452	1,961,581	181,713	35,666,145
Net liquidity gap	(9,620,943)	(3,304,318)	3,049,321	12,815,193	1,579,466	4,518,719
As at 31 December 2010						
Total assets	9,313,137	1,137,417	2,698,966	7,560,267	359,783	21,069,570
Total liabilities	13,196,137	2,849,423	2,149,945	836,088	57,045	19,088,638
Net liquidity gap	(3,883,000)	(1,712,006)	549,021	6,724,179	302,738	1,980,932

Operational Risk

Operational risk is defined as the risk resulting from the inadequacy or failure of internal processes, or from external events, that have led or could lead to a loss, a gain or an opportunity cost.

Operational risk, which is inherent in all business activities, is associated with human error, system failure and inadequate controls and procedures. Operational risk includes errors and omissions in business activities, internal and external fraud and natural disasters.

The TEB Group's primary objective is to achieve all qualitative standards laid down by the Basel Committee through employing policies and procedures, ensuring the strict observance of internal codes of conduct and

also developing a strong internal control culture. The TEB Group also aims to ensure compliance with legal and regulatory rules, as well as setting procedures to deal with information security, fraud prevention, contingency planning, disaster recovery and incident management.

Derivatives

In the ordinary course of business, the TEB Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards, swaps, futures and options.

All these transactions are executed in line with the Bank's approved counterparty limits. Also PVO1 limits by currency and maturity breakdown and option delta and vega limits are followed and reported on a daily basis.

The Bank uses netting to mitigate counterparty risk on its derivative transactions. The transactions concerned are executed according to the terms of bilateral or multilateral master agreements that comply with the general provisions of international master agreements such as those published by the International Swaps and Derivatives Association, Inc. (ISDA). Each counterparty limit is set by a sub-committee of the Credit Committee.

INVESTMENTS

The table below sets out the securities held by the TEB Group as at 31 December 2011 and 31 December 2010.

	31 December 2011		31 December 2010			
	Amount	Effective interest rate	Amount	Effective interest rate		
		Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	
<i>(TRY thousands, except percentages)</i>						
Trading securities at fair value						
<i>Debt instruments</i>						
Turkish government bonds and treasury bills	597,864	7.37%- 11.30%	2.28%- 7.00 %	107,764	7.55% - 13.90%	1.94% - 11.88%
Eurobonds issued by the Turkish government	356,439	-	3.47%- 6.50%	4,900	-	2.45% - 5.65%
<i>Derivatives held for trading</i>	322,414	-	-	103,524	-	-
Total trading securities	1,276,717			216,188		
Available-for-sale securities at fair value						
<i>Debt instruments</i>						

Turkish government bonds	4,303,559	6.90%- 11.31%	1.36%- 2.28%	3,116,350	4.50% - 14.70%	2.37% - 9.00%
Turkish treasury bills	-	-	-	3,185	6.13% - 12.69%	2.50% - 4.70%
Eurobonds issued by the Turkish government	369,373	-	1.80%- 5.66%	376,066	-	1.57% - 7.67%
<i>Equity instruments-unlisted</i>	9,227	-	-	12,594	-	-
<i>Equity instruments-listed</i>	5,287	-	-	4,737	-	-
Total available for sale securities at fair value	4,687,446			3,512,932		
Available-for-sale securities at cost						
Equity instruments-unlisted	10,499	-	-	2,079	-	-
Total available for sale securities	4,697,945			3,515,011		
Held-to-maturity securities						
Turkish government bonds	-	-	-	217,604	10.19% - 12.58%	-
Turkish treasury bills	-	-	-	-	-	-
Eurobonds issued by the Turkish government	21,224	-	5.12%- 5.28%	17,415	-	4.81% - 5.25%
Total held-to-maturity securities	21,224			235,019		
Total investment securities	4,719,169			3,750,030		

Trading securities

Trading securities are securities which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exists. Gains or losses on trading securities are recognised in income when realised.

Held-to-maturity securities

Securities with fixed or determinable payments and a fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity.

Held-to-maturity securities are subsequently measured at amortised cost using the effective interest method, less any impairment in value. Amortised cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For securities carried at amortised cost, gains and losses are recognised in income when the securities are de-recognised or impaired, as well as through the amortisation process.

Interest earned whilst holding held-to-maturity securities is reported as interest income.

Available-for-sale securities

Available-for-sale securities are those securities that are designated as available-for-sale or are not classified in any of the two preceding categories (including those which are intended to be held for an undefined time). After initial recognition, available-for-sale securities are measured at fair value. Gains or losses on re-measurement to fair value are recognised as a separate component of equity until the security is de-recognised, or until the security is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. However, interest calculated on available-for-sale securities using the effective interest method is reported as interest income.

Unlisted equity securities classified as available-for-sale securities represent the TEB Group's equity holdings in companies whose shares are not publicly traded. Consequently they are reflected at cost less reserve for impairment, as a reliable estimate of their fair values could not be made.

CAPITAL ADEQUACY

The TEB Group calculates its capital adequacy ratios using methodology prescribed by the BRSA, which complies with the current methodology prescribed by the Basel Committee. As at 31 December 2011 and based on BRSA methodology, the Bank's standalone capital adequacy ratio was 14.23 per cent. The table below sets out summary information related to the Bank's standalone capital adequacy ratio:

	As at 31 December 2011	As at 31 December 2010
	_____	_____
	<i>(TRY thousands)</i>	
Total risk weighted assets (TRWA)	28,035,481	13,122,377
Amount subject to market risk (ASMR)	607,150	694,138
Amount subject to operational risk ⁽¹⁾ ((ASCR) (*)	3,628,847	1,724,813
Shareholders' equity	4,591,376	2,242,780
Shareholders' equity/(TRWA+ASMR+ASCR) *100	14.23	14.43

Note:

(1) Operational risk has been calculated by using the Basic Indicator Approach.

COMPETITION

The Bank faces competition in all of its principal business areas. According to the website of the BRSA there are currently 48 banks operating in Turkey, including four participation banks and six branches of foreign banks established and licensed outside Turkey. The private commercial banks in Turkey can be divided into three groups: large private banks (with a bank-only asset size in excess of TL 1 billion), small private banks (with a bank-only asset size less than TL 1 billion) and banks under foreign control.

It is expected that competition from other banks will continue as additional institutions enter the sector.

The Bank believes that the Merger has significantly enhanced its competitive position. Following the Merger, TEB has more than 500 branches, 9,000 Employees and nearly 1,000 ATMs.

Reflecting the complementary business models of the two merged banks, TEB has more diversified revenue sources, better coverage through its expanded branch network and alternative delivery channel capacity and a more cost efficient operation, despite the significant investments required for the Merger.

With its segment based approach TEB is either already in or is aiming for a top position in non mass markets such as Corporate and Commercial Banking, Private Banking and Affluent Banking. The Bank also has traditionally strong positions in a number of products and services such as Card Acquiring (POS), Gold Banking, Mutual Funds, Bancassurance, Trade Finance and Cash Management.

COMPLIANCE

TEB has an established compliance unit which acts as the focal point for implementing local regulatory and statutory requirements. The compliance unit co-ordinates establishment of sound corporate governance practices, implementation of proper disclosure standards, adherence to best practices and the management of conflicts of interest. TEB's Head of Compliance and Internal Control has overall responsibility for ensuring that TEB complies with all local regulations and with BNP Paribas's procedures and practices with respect to compliance. In accordance with local regulations, TEB has also appointed a designated money laundering reporting officer (**MLRO**) who is responsible for, amongst other things, ensuring that suspicious transactions are identified and reported in accordance with the TEB Group's anti-money laundering policies and procedures.

TEB's policies and procedures concerning compliance are set out in its "Anti-Money laundering and Combating the Financing of Terrorism policies and practices" manual (the **Manual**) which implements various local regulations and policies and practices adopted by BNP Paribas. The heads of each of the business units at TEB's head office and all local and foreign branches of the Bank are required to comply with the Manual. Other subsidiaries and affiliates under the Bank's control are required to devise their own policies and procedures based on local regulations and the basic policies and principles set out in the Manual. The procedures and policies adopted by such subsidiaries and affiliates are audited from time to time by the Bank's committee of inspectors to ensure that they are robust.

The TEB Group has implemented strict customer due diligence policies and procedures and units are precluded from establishing a new business relationship until all the relevant parties to the relationship have been identified. In this connection, TEB has policies and procedures based on both "know your customer" (**KYC**) and "know your transaction" (**KYT**) principles. Its KYC procedures apply at the time that TEB accepts a new client and include a black list stop control-alert mechanism and client acceptance committee. Its KYT procedures apply during the life of a particular transaction and include periodic checks and reports on risky transactions. TEB has also established a programme for periodical awareness training of staff (which includes examinations) and has taken initiatives mandated by local regulations.

The governance of the TEB Group is the direct responsibility of the Board of Directors and remains under continuous review, in order to ensure compliance levels in line with applicable regulatory and international standards.

CORPORATE GOVERNANCE

TEB aims to fully comply with the Communiqué on Determination and Application of Corporate Governance Principles Serial No. IV/54 (*published in the Official Gazette dated 30 December 2011, No. 28158*) issued by the CMB which apply to listed companies and TEB's Board of Directors has established a Board Corporate Governance Committee to regulate and monitor compliance with these principles.

TEB's commitment to transparency and corporate governance has been acknowledged by independent bodies. For example, in 2009, as a result of a survey, titled "Disclosure Intensity and Transparency of Banks listed on the Istanbul Stock Exchange," conducted by Sabancı University and presented at the Corporate Governance Forum of Turkey, TEB was identified as "the most transparent bank" among banks listed on the Istanbul Stock Exchange.

MANAGEMENT

THE BOARD OF DIRECTORS

The Board of Directors is responsible for performing and carrying out the duties assigned to it by the Turkish Commercial Code, the Bank's Articles of Association, the provisions of other laws and regulations and decisions adopted by the Company's General Assembly of Shareholders.

The Board of Directors currently has 10 members. The General Manager is a member of the Board of Directors by virtue of his office.

The Board of Directors meets as and when needed in the course of business. The Chairman or vice chairman of the Board of Directors may call a meeting of the Board of Directors and must do so if requested by at least two other directors. Members of the Board of Directors are elected by the General Assembly for a term of office of not more than three years. Directors may be re-elected when their term of office has expired.

The following table sets forth the members of the Board of Directors and the date of their initial appointment to the Board:

Name	Position	Year appointed
Yavuz Canevi	Chairman	1996
Dr. Akin Akbaygil	Deputy Chairman	2003
Jean-Paul Sabet	Deputy Chairman	2010
Jean Milan Givadinovitch	Board Member	2010
Yves Paul Henri Martrenchar	Board Member	2009
Alain Georges Auguste Fonteneau	Board Member	2011
Varol Civil	Executive Director and General Manager	2003
Ayşe Aşardağ	Board Member	2010
Jean-Yves Fillion	Board Member	2011
Sabri Davaz	Board Member	2012

The business address of each member of the Board of Directors is TEB Kampüs, C & D Blok Saray Mah.Sokullu Cad. No:7A-7B, Ümraniye 34768, Istanbul No member of the Board of Directors has any actual or potential conflict of interest between his or her duties to the Bank and his or her private interests and/or duties.

Brief details of each of the members of the Board of Directors are as follows:

Mr. Yavuz Canevi, Chairman of the Board

2001 – Present TEB Holding A.Ş., Member of the Board
1996 – Present Türk Ekonomi Bankasi A.S., Chairman of the Board
1993- Present Turkish Industrial Development Bank (TSKB), Member of the Board
1993 – 2005 ISE (Istanbul Stock Exchange), Deputy Chairman and Member of the Board
1989 – 2005 EUROTURK BANK, Member of the Board and Managing Director
1987 – 1989 Turk Eximbank, Turkey, Chairman of the Board

1986 – 1989 Prime Ministry, Undersecretary of Treasury and Foreign Trade
1984 – 1986 Central Bank of Turkey, Governor
1980 – 1984 Central Bank of Turkey, Vice Governor
1979 – 1980 Garanti Bank, Deputy General Manager
1976 – 1979 Central Bank of Turkey, General Manager, International Department
1974 – 1975 Ministry of Finance, Inspector of Finance

Georgia State University, Atlanta, Georgia, USA, Teaching and Post Graduate Studies

University of Southern California, USA, (USC) MA Economics

Ankara University BS

Current Appointments

- TEB Holding A.Ş. , Board Member
- Türk Ekonomi Bankası A.S. (TEB), Chairman of the Board
- Turkish Industrial Development Bank (TSKB), Board Member
- FNSS Defence Systems Inc., Chairman
- TEB Yatirim, Chairman
- TEB N.V. Holland, Chairman of the Supervisory Board
- TEB Holding A.S., Member of the Board
- Hedef Alliance A.S., Member of the Board
- NETAS, Member of the Board

Dr. Akın Akbaygil, Deputy Chairman / Deputy Chairman of Audit Committee

2005- Present TEB Holding A.Ş., Board Member / General Manager
2003-2005 TEB Mali Yatırımlar A.Ş., Deputy Chairman of the Board / General Manager
2008 – Present Türk Ekonomi Bankası A.Ş., Vice Chairman of Audit Committee
2005 – Present TEB Leasing and TEB Factoring, Chairman; TEB Financial Investments, Board Member
2004 – 2007 TEB Asset Management, Chairman
2003 – Present TEB, Vice Chairman and Executive Director and Executive Board Member; TEB Financial Investments, General Manager
2003 – 2005 TEB Financial Investments, Vice Chairman
2001 – 2002 Turkish Banking Association, Vice Chairman
1998 – Present TEB NV, Vice Chairman
1997 – 2005 TEB Insurance, Chairman; TEB Factoring, Board Member
1996 – 2005 TEB Leasing, Board Member
1994 – 2001 Turkish Banking Association, Board Member
1987 – 2003 TEB, Vice Chairman, Executive Member and General Manager
1986 – 2003 TEB Mali Yatırımlar, Board Member
1982 – 1987 TEB, Executive Member
1965 – 1982 Akbank, Director of Foreign Affairs

Istanbul University, Faculty of Economics, BA and PHD

Current Appointments

- TEB Holding A.Ş., Board Member / General Manager
- Türk Ekonomi Bankası A.Ş., Vice Chairman of Audit Committee
- TEB Leasing and TEB Factoring, Chairman; TEB Financial Investments, Board Member

- TEB, Vice Chairman and Executive Director and Executive Board Member; TEB Financial Investments, General Manager
- TEB NV, Vice Chairman

Jean Paul Sabet - Deputy Chairman

- 2010 – Present TEB, Deputy Chairman
 2010 – Present BNP Paribas Retail Banking
 2010/10 – 2010/12 Türk Ekonomi Bankası A.Ş., Audit Committee Member
 2006 – 2009 BNL – BNP Paribas, COO of BNL
 2004 – 2006 BNP Paribas, Board Member of Retail Banking – Head of Retail Banking, Finance and Strategy
 1998 – 2003 KLEPIERRE FRANCE – Board Member
 1973 – 1976 H.E.C. Ecole des Hautes Etudes Commerciales Paris

Current Appointments

- TEB Holding, Board Member
- Türk Ekonomi Bankası A.Ş., Deputy Chairman
- BNL, Banca Nazionale Del Lavoro Italie, Board Member
- BNP Paribas, Retail Banking
- CITRUS LANDS OF LOUISIANA INC. USA, Board Member
- CITRUS LANDS COAL TERMINAL LLC, USA Board Member
- CITRUS LANDS SERVICES LLC, USA Board Member
- CITRUS LANDS LOUISIANA LLC, USA Board Member
- LAMBERT DODART CHANCEREUL (LDC), Board of Trustees

Varol Civil, Board Member and General Manager

- 2003 – Present Türk Ekonomi Bankası; Board Member and General Manager
 1998 – 2003 TEB Mali Yatırımlar; General Manager
 2005 – 2006 TEB Sigorta, Chairman
 2003 – 2004 TEB Sigorta, Deputy Chairman
 2003 – Present TEB N.V., Board Member
 1995 – 1997 Bank Kapital; Board Member and General Manager
 1992 – 1995 Arap Türk Bankası; Assistant General Manager
 1985 – 1992 Prime Ministry Undersecretariat of Treasury and Foreign Trade; Sworn-in Bank Auditor
 1983 – 1984 Türk Ekonomi Bankası; Credits and Insurance Department
 1992 – 1993 Marmara University, Contemporary Business Management Program
 1983 – 1984 Istanbul University, Institute of Social Sciences, Money and Banking
 1978 – 1982 Istanbul University Faculty of Economics, BS in Economics and Business Administration

Current Appointments

- TEB NV, TEB Leasing, TEB Factoring, and TEB Portföy Yönetimi; Board Member
- Türk Ekonomi Bankası A.Ş., General Manager / Board Member

Sabri Davaz, Board Member

- March 2012 - Present TEB A.Ş., Board Member
 2011 - Present TEB Holding A.Ş., Chief Advisor to the Chairman
 2009 - 2011 BRSA Consultant
 2004 - 2009 BRSA Vice Chairman

1998 - 2004	Undersecretariat of Treasury and BRSA Chief Sworn Bank Auditor.
1997 - 1998	Undersecretariat of Treasury, Vice Chairman of the Board of Sworn Bank Auditors.
1989 - 1997	Undersecretariat of Treasury, Sworn Bank Auditor
1985 - 1989	Undersecretariat of Treasury Assistant of Sworn Bank Auditor.
1998 - 2000	Boston University, Financial Economics Master
1980 - 1984	Ankara University, The Faculty of Political Science

Current Appointments

- TEB Faktoring Deputy Chairman
- TEB Sh.A Chairman of the Board
- TEB Leasing Board Member
- Türk Ekonomi Bankası A.Ş., Board Member

Yves Paul Henri Martrenchar, Board Member

2009 - Present	Türk Ekonomi Bankası A.Ş., Board Member
2009 – Present	Bank of the West USA, Board Member
2011 – Present	BNP Paribas Investment Partners, Chairman
2010 – Present	Banque Delaposte Belgique, Board Member
1980 – Present	BNP Paribas Head of Distribution and Centre Markets
1977 – 1980	Ecole Polytechnique

Current Appointments

- BNP Paribas Head of Distribution and Centre Markets
- BNP Paribas Investment Partners, Chairman of the Board
- Banque Delaposte, Belgique, Board Member
- Findomestic, Board Member
- Türk Ekonomi Bankası A.Ş., Board Member
- Bank of the West USA, Board Member
- BancWest Corporation, USA, Board Member
- BNP Paribas Personnel Finance France, Board Member
- BNP Paribas Assurance France, Board Member
- BNP Paribas Real Estate France, Board Member
- Partecis France, Board Member
- BNP Paribas Asset Management France, Board Member
- Parvest Luxembourg, Board Member
- BNP Paribas Board at Cortal Consors France, Board Member – BNP Paribas Permanent Representative

Avşe Aşardağ, Board Member

2001 – Present	TEB Holding, Budget and Financial Control Coordinator
2010 – Present	Türk Ekonomi Bankası A.Ş., Board Member
2011 – Present	The Economy Bank N.V., Board Member
2011 – Present	TEB Faktoring A.Ş. Board Member
2009 – Present	TEB Sh.A. Board Member
1995 – 2001	Türk Ekonomi Bankası A.Ş. Budget and Financial Control Director
1994 – 1995	Biltek / University Glamorgan, Lecturer
1982 – 1987	Boğaziçi University Business Administration

Current Appointments

- The Economy Bank N.V. Board Member
- TEB Faktoring A.Ş. Board Member
- Türk Ekonomi Bankası A.Ş. Board Member
- TEB Sh.A. Board Member
- Ekonomi Bank IBU LTD Board Member
- TEB Holding A.Ş. Budget and Financial Control Coordinator

Jean Yves Fillon Board Member

2011 – Present Türk Ekonomi Bankası A.Ş., Board Member
2011- Present BNPP Fortis Head of Corporate and Investment Banking
1999 – 2010 BNPP US Head of Corporate and Investment Banking
1990 – 1991 Master Degree – HEC Business Administration Institute
1985 – 1987 Paris Dauphine University Bachelors Degree

Jean Milan Charles Dominique Givadinovitch, Board Member/ Chairman of Audit Committee

2010 – Present Türk Ekonomi Bankası A.Ş., Chairman of Audit Committee
2010 – Present Türk Ekonomi Bankası A.Ş., Board Member
2009 – 2010 Türk Ekonomi Bankası A.Ş., Group Risk Management Head
2002 – 2009 BancWest and Bank of the West SAN FRANCISCO USA Internal Control and Audit Director
1997 – 1998 BNP Paribas, France, East Asia Pacific Head
1992 – 1997 BNP UK Assistant General Manager
1975 – 1979 INSTITUT D’ETUDES POLITIQUES DE PARIS – Public Management – Bachelors Degree
1975 – 1978 ECOLE DES HAUTES ETUDES COMMERCIALES(HEC) – Bachelors Degree

Current Appointments

- Türk Ekonomi Bankası A.Ş., Chairman of Audit Committee
- Türk Ekonomi Bankası A.Ş., Board Member
- The Economy Bank N.V., Board Member
- TEB Yatırım Menkul Değerler A.Ş., Board Member
- TEB Portföy Yönetimi A.Ş., Board Member
- TEB Faktoring A.Ş., Board Member

Alain Georges Auguste Fonteneau, Board Member

2011 – Present Türk Ekonomi Bankası A.Ş. Board Member
2009 – Present UKRSIBBANK – UKRAINE, Audit Committee Member
2009 – Present SAE, BNP Paribas, Egypt Board Member
2009 – Present BMCI, Morocco, Audit Committee Member
1995 – Present BNP Paribas, Head of Finance / Retail Banking
1971 – 1975 UNIVERSITE FRANCOIS – RABELLAIS DE TOURS / ECONOMICS

Current Appointments

- Türk Ekonomi Bankası A.Ş. Board Member
- UKRSIBBANK – UKRAINE, Audit Committee Member
- SAE, BNP Paribas, Egypt Board Member

- BMCI, Moracco, Audit Committee Member
- BNP Paribas, Board Member

EXECUTIVE MANAGEMENT

The Executive Management is appointed by the Board of Directors. The following table sets forth the members of the Executive Management:

Name	Position	Year appointed
Varol Civil	General Manager	2003
Mustafa Aşkın Dolaştır	Assistant General Manager	2008
Ümit Leblebici	Assistant General Manager	2001
Levent Çelebioğlu	Assistant General Manager	2004
Turgut Boz	Assistant General Manager	2003
Gökhan Mendi	Assistant General Manager	2011
Gökhan Özdil	Assistant General Manager	2011
Nuri Tuncalı	Assistant General Manager	2001
Osman Durmuş	Assistant General Manager	2008
Nilsen Altıntaş	Assistant General Manager	2005
Saniye Telci	Assistant General Manager	2005
Hakan Tıraşın	Head of Internal Audit Group	2005
Didier Van Heckke	Head of Group Risk Management	2011
Melis Coşan Baban	Assistant General Manager	2008
Başar Ordukaya	Assistant General Manager	2011
Ayşe Korkmaz	Head of Compliance and Control	2005
Arnaud Denis Jean Sebatien Tellier	Assistant General Manager	2011
Mehmet Ali Cer	Assistant General Manager	2011
Akil Özçay	Assistant General Manager	2011

Varol Civil, Board Member and General Manager

2003 – Present	Türk Ekonomi Bankası; Board Member and General Manager
1998 – 2003	TEB Mali Yatırımlar; General Manager
2005 – 2006	TEB Sigorta, Chairman
2003 – 2004	TEB Sigorta, Deputy Chairman
2003 – Present	TEB N.V., Board Member
1995 – 1997	Bank Kapital; Board Member and General Manager
1992 – 1995	Arap Türk Bankası; Assistant General Manager
1985 – 1992	Prime Ministry Undersecretariat of Treasury and Foreign Trade; Sworn-in Bank Auditor
1983 – 1984	Türk Ekonomi Bankası; Credits and Insurance Department
1992 – 1993	Marmara University, Contemporary Business Management Program
1983 – 1984	Istanbul University, Institute of Social Sciences, Money and Banking
1978 – 1982	Istanbul University Faculty of Economics, BS in Economics and Business Administration

Current Appointments

- TEB NV, TEB Leasing, TEB Factoring, and TEB Portföy Yönetimi; Board Member
- Türk Ekonomi Bankası A.Ş., General Manager / Board Member

Mustafa Aşkın Dolacı, Assistant General Manager, Finance Group

- 2008 – Present Türk Ekonomi Bankasi, Assistant General Manager, Financial Control Group
2007 – 2008 TEB Arval/ Faktoring/Leasing, Chief Financial Officer
1998 – 2007 The Economy Bank N.V., Deputy Managing Director
1994 – 1998 Finansbank Holland N.V., Assistant General Manager
1992 – 1994 Commercial Union Hayat Sigorta A.Ş., Assistant General Manager- Financial Control and Administration
1990 – 1992 Finansbank A.Ş. Group head Participations
1986 – 1989 Arthur Anderson & Co Istanbul, Lisbon, London and Cambridge Offices, Senior Auditor
1985 – 1986 The Central Bank of Turkey, Specialist
1984 -1985 Istanbul technical University, Operations Research Department
1983 – 1986 Istanbul Technical University Master Degree in Management Engineering
1979 – 1983 Istanbul Technical University Management Engineering

Ümit Leblebici, Assistant General Manager, ALM and Treasury Group

- 2011 – Present Türk Ekonomi Bankasi, Assistant General Manager, ALM and Treasury Group
2001 – 2010 Türk Ekonomi Bankasi, Assistant General Manager, Treasury Group
1999 – 2001 Türk Ekonomi Bankasi, Director, Treasury Group
1997 – 1999 Osmanli Bankasi; Treasury Manager
1997 – 1997 Ulusal Bank; Treasury Manager
1991 – 1997 Midland Bank; Treasury Manager
1988 – 1994 Istanbul University MBA at Finance Major
1984 – 1988 Istanbul University Faculty of Business Administration

Levent Çelebioglu; Assistant General Manager, Corporate Banking Group

- 2011 – Present Türk Ekonomi Bankasi, Assistant General Manager, Corporate Banking Group
2008 – 2010 Türk Ekonomi Bankasi, Assistant General Manager, Corporate Banking and Financial Ins. Group
2004 – 2008 Türk Ekonomi Bankasi, Assistant General Manager, Financial Institutions Group
1999 – 2004 Türk Ekonomi Bankasi, Director; Structured Finance and Investor Relations Departments
1992 – 1999 Türk Ekonomi Bankasi, Treasury Manager
1988 – 1992 Türk Ekonomi Bankasi, Correspondent Banking Department, Assistant Manager
1987 – 1988 Yasarbank, Correspondent Banking Department, Assistant Manager
1979 – 1983 9 Eylül University, Faculty of Economics, Monetary Economics and Banking Division

Turgut Boz, Assistant General Manager, SME Banking Group

- 2011 – Present Türk Ekonomi Bankasi, Assistant General Manager, SME Banking Group
2003 – 2010 Türk Ekonomi Bankasi, Assistant General Manager, Commercial Banking Group
2000 – 2003 Garanti Bankasi, Commercial Banking Manager
2000 – 2000 Osmanli Bankasi, Commercial Banking Coordinator
1995 – 2000 Finansbank Denizli and Antalya Branch Manager
1994 – 1995 Ata Invest, Denizli Branch Manager
1989 – 1994 Egebank Bornova and Denizli Branch Manager
1986 – 1989 Pamukbank Karabaglar Branch Manager

1981 – 1986 Pamukbank Audit Department, Auditor
1976 – 1980 Ankara University Economics and Trade Academy; Banking and Insurance

Gökhan Mendi, Assistant General Manager, Retail and Private Banking Group

2011 – Present Türk Ekonomi Bankasi, Assistant General Manager, Retail and Private Banking Group
2008 -2011 Fortisbank A.Ş. Retail & Bancassurance Management Board Member
2007 – 2008 Fortisbank A.Ş. Retail & Bancassurance Management Executive Vice President
2001 – 2003 Finansbank N.V. Holland, Executive Vice President
1999 - 2001 CITIBANK INT. PLC/LONDON/UK, Vice President Head of Business Development
1998 - 1999 CITIBANK N.A. / İstanbul/ Turkey, Marketing Director
1998 - 1999 CITIBANK N.A. / İstanbul/ Turkey, Marketing Director
1996 - 1997 CITIBANK N.A. / İstanbul/ Turkey, Sales & Marketing Manager
1996 BEIERSDORF CHEMICAL A.Ş. / İstanbul/ Turkey, Sales & Marketing Manager
1992-1996 BEIERSDORF CHEMICAL A.Ş. / İstanbul/ Turkey, Services & Product Manager
1991 - 1996 British Petroleum/ İstanbul/ Turkey, Marketing Services Manager
1990 - 1991 British Petroleum/ İstanbul/ Turkey, Engineering Manager
2000 -2002 London Business School University, MBA Business
1988 Istanbul University, -MBA Business
1987 Istanbul Technical University, Civil Engineering

Gökhan Özdil; Assistant General Manager, Corporate Credits Group

2011 – Present Türk Ekonomi Bankasi, Assistant General Manager, Corporate Credits Group
2005 – 2011 FORTISBANK A.Ş. Corporate Credits Executive Vice President
2004- 2005 DIŞBANK A.Ş. Credits / Executive Vice President
2000 – 2004 DIŞBANK A.Ş. Asia Corporate Branches
1999 – 2000 DIŞBANK A.Ş. Şişli Branch Manager
1997 – 1999 DIŞBANK A.Ş. Karaköy Branch Manager
1995 – 1997 DIŞBANK A.Ş. Bayrampaşa Branch Manager
1994 – 1995 DIŞBANK A.Ş. Bayrampaşa Branch Assistant Manager
1992 – 1994 DIŞBANK A.Ş. Ankara Branch Assistant Manager
1989 – 1992 DIŞBANK A.Ş. Assistant Auditor
1986 Middle East Technical University Economics

Nuri Tuncali; Assistant General Manager, SME Credits Group

2011 – Present Türk Ekonomi Bankasi, Assistant General Manager, SME Credits Group
2008 – 2010 Türk Ekonomi Bankasi, Assistant General Manager, Corporate and Commercial Credits
2001 – 2008 Türk Ekonomi Bankasi, Assistant General Manager, Credit Allocation and Financial Analysis
1999 – 2001 Türk Ekonomi Bankasi, Credit Allocation Director
1996 – 1999 Türk Ekonomi Bankasi, Credit Allocation Manager
1988 – 1996 Türk Ekonomi Bankasi, Gayrettepe Branch, Credit Allocation Assistant Manager
1986 – 1988 Türk Ekonomi Bankasi, Inspector
1984 – 1986 Akbank, Inspectorate, Inspector
1978 – 1982 Bogaziçi University, Faculty of Economics and Administrative Sciences, Business Administration

Osman Durmuş; Assistant General Manager, Retail and Small Business Credits Group

- 2008 – Present Türk Ekonomi Bankası A.Ş., Assistant General Manager, Retail and Small Business Credits Group
- 1998 – 2008 HSBC/Demirbank A.Ş., Head of Retail and Small Business Credit and Risk Group
- 1997 – 1998 Yapı Kredi Kart Hizmetleri A.Ş., Head of Credit Cards and Risk
- 1986 – 1996 Yapı Kredi Bankası A.Ş., Clerk, Chief Assistant, Specialist, Retail Banking Accounting Department Unit Manager
- 1982 – 1986 Marmara University, Faculty of Press and Media, Journalism and Public Relations Department

Dr. Nilsen Altintas; Assistant General Manager, Human Resources Group

- 2005 – Present Türk Ekonomi Bankasi, Assistant General Manager, Human Resources Group
- 2002 – 2005 Inovasyon Bilisim Danismanlik ve Egitim Hizmetleri Limited; Founder, Management and HR Consultant
- 2000 – 2002 Eczacibasi Holding A.S., Human Resources and Corporate Communications Vice President and Member of the Board
- 1995 – 2000 Eczacibasi Holding A.S., Human Resources Director and Vice President
- 1990 – 1995 STFA Holding A.S., Organization and Human Resources Vice President
- 1987 – 1990 STFA Holding A.S., Investments and Economic Analysis Manager
- 1979 – 1987 TUBTAK- Marmara Scientific and Technical Research Institute, Chemical Technologies Group, Senior Research Scientist
- 1987 Bogaziçi University, Associate Professor Degree
- 1983 Istanbul Technical University, Industrial Chemical Engineering Doctorate
- 1980 – 1982 Copenhagen University, Chemical Engineering, Doctorate
- 1979 Bogaziçi University, Chemical (Process) Engineering Master’s Degree
- 1977 Bogaziçi University, Chemical Engineering

Saniye Telci; Assistant General Manager, Banking Operations Group

- 2005 – Present Türk Ekonomi Bankasi, Assistant General Manager, Banking Operations Group
- 1999 – 2005 Türk Ekonomi Bankas, Operations Director
- 1997 – 1999 Garanti Bank A.S., Operation Center, Operations Manager
- 1994 – 1997 T.Garanti Bank A.S. st.1. Region Operation Management& Kozyatagi Corporate Branch / Operations Manager st.2. Region Operation Management& Istanbul Corporate Branch / Operations Manager
- 1991 – 1994 T.Garanti Bank A.S., st.3. Region Management / Assistant Manager
- 1987 – 1991 T.Garanti Bank A.S. Foreign Trade, Operations Management, Assistant Supervisor – Assistant Manager
- 1987 – 1999 T.Garanti Bank A.S.
- 1984 – 1987 Anadolu Bank T.A.S. Foreign Trade Operations Management Foreign Exchange / Assistant Specialist
- 1977 – 1982 Istanbul University /Faculty of Economics

Hakan Tıraşın; Head of Internal Audit Group- IG Hub Turkey

- 2005 – Present Türk Ekonomi Bankasi; Head of Internal Audit Group- IG Hub Turkey
- 2004 – 2005 Türk Ekonomi Bankasi; Assistant General Manager, Support Operations
- 1992 – 2004 Türk Ekonomi Bankasi, Board General Secretary
- 1989 – 1992 Türk Ekonomi Bankasi, Internal Auditor
- 1973 – 1989 Akbank, Branch Manager and Internal Auditor
- 1972 – 1977 Istanbul University, Faculty of Economics and Administrative Sciences, Business Administration

Didier Van Hecke; Group Risk Management Head

2011 – Present Türk Ekonomi Bankası , Group Risk Management Head
2008 – 2011 FORTISBANK A.Ş.TURKEY Risk Management Executive Vice President
2005 – 2008 FORTISBANK BELGIUM Chief Credit Risk Officer Asia
2003 – 2004 Head of Trading Credit Derivatives
2000 – 2003 Trading Credit Derivatives, Brussels
1999 - 2000 Fortis Bank, Assistant Head of Section Credit Analysis
1991 Katholieke Universiteit Leuven, Belgium Commercial Engineer

Melis Coşan Baban; Assistant General Manager, Legal Affairs

2008 – Present Türk Ekonomi Bankası, Assistant General Manager, Legal Affairs
2005 – 2008 Türk Ekonomi Bankası, Chief Legal Advisor, Board General Secretary
2000 – 2005 Pekin & Pekin Law Firm, Partner
1998 – 2000 Pekin & Pekin Law Firm, Senior Lawyer
1993 – 1998 Postacıoğlu Law Firm, Lawyer
1997 Columbia University, New York, USA, Master of Law (LL.M.)
1995 Istanbul University Law School, Law Degree
1989 Istanbul American Robert College

Başar Ordukaya; Assistant General Manager, Large Corporate Customer Group

2011 - Present Türk Ekonomi Bankası, Assistant General Manager, Large Corporate Customer Group
2005 - 2011 FORTISBANK A.Ş. Corporate Public Banking Executive Vice President
2001 - 2005 DIŞBANK A.Ş. Executive Vice President
2001 DIŞBANK A.Ş. Senior Vice President
1999 - 2001 DIŞBANK A.Ş. Vice President
1998 - 1999 GARANTİ BANKASI A.Ş. Regional Manager
1995 - 1998 İKTİSAT BANKASI A.Ş. Sales Manager
1993 - 1995 AMWAY Sales Coordinator
1993 State University Of West Georgia,-MBA Business
1990 Middle East Technical University, Economy

Ayşe Korkmaz; Group Compliance Head, Compliance and Internal Control

2005 – Present Türk Ekonomi Bankası Group Compliance Head, Compliance and Internal Control
2003 – 2005 TEB Mali Yatırımlar A.Ş., Audit Coordinator
1999 – 2003 Banking Regulation and Supervision Agency Sworn-in Bank Auditor
1996 – 1999 Banking Regulation and Supervision Agency Assistant Sworn-in Bank Auditor
1991 – 1995 Ankara University Faculty of Political Science B.A. in Business Administration

Arnaud Denis Jean Sebatien Tellier; CIB Assistant General Manager

2011 – Present Türk Ekonomi Bankası, CIB Assistant General Manager
2011 – Present TEB Investment, Member of Board
2011 – Present The Economy Bank N.V., Member of Board
2006 – 2009 BNP Paribas – Athens Head of Territory
2002 – 2006 BNP Paribas – Paris Area Manager in charge of Central Europe and Nordic Countries
1988 – 2002 Banque Nationale De Paris
1984 – 1988 ECOLE SUPERIEURE DE COMMERCE ET D'ADMINISTRATION DES ENTREPRISES DE TOURS
1978 - 1982 ACADEMIE DE VERSAILLES / Mathematics & Physics

Mehmet Ali Cer; IT Assistant General Manager

2011 – Present	Türk Ekonomi Bankası, IT Assistant General Manager
2010 –2011	TEB & FORTIS – INTEGRATION
2000 – 2010	Türk Ekonomi Bankası IT Director
1993 – 1996	Southern Illinois University
1985 – 1990	Hacettepe University Computer Engineering

Akil Özçay; Fixed Income Assistant General Manager

2011 – Present	Türk Ekonomi Bankası; Fixed Income Assistant General Manager
2008 – 2011	Türk Ekonomi Bankası; General Manager Advisor
2007 – 2008	TCMB Internal Audit General Management; General Manager
2004 – 2007	TCMB Newyork Representative Office; Representative
2001 – 2004	TCMB General Management; General Manager
2005 – 2007	New Jersey Rutgers University USA Master Degree
1977 – 1981	Ankara University Faculty of Political Sciences Business Management

The business address of each member of the Bank’s executive management is Saray Mah. Küçüksu Cad. Sokullu Sok. No 7 Ümraniye, Istanbul, Turkey (the Bank's head office) or Yukarı Dudullu Organize Sanayi Bölgesi 1.Cadde No:17 Ümraniye, Istanbul. (the Bank's operation centre). No executive manager has any actual or potential conflict of interest between his or her duties to the Bank and his or her private interests and/or duties.

COMMITTEES

The Bank has three committees comprising senior executives that periodically meet to assess the Bank’s risks and other management requirements. These committees are:

Asset and Liability Management Committee

ALCO’s objective is to structure the Bank’s balance sheet in light of its liquidity risk, interest rate risk, maturity risk and foreign exchange risk, whilst ensuring that the Bank has adequate capital and is using its capital to maximise its return. The ALM policies devised by ALCO are implemented by the Asset Liability department (a department within the ALM and Treasury Group).

ALCO is chaired by the Bank’s General Manager and is comprised of the Assistant General Managers of: ALM and Treasury, Financial Control, Risk Management, Financial Institutions, Corporate and Investment Banking, Corporate Banking, Small Business Banking and Retail Banking; the Financial Control director, the ALM department’s director, the Bank’s Chief Economist and Advisors to the Board and to the CEO. ALCO meets monthly to review the Bank’s balance sheet, its current risk exposure arising from positions in respect of loans and other credits, its investment securities and deposits in terms of interest rate exposure, maturity risk, foreign exchange risk, exchange rate risk, inflation rates, liquidity position, capital adequacy and the macroeconomic environment, including domestic and international political and economic events.

Audit Committee

The Audit Committee has been established for the purpose of creating rules regarding risk policies, working principles and procedures, risk management, internal control systems and compliance. The Audit Committee also:

- Monitors the day to day activities of TEB’s independent auditors and evaluates and makes recommendations to the Board of Directors with respect to them; and

- Approves the external and internal audit plan of TEB and other TEB Group companies.

The Audit Committee meets at least once a month and is comprised of two non-executive board members.

Corporate Governance Committee

The Corporate Governance Committee has been established for the purpose of establishing and implementing the Bank's corporate governance policies. The Corporate Governance Committee meets quarterly or on an *ad hoc* basis when requested by the committee's chairman. Other responsibilities of the Corporate Governance Committee include:

- Devising appropriate corporate governance procedures to be implemented by the Bank in order to ensure compliance with the corporate governance principles announced by the CMB; and
- Representing the Bank at various external working groups, including the Turkish Banks' Association's Corporate Governance Working Group and Corporate Governance Association of Turkey.

SELECTED FINANCIAL INFORMATION

FUNDING

The Bank's principal sources of funding are customer deposits and the money markets (which are principally short-term sources) and loan finance (for its medium- and long-term financing).

The Bank raises loan finance in syndicated transactions as well as from supranational institutions such as International Finance Corporation (**IFC**), the World Bank and the Overseas Private Investment Committee (**OPIC**). It principally uses the funds provided by the supranational organisations to provide housing loans and SME and pre-export financing. The Bank does not grant any security in respect of its borrowings.

The table below summarises the TEB Group's principal sources of funding as at 31 December 2011 and 31 December 2010.

	31 December 2011	31 December 2010
	<i>(TRY thousands)</i>	
Customers' deposits	22,965,023	11,612,609
Deposits from other banks	1,132,427	1,551,262
Other money market deposits	1,104,748	74,357
Bonds issued	249,107	
Funds borrowed:		
Subordinated debt	709,422	470,060
Other funds borrowed	7,451,747	4,428,335
Total funding	33,612,474	18,136,623

LENDING

According to the Turkish Banking Law and subject to certain exceptions, the maximum amount of credit which the Bank may extend to any one person (natural or legal) or any group of persons who are connected for the purposes of the Turkish Banking Law cannot exceed 25 per cent. of the Bank's equity. Although there are no formal lending limits for sectors, the Bank seeks to maintain a balanced loan portfolio.

The tables below set out the sectoral breakdown of the TEB Group's loans and advances as at 31 December 2011 and 31 December 2010. The non-cash loans referred to in the tables represent credit commitments and contingent liabilities.

	31 December 2011	
	Cash	Non-cash
	<i>(TRY thousands)</i>	
Private individuals	7,634,155	3,177,430
Ores and materials	5,579,194	6,538,968

Food	3,025,857	693,698
Wholesaler	1,492,287	435,086
Transportation	1,469,348	408,176
Construction and public works	1,298,909	1,409,940
Chemical	975,493	342,537
Finance	928,507	2,054,223
Equipment materials	761,141	376,627
Energy	274,245	205,768
Automotive	284,875	454,236
Technology	379,114	252,970
Healthcare and pharmacy	19,566	-
Hotels, tourism and leisure	3,981	92
Others	1,826,252	311,399
	<u> </u>	<u> </u>
Total gross loans and advances	25,952,924	16,661,150
	<u> </u>	<u> </u>
Interest accruals	159,428	-
Receivables in arrears	755,678	-
Provision for impairment	(774,079)	-
	<u> </u>	<u> </u>
Total net loans and advances	26,093,951	16,661,150
	<u> </u>	<u> </u>

31 December 2010

	<u>Cash</u>	<u>Non-cash</u>
	<i>(TRY millions)</i>	
Private individuals	3,076,018	1,345,890
Ores and materials	3,191,729	3,563,516
Food	1,515,330	453,456
Wholesaler	560,142	225,388
Transportation	697,970	360,364
Construction and public works	494,998	690,493
Chemical	585,894	261,082
Finance	602,019	723,906
Equipment materials	230,988	124,060

Less: Specific reserves for impairment	(551,632)	(245,728)
Less: Portfolio reserves for impairment	(222,447)	(109,599)
Total	26,093,951	12,310,519

The table below sets out the movement in the Bank's non performing loans in the twelve months ended 31 December 2011.

NPL movement	31 December 2011	31 December 2010
Prior period end balance	375,474	435,666
Additions (+) (*)	659,286	199,136
Collections (-)	222,525	144,095
Write-offs (-) (**)	56,557	115,233
Current period end balance	755,678	375,474

Notes:

* Increase due to the merger is TRY 388,400.

** TRY 55,484 of the Bank's non-performing loans portfolio (with TRY 54,078 provisions) has been sold to Standart Varlık A.Ş. for TRY 4,250. This balance has been collected upon the completion of the necessary procedures as of 12 January, 2011 and the related non-performing loans have been written off from the records.

The table below sets out the movement in the Bank's total reserves for impairment for the year ended 31 December 2011.

	Opening balance	Charges to provisions	Reversal of available provisions	Reversal of used provisions	Foreign exchange	Incoming Company	Closing balance
Specific reserves for impairment	(245,728)	(165,346)	87,479	56,387	(3,387)	(281,037)	(551,632)
Portfolio reserves for impairment	(109,599)	(28,105)	17,490	-	(7,328)	(94,905)	(222,447)
Total reserves for impairment	(355,327)	(193,451)	104,969	56,387	(10,715)	(375,942)	(774,079)

RELATED PARTY TRANSACTIONS

In the ordinary course of business, the TEB Group enters into transactions with major shareholders, associates and other related parties, including making loans, accepting deposits and other borrowing

transactions. Transactions with related parties are made on the same commercial terms as those applicable to comparable transactions with unrelated parties and do not involve more than a normal amount of risk.

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 the financial and operating decisions. The Group is controlled by the Çolakoğlu family and BNP Paribas Group each of which directly or indirectly own 50 per cent. of the shares of the Bank. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders, Çolakoğlu Group companies, and BNP Paribas Group entities are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

The table below sets out the significant outstanding balances with related parties at year-ends and relating expense and income items for the years ended 31 December 2011 and 31 December 2010.

31 December 2011:

Related party	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments -Assets	Other liabilities	Derivative financial instruments -Liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct/Indirect shareholders	74,499	114,620	4,246,133	430,246	1,913	102,904	530	116,827	10,170,151	7,032	134,323	2,565	3,377
Others	128,471	103,503	1,276,243	403,147	15,701	45	36	19,611	178,125	8,558	120,298	572	1,390

31 December 2010:

Related party	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments -Assets	Other liabilities	Derivative financial instruments -Liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct/Indirect shareholders	24,509	40,782	2,016,232	1,024,799	14,134	11,488	168	67,721	3,380,029	4,346	75,987	38	5,581
Others	140,122	117,172	1,081,634	391,344	68,529	29,161	3	260	887,840	4,586	63,034	1,857	11,032

CREDIT COMMITMENTS AND CONTINGENT ITEMS

In the normal course of its business activities, the TEB Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the consolidated financial statements. As at 31 December 2011 and 31 December 2010, these contingent liabilities were as follows.

	31 December 2011	31 December 2010
	<u> </u>	<u> </u>
	<i>(TRY thousands)</i>	
Letter of guarantee issued	5,609,489	3,052,806
Letters of credit	1,578,340	993,442
Acceptance credits	342,297	55,532
Other guarantees	841,767	314,530
	<u> </u>	<u> </u>
Total non-cash loans	8,371,893	4,416,310
	<u> </u>	<u> </u>
Other commitments	5,465,945	2,587,820
Credit card limit commitments and overdrafts	2,661,586	1,153,549
Letters of guarantee obtained	161,726	116,495
	<u> </u>	<u> </u>
Total	16,661,150	8,274,174
	<u> </u>	<u> </u>

FIDUCIARY ACTIVITIES

The TEB Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in the consolidated financial statements.

The nominal values of the assets (excluding investment funds) held by the TEB Group in an agency or custodial capacity and financial assets under portfolio management amounted to TRY 2.1 million at 31 December 2011 (as at 31 December 2010, the equivalent value was TRY 3.6 million). As at 31 December 2011, securities held in custody include investment funds with a market value of TRY 8.6 million (as at 31 December 2010, the equivalent value was TRY 4.9 million).

The Group also manages 45 investment funds, which were established under the regulations of the CMB. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of the funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

THE REPUBLIC OF TURKEY AND THE TURKISH ECONOMY

The summary information relating to Turkey is provided for background purposes only. Information presented herein has been extracted from and is based on various public official documents and private publications.

OVERVIEW

The modern Turkish state with Ankara as its capital was created in 1923 and has 1,633 miles (2,628 kilometres (**km**)) of land frontiers and 4,454 miles (7,168 km) of coastline. The European section of the country is bounded on the north by Bulgaria, on the east by the Black Sea and the Bosphorus, on the south by the Sea of Marmara and the Dardanelles, and on the west by Greece and the Aegean Sea. Turkey in Asia is bounded on the north by the Black Sea and Georgia; on the east by Armenia and Iran; on the south by Iraq, Syria and the Mediterranean Sea; and on the west by the Aegean Sea. Turkey is approximately 900 miles (1,450 km) long and 300 miles (480 km) wide and covers an area of 300,948 square miles (779,452 square km), of which 291,773 square miles (755,688 square km) are in Asia and 9,175 square miles (23,764 square km) are in Europe. About 90 per cent. of the population live in the Asian part of Turkey and 10 per cent. in the European part.

Turkey has a population of 75 million people as of 31 December 2011.

The official language of Turkey is Turkish.

Turkey's population is comparatively young (26 per cent of the population is between 0-14). The transformation of Turkey's economy from a largely agricultural economy to an industrial and service-oriented economy has led to an increasingly urban population. Turkey's population is concentrated in the West and along the coastal areas. The major cities by population are Istanbul, with 13.6 million inhabitants, Ankara (the capital city), with 5 million inhabitants, Izmir, with 4 million inhabitants, and Bursa, Adana and Konya.

Turkey was declared a republic on 29 October 1923.

The current Turkish Constitution, which was ratified by referendum in 1982, provides for a Parliament, the Turkish Grand National Assembly (**TGNA**), a President and a Prime Minister. The President is elected for a seven-year term according to the newly enacted law via a direct presidential election by the public. The Prime Minister is head of the government. The Prime Minister nominates other members of the Council of Ministers, which must obtain a vote of confidence from the TGNA and then be approved by the President. The Council of Ministers, chaired by the Prime Minister, exercises the executive powers of the government under the authority of the TGNA. The members of the TGNA are elected for a four-year term.

The head of state in Turkey is the President of the Republic of Turkey. The current President, Mr. Abdullah Gül, was elected in August 2007, and his term of office will terminate in August 2014. The law governing elections provides that parties that receive less than 10 per cent. of the votes in national elections are not eligible for seats in the TGNA.

In the last national elections, which took place on 12 June 2011, only three parties were able to win seats: the right-wing Justice and Development Party (which became the government), the Republican People's Party (the main opposition) and the Nationalist Movement Party. Following the elections, the Justice and Development Party established a single-party government and currently has 327 out of the 550 seats in the TGNA.

Turkey is one of the original member states of the United Nations, and joined the Council of Europe in 1949, the North Atlantic Treaty Organisation in 1952 and the Organization for Economic Co-operation and

Development (**OECD**) in 1960. In 1963, Turkey became an Associate Member of the European Economic Community by an Association Agreement that aimed at full membership. In addition, Turkey is a member of the Council of Europe, the World Bank and the European Bank for Reconstruction and Development, the Black Sea Economic Cooperation and the IMF, and is the ninth largest shareholder of the Asian Development Bank. In 1995, Turkey became a member of the World Trade Organisation. Turkey is a member of the Organisation of the Islamic Conference and of the Islamic Development Bank.

Turkey officially started accession negotiations with the EU on 3 October 2005.

Turkey is a founding member of the Economic Cooperation Organisation (the **ECO**), a trade organisation formed in 1985 among Turkey, Iran and Pakistan. Since its formation, Afghanistan, Azerbaijan, Kyrgyzstan, Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan have joined the ECO.

THE TURKISH ECONOMY

The Turkish economy has undergone significant changes since the early 1980s. It has moved from a highly protected state-directed system to a market-orientated free enterprise system. Reforms initiated since 1980 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 IMF's Articles of Agreement and overhauled the tax system.

In 2001, Turkey went through an economic crisis that led to the collapse of the crawling peg exchange rate system and a subsequent banking system crisis resulted in an increase of 30 pp in debt-to-GDP ratio. The Turkish economy went through a substantial reform following the crisis. The banking system was recapitalised and banking supervision was significantly strengthened through an independent Banking Regulation and Supervision Agency (the **BRSA**). Today, the strength of Turkey's banking system is indicated by its capital adequacy ratio of 17 per cent. as of September 2011. Another main pillar of the reforms following the crisis was the Central Bank's independence. Central Bank independence helped Turkey bring down annual inflation rate from 73 per cent. in 2002 to the current single digit level. The Central Bank has adopted an explicit inflation-targeting regime since 2006. Turkey also reformed its public finances following 2001 crisis. The reforms were aimed to bring the debt-to-GDP to more sustainable levels. In this context, Turkey also reformed its agricultural subsidy and social security systems. As a result, public debt-to-GDP ratio declined from 74.1 per cent. in 2001 to 42.9 per cent. in 2010. The debt-to-GDP ratio is estimated to have declined to around 40 per cent. of GDP in 2011.

When faced with the global financial crisis since mid 2008, the Turkish economy contracted by 4.7 per cent. in 2009. However, the strength of the balance sheets of the banking system and the government enabled a strong recovery in the economic activity. GDP growth reached 8.9 per cent. in 2010 and 8.2 per cent. in the first three quarters of 2011. Accordingly, the recovery was also reflected in the labour market and the unemployment rate fell back to its pre-crisis levels. The strong recovery led to an increase in the current account balance from USD 46.6 bn in 2010 to USD 77.1 bn in 2011. Similarly, the inflation rate increased from 6.4 per cent. in 2010 to 10.4 per cent. in 2011. Recently, the Central Bank decreased the upper end of the interest rate corridor from 12.5 per cent. to 11.5 per cent. Cost of funding provided by the Central Bank fluctuates at around 7.5 per cent.

Turkey's outstanding foreign debt is USD 310 bn as of 30 September 2011.

The table below sets out summary economic statistics for Turkey during the years indicated.

For the years ended 31 December, _____

	2006	2007	2008	2009	2010	2011
GDP (US\$ million)	526,429	648,754	741,754	616,753	735,828	588,550*
GDP growth (%)	6.9	4.7	0.7	-4.7	8.9	8.2*
Unemployment rate (%)	10.2	10.3	11.0	14.0	11.9	9.1
Inflation, average (CPI) (%)	9.6	8.8	10.4	6.3	8.6	6.45
Exports (US\$ million)	85,535	107,272	132,028	102,143	113,981	135,000
Imports (US\$ million)	139,576	170,063	201,964	140,929	185,542	240,800
Current account (US\$ million)	-32,249	-38,434	-41,959	-13,991	-47,639	-77,100
External debt (US\$ million)	207,704	249,478	280,357	268,457	289,513	309,594
External debt / GDP (%)	39.5	38.5	37.8	43.5	39.3	39.3

THE TURKISH BANKING SYSTEM AND REGULATORY ENVIRONMENT

THE TURKISH BANKING SYSTEM

At 30 June 2011, 42 banks were operating in Turkey (excluding SDIF and participation banks). Three of these banks are public sector commercial banks, 10 are private sector commercial banks, 16 are foreign banks (branches of foreign banks and joint ventures between Turkish and foreign shareholders), 13 are domestic development and investment banks. There are also four participation banks in Turkey, which conduct their business under the relevant legislation in accordance with Islamic banking principles. Turkish banking legislation has changed substantially during the last five years and the former Banks Act was replaced by the Banking Law on 1 November 2005. 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 liberalization of the economy and has gone 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 have 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 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 Turkish Banking Sector

The banking industry has undergone significant consolidation over the past decade with the total number of banks (including deposit-taking banks, investment banks and development banks) declining from 81 in 1999 to 45 on 31 December 2008 and 44 in February 2011 following the Merger. A number of banks were transferred to the SDIF and eventually removed from the banking system through mergers or liquidations. The table below shows the evolution of the number of banks in the Turkish banking system as of the end of each year since 1999.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Number of banks ⁽¹⁾	81	79	61	54	50	48	47	46	46	45	45	45	44

Source: Turkish Banking Association (www.tbb.org.tr)

Notes:

- (1) Total number of banks includes deposit-taking banks, investment banks and development banks, but excludes participation banks (Islamic banks).

As of 31 December 2011, 44 banks were operating in Turkey. 31 of these were deposit-taking banks and the remaining 13 were investment and development banks (four participation banks, which conduct their business under different legislation in accordance with Islamic banking principles, are not included in the analysis). Among the 31 deposit-taking banks, 5 banks were state-owned banks, 10 were private domestic banks, 16 were private foreign banks and one was under the administration of the SDIF.

The Banking Law permits deposit-taking banks to engage in all fields of financial activities, including deposit collection, corporate and consumer lending, foreign exchange transactions, capital market activities and securities trading. Typically, major commercial banks have nationwide branch networks and provide a full range of banking services, while smaller commercial banks focus on wholesale banking. The main objectives of development and investment banks are to provide medium-and long-term funding for investment in different sectors.

Deposit-taking Turkish banks' total balance sheets have grown at a compound average growth rate (CAGR) of 20 per cent. from 31 December 2005 to 31 December 2011, driven by loan book expansion and customer deposits growth, which increased by a CAGR of 28 per cent. and 18 per cent., respectively between 31 December 2005 and 31 December 2010, in each case according to the BRSA. Despite strong growth of net loans and customer deposits since 2005, the Turkish banking sector remains significantly under-penetrated compared with banking penetration in the Eurozone.

The following table shows key indicators for deposit-taking banks in Turkey since 2005.

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>CAGR</u>
<i>(TL billions, except CAGR)</i>								
Balance sheet								
Net loans	144.7	203.2	263.7	340.5	358.4	481.8	624.8	28%
Total assets	384.1	470.6	543.3	683.8	773.4	933.2	1,119.8	20%
Customer deposits	243.1	296.5	342.0	435.6	487.9	583.9	656.3	18%
Shareholders' equity	47.5	50.4	64.5	72.1	93.8	114.7	123.0	17%
Income statement								
Operating income ⁽¹⁾	27.1	29.7	36.0	40.9	55.0	54.9	55.4	13%
Operating expenses ⁽²⁾	13.3	13.9	16.3	19.4	20.3	23.4	26.0	12%
Net income	5.0	10.2	13.5	11.9	18.5	20.3	18.2	24%
Key ratios								

Loans/deposits.....	59.5%	68.5%	77.1%	78.2%	73.5%	82.5%	95.2%
Net interest margin ⁽³⁾	5.6%	4.9%	5.1%	4.9%	5.7%	4.6%	3.4%
Cost / income ⁽⁴⁾	54.4%	48.7%	46.8%	53.6%	44.2%	46.9%	47.0%
Return on average equity	11.4%	20.9%	23.5%	17.7%	22.3%	19.7%	16.8%
Capital adequacy ratio	21.6%	19.9%	17.4%	16.6%	19.2%	17.7%	15.4%

Source: BRSA monthly bulletin (www.bddk.org.tr)

Notes:

- (1) Including net interest income, net fee and commission income, net trading income including foreign exchange gain/loss, and other operating income; excluding income from sales of assets, extraordinary income / expense, net monetary position profit / loss and dividend income.
- (2) Including personnel costs, administration expenses and other operating expenses.
- (3) Net interest income / average interest-earning assets.
- (4) Operating expenses / operating income (adjusted for provisions for loan losses and for securities).
- (5) Sector data for deposit-taking banks only.

Participation Banks

There are currently four participation banks operating in Turkey. Participation banks are subject to the Banking Law and are permitted to engage in financial activities other than accepting deposits. Each of these participation banks is a member of The Participation Banks Association of Turkey, a cooperative organisation of Turkish participation banks. Participation banks structure their products and provide services on an interest-free basis.

Competition

The following table shows major shareholders, total assets and market shares of the top 10 banks ranked by total assets in the Turkish banking sector as of 30 September 2011 according to the Turkish Banking Association.

Rank	Bank	Major Shareholders	Assets (TL millions)	Assets market share	Loans market share	Deposits market share	Branches
1	Ziraat Bank	Treasury (100%)	164,277	13.50%	10.60%	17.60%	1,446
2	Işbank	Işbank pension fund (40%), Cumhuriyet Halk Partisi (28%)	160,005	13.20%	12.90%	14.00%	1,201
3	Garanti Bank	Doğuş Group (20%), Banco Bilbao Vizcaya Argentaria, S.A. (25%)	148,644	12.20%	12.20%	11.80%	914
4	Akbank	Hacı Ömer Sabancı Holding (41%), Citigroup (20.0%)	132,975	11.00%	10.30%	10.70%	927

5.	Yapı Kredi Bank	Koc Financial Services ⁽¹⁾ (81.8%)	106,369	8.80%	9.90%	9.20%	907
6	HalkBank	Privatisation Administration (75.0%)	90,714	7.50%	8.30%	9.10%	771
7	VakıfBank	General Directorate of Foundations (58.6%)	89,255	7.40%	8.30%	8.10%	680
8	Finansbank	National Bank of Greece (94.8%)	47,354	3.90%	4.70%	4.30%	522
9	Türk Ekonomi Bankası	TEB Holding (55%), BNPP Yat.Holding (23%), BNPP Fortis Yat.Holding (17%)	40,008	3.30%	3.90%	3.20%	507
10	DenizBank	Dexia Participation Belgique (99.8%)	37,421	3.10%	3.50%	3.10%	588

Source: Turkish Banking Association (www.tbb.org.tr) and BRSA.

(1) Koç Financial Services is a 50/50 joint venture owned by the Unicredit Group and Koç Holding.

The Turkish banking sector is relatively concentrated with the top 10 deposit-taking banks accounting for 84 per cent. of total assets of deposit-taking banks as of 30 September 2011 according to the BRSA. Among the top 10 Turkish banks, there are three state-controlled banks – Ziraat Bank, VakıfBank and HalkBank, which are ranked 1st, 6th and 7th, respectively, in terms of total assets as of 30 September 2011 according to the Turkish Banking Association. These three state-controlled banks accounted for 27 per cent. of deposit-taking Turkish banks' performing loans and 35 per cent. of total deposits as of 30 September 2011 according to the BRSA. The top four privately-owned domestic banks are Türkiye İş Bankası A.Ş. (**İşbank**), Türkiye Garanti Bankası A.Ş. (**Garanti Bank**), Akbank A.Ş. (**Akbank**) and Yapı ve Kredi Bankası A.Ş. (**Yapı Kredi Bank**), which in total accounted for 45 per cent. of deposit-taking Turkish banks' performing loans and 45 per cent. of total deposits as of 30 September 2011 according to the BRSA. The remaining banks in the top 10 deposit-taking banks in Turkey are three mid-sized banks, namely Finansbank A.Ş. (**Finansbank**), Denizbank A.Ş. (**DenizBank**) and TEB. Finansbank and Denizbank are controlled by National Bank of Greece and Dexia, respectively.

TURKISH REGULATORY ENVIRONMENT

Turkish banks are governed by two primary regulatory authorities in Turkey, the BRSA and the Central Bank.

In June 1999, the BRSA was established by the former Banks Act (Law No. 4389) (which has subsequently been replaced by the Banking Law No. 5411, (the **Banking Law**), which came into force upon publication in the Official Gazette dated 1 November 2005 and numbered 25983). The BRSA ensures that banks observe banking legislation, supervises the application of banking legislation and monitors the banking system. The BRSA has administrative and financial autonomy. Historically, its head office has been in Ankara; however, as of February 2011 and pursuant to Law No. 6111, the head office has been relocated to Istanbul with the

migration of functions from Ankara to Istanbul to be completed within two years of such date. Pursuant to Law No. 6111, the Council of Ministers of Turkey has been authorised to extend the migration deadline as necessary.

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

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

The BRSA conducts both on-site and off-site audits and supervises the implementation of the provisions of the Banking Law and other legislation, examines all banking operations and analyses the relationship and balance between assets, receivables, equity capital, liabilities, profit and loss accounts and all other factors affecting a bank's financial structure.

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.

There are bank auditors, who are officially certified and responsible for the on-site examination of banks, implementing the provisions of the Banking Law and other related legislation, examining on behalf of the BRSA all banking operations and analysing the relationship between assets, liabilities, net worth, profit and loss accounts and all other factors affecting a bank's financial structure.

Pursuant to the Regulation Regarding the Internal Systems of Banks issued by the BRSA and published in the Official Gazette dated 1 November 2006 and numbered 26333 (the **Internal Systems Regulation**), banks are obligated to establish, manage and develop (for themselves and all of their consolidated subsidiaries and 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.

Shareholding

The direct or indirect acquisition by a person of shares that represent 10 per cent. or more of the share capital of any bank, or the direct or indirect acquisition or disposal of such shares by a person if the total number of shares held by such shareholder increases above or falls below 10 per cent., 20 per cent., 33 per cent. or 50 per cent. of the share capital of a bank, requires the permission of the BRSA in order to preserve full voting

and other shareholders' rights associated with such shares. In addition, irrespective of the above thresholds, an assignment and transfer of preference shares to which attach the right to nominate a member to the board of directors or audit committee or the issuance of new shares with such preferences is also subject to the authorisation of 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 shareholder's 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 cancel any applicable general assembly resolutions (including by way of taking any necessary precautions concerning such banks within its authority under the Banking Law). 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 which are 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 per cent. or more of a bank's shareholders' equity are classified as large credits and the total of such credits cannot be more than eight times the bank's shareholders' equity. In this context, "credits" include cash credits and non-cash credits such as letters of guarantee, counter-guarantees, sureties, avals, endorsements and acceptances extended by a bank, bonds and similar capital market instruments purchased by it, loans (whether deposits or other), receivables arising from the future sales of assets, overdue cash credits, accrued but not collected interest, amounts of non-cash credits converted into cash and futures and options and other similar contracts, partnership interests, shareholding interests, payment of fees of movable and immovable property or services, profit and loss sharing investments, immovable equipment or property procurement and financial leasing and similar methods for participation banks according to the Banking Law.
- 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 per cent. of its equity capital. In calculating such limit, a credit extended to a partnership is deemed to be extended to the partners in proportion to their liabilities. A risk group is defined as an individual, his or her spouse and children and partnerships in which any one of such persons is a director or general manager as well as partnerships that are directly or indirectly controlled by any one of such persons, either individually or jointly with third parties, or in which any one of such persons participate with unlimited liability. Furthermore, a bank, its shareholders holding 10 per cent. 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 per cent. of a bank's equity capital.

- Loans made available to a bank's controlling shareholders or registered shareholders holding more than 1 per cent. of the share capital of the bank and their risk groups may not in aggregate exceed 50 per cent. of its equity capital.

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

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

- Transactions against cash, cash-like assets and accounts and precious metals;
- Transactions carried out with the Undersecretariat of Treasury of the Republic of Turkey, the Central Bank, the Privatisation Administration of the Republic of Turkey and the Housing Development Administration of the Republic of Turkey, as well as the transactions carried out against bills, bonds and similar securities issued or guaranteed by these institutions;
- Transactions carried out in markets established by the Central Bank and in legally organised money markets;
- Any increase in a credit resulting from an increase in the value of the respective currency and interests accrued and other charges on overdue credits provided that subsequently allocated credits in a foreign currency shall be taken into consideration at the exchange rate applied on the date of utilisation thereof for calculation of lines of credit in the event a new credit is allocated to the same person or the same risk group;
- Bonus shares (scrip issues) received as a result of capital increases, and any increase in the value of shares not requiring any fund outflow;
- Interbank operations within the framework of the principles set out by the BRSA;
- Shares acquired within the framework of underwriting services for public offering activities provided that such shares are disposed of in the time and manner determined by the BRSA;
- Transactions considered as "deductibles" in the shareholders' equity account; and
- Other transactions to be determined by the BRSA.

Loan Loss Reserves

Procedures relating to loan loss reserves for non-performing loans are set out in regulations issued by the BRSA. Pursuant to the Regulation on the Principles and Procedures Related to the Determination of Qualifications of the Loans and other Receivables by Banks and the Provisions to be Set Aside, published in the Official Gazette dated 1 November 2006 and numbered 26333 (the **Loans and Provisions Regulation**), banks are required to classify their loans and receivables into one of the following groups:

1. **Standard Loans and Other Receivables:** This group involves loans and other receivables:
 - (a) that have been disbursed to natural persons and legal entities with financial creditworthiness;

- (b) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor;
- (c) the reimbursement of which has been made within specified periods, for which no reimbursement problems are expected in the future and which can be fully collected; or
- (d) for which no weakening of the creditworthiness of the debtor concerned has been found.

The terms of a bank's loans and receivables which have been classified into this group may be modified provided they continue to meet the classification requirements for this group. However, in the event that such modification relates to the extension of the initial payment plan under the loan or receivable, a general loan provision, not being less than five times the sum of 1 per cent. of the cash loan portfolio plus 0.2 per cent. of the non-cash loan portfolio (for example, letters of guarantee, acceptance credits, letters of credit undertakings and endorsements), is required to be set aside and such modifications are required to be disclosed in the financial reports which are disclosed to the public. This ratio is required to be at least 2.5 times the Consumer Loans Provisions (as defined below) for amended consumer loan agreements (other than auto and housing loans).

2. *Closely Monitored Loans and Other Receivables:* This group involves loans and other receivables:

- (a) that have been disbursed to natural persons and legal entities with financial creditworthiness and for the principal and interest payments of which there is no problem at present, but which need to be monitored closely due to reasons such as negative changes in the solvency or cash flow of the debtor, probable materialisation of the latter or significant financial risk carried by the person utilising the loan;
- (b) whose principal and interest payments according to the conditions of the loan agreement are not likely to be repaid according to the terms of the loan agreement and where the persistence of such problems might result in partial or full non-reimbursement risk;
- (c) which are very likely to be repaid but where the collection of principal and interest have not been made for justifiable reasons and are delayed for more than 30 days; however, which cannot be considered as loans or other receivables with limited recovery as grouped in the group 3 below; or
- (d) although the standing of the debtor has not weakened, there is a high likelihood of it weakening due to the debtor's irregular cash flow which is difficult to control.

Where a bank provides a loan to a customer which falls within the classification requirements set out above then all of the loans made by the bank to that customer will be classified in this group, notwithstanding the fact that certain loans made to that customer may themselves not fall within the classification requirements for this group. The terms of a bank's loans and receivables which fall within the classification requirements of this group may be modified provided they continue to meet the classification requirements for this group. However, in the event that such modification relates to the extension of the initial payment plan under the loan or receivable, a general loan provision, not being less than 2.5 times the sum of 2 per cent. of the cash loan portfolio plus 0.4 per cent. of the non-cash loan portfolio for closely-monitored loans will be set aside and such modifications are required to be disclosed in the financial reports which are disclosed to the public. This ratio is required to be at least 1.25 times the Consumer Loans Provisions for amended consumer loan agreements (other than auto and housing loans).

3. *Loans and Other Receivables with Limited Collection Ability:* This group involves loans and other receivables:

- (a) with limited collectability due to the resources of, or the securities furnished by, the debtor being found insufficient to meet the debt on the due date, and where if the problems observed are not eliminated, they are likely to give rise to loss;
- (b) the credibility of whose debtor has weakened and where the loan is deemed to have weakened;
- (c) collection of whose principal and interest or both has been delayed for more than 90 days but not more than 180 days from the due date; or
- (d) in connection with which the bank is of the opinion that collection of the principal or interest of the loan or both will be delayed for more than 90 days from the due date owing to reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity.

4. ***Loans and Other Receivables with Remote Collection Ability:*** This group involves loans and other receivables:

- (a) that seem unlikely to be repaid or liquidated under existing conditions;
- (b) in connection with which there is a strong likelihood that the bank will not be able to collect the full loan amount that has become due or payable under the terms stated in the loan agreement;
- (c) where the debtor's creditworthiness is deemed to have significantly weakened but which are not considered as an actual loss due to such factors as a merger, the possibility of finding new financing or a capital increase; or
- (d) there is a delay of more than 180 days but not more than one year from the due date in the collection of the principal or interest or both.

5. ***Loans and Other Receivables Considered as Losses:*** This group involves loans and other receivables:

- (a) that are deemed to be uncollectable;
- (b) collection of whose principal or interest or both has been delayed by one year or more from the due date; or
- (c) for which, although carrying the characteristics stated in groups 3 or 4 above, the bank is of the opinion that they have become weakened and that the debtor has lost his creditworthiness due to the strong possibility that it will not be possible to fully collect the amounts that have become due and payable within a period of over one year.

Pursuant to Article 53 of the Banking Law, banks must calculate the losses that have arisen, or are likely to arise, in connection with loans and other receivables. Such calculations must be regularly reviewed. They must also reserve adequate provisions against depreciation or impairment of other assets, qualify and classify assets, receive guarantees and security and measure the reliability and the value of such guarantees and security. In addition, banks must monitor the loans under follow-up procedures and the repayment of overdue loans and establish and operate the structures that will perform these functions. All provisions set aside for loans and other receivables in accordance with this article are considered expenditures deductible from the corporate tax base in the year they are set aside.

Turkish law also requires Turkish banks to provide a general reserve calculated at 1 per cent. of the cash loan portfolio plus 0.2 per cent. of the non-cash loan portfolio (letters of guarantee, acceptance credits, letters of credit undertakings and endorsements) for standard loans; and a general reserve calculated at 2 per cent. of the cash loan portfolio plus 0.4 per cent. of the non-cash loan portfolio for closely-monitored loans. In

addition, 25 per cent. of the above-mentioned rates will be applied for each check that remains uncollected for a period of five years after issuance.

Pursuant to Article 7/2 of the Loans and Provisions Regulation, banks which have a consumer loan ratio which exceeds 20 per cent. of its total loans and banks which have a non-performing consumer loan ratio (non-performing consumer loans being consumer loans which are classified as frozen receivables, excluding auto and housing loans) greater than 8 per cent. of their total consumer loans (excluding auto and housing loans) (as calculated pursuant to the unconsolidated financial data prepared as of the general reserve calculation period) are required to set aside a 4 per cent. general provision for outstanding but not yet due consumer loans (excluding auto and housing loans) under group 1 above and an 8 per cent. general provision for outstanding but not yet due consumer loans (excluding auto and housing loans) under group 2 above (the **Consumer Loans Provisions**).

Pursuant to Article 7/3 of the Loans and Provisions Regulation, if the sum of the letters of guarantee, acceptance credits, letters of credit undertakings, endorsements, purchase guarantees in security issuances, factoring guarantees or other guarantees and sureties and unsecured pre-financing loans of a bank is higher than ten times its equity calculated pursuant to the Regulation on Equity of Banks, a 0.3 per cent. general provision ratio is required to be applied by such bank for all of its standard non-cash loans. Notwithstanding the above ratio, and by taking into consideration the standard capital adequacy ratio, the BRSA may apply the same ratio or a higher ratio as the general reserve requirement ratio.

The banks should also set aside general provisions for the amounts monitored under the accounts of "Receivables from Derivative Financial Instruments" on the basis of the sums to be computed by multiplying them by the rates of conversion into credit indicated in Article 12 of the "Regulation on Loan Transactions of Banks" by applying the general provision rate applicable for cash loans. Apart from the general provisions, special provisions must be set aside for the loans and receivables in groups 3, 4 and 5 described above in the amounts of 20 per cent., 50 per cent. and 100 per cent., respectively.

Pursuant to these regulations, all loans and receivables in groups 3, 4 and 5 above, irrespective of whether any interest or other similar obligations of the debtor are applicable on the principal or whether the receivables have been refinanced, are defined as "frozen receivables." If several loans have been extended to a loan customer by the same bank and if any of these loans is considered as a frozen receivable, then all outstanding risks of such loan customer are classified in the same group as the frozen receivable even if such loans would not otherwise fall under the same group as such frozen receivable. If a frozen receivable is repaid in full, then the other loans of the loan customer may be re-classified into the applicable group as if there were no related frozen receivable.

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

Category I Collateral: Cash, deposits, profit sharing funds and gold deposit accounts that are secured by pledge or assignment agreements; repurchase agreement proceeds secured by promissory notes, debenture bonds and similar securities issued directly or guaranteed by the Central Bank, the Treasury, the Mass Housing Administration or the Privatisation Administration and B-type investment profit sharing funds; member firm receivables arising out of credit cards and gold reserved within the bank; securities issued directly or guaranteed by the central governments or central banks of countries that are members of the OECD and securities issued directly or guaranteed by the European Central Bank; transactions made with the Treasury, the Central Bank, the Mass Housing Administration or the Privatisation Administration or transactions that are guaranteed by securities issued directly or guaranteed by such administrations; guarantees issued by banks operating in OECD member countries; and sureties and letters of guarantee issued by banks operating in Turkey in compliance with their maximum lending limits.

The bonds and bills issued by the banks whose activities are performed within Turkey.

Category II Collateral: Precious metals other than gold; shares quoted on a stock exchange; A-type investment profit sharing funds; asset-backed securities and private sector bonds except ones issued by the borrower; credit derivatives providing protection against credit risk; the assignment or pledge of accrued entitlements of persons from public agencies; liquid securities, negotiable instruments representing commodities, other types of commodities and movables pledged at market value; mortgages on property registered with the land registry and mortgages on real property built on allocated real estate provided that their appraised value is sufficient; export documents appurtenant to bill of lading or carrier's receipt and negotiable instruments obtained from real or legal persons based upon actual commercial relationships.

Category III Collateral: Commercial enterprise pledges, export documents, vehicle pledges, mortgages on aircraft or ships, suretyships of creditworthy natural persons or legal entities and other client promissory notes of natural persons and legal entities.

Category IV Collateral: Any other security not otherwise included in Categories I, II or III.

While calculating the special provision requirements for non-performing loans, the value of collateral received from the borrower will be deducted from the frozen receivables in groups 3, 4 and 5 above in the following proportions in order to determine the amount that will be subject to special provisioning:

Discount Ratio	(%)
Category I Collateral	100
Category II Collateral	75
Category III Collateral	50
Category IV Collateral	25

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

According to Article 11 of the Loans and Provisions Regulation, in the event of a borrower's failure to repay loans or any other receivables due to a temporary lack of liquidity that the borrower is facing, a bank is allowed to refinance the borrower with additional funding in order to strengthen the borrower's liquidity position or to structure a new repayment plan. Despite such refinancing or new repayment plan, such loans and other receivables are required to be monitored in their current loan groups (whether group 3, 4 or 5) for at least the following six-month period and to be provided against in line with the relevant loan group provisioning level. After this six-month period, if total collections reach at least 15 per cent. of the total receivables for restructured loans, then the remaining receivables may be reclassified to the "Refinanced/Restructured Loans and Receivables" account. The bank may refinance the borrower for a second time if the borrower fails to repay the refinanced loan; provided that 20 per cent. of the principal and other receivables are collected on a yearly basis.

The Loans and Provisions Regulation was amended on 9 April 2011. According to Provisional Article 5 of the Loans and Provisions Regulation, which will be effective until 31 December 2012, loans and other receivables classified as Closely Monitored Loans and Other Receivables (group 2) granted to persons or legal entities residing in Libya or engaged in activities relating to Libya can be restructured twice. Furthermore, such loans and other receivables subject to a new redemption plan may be classified as Standard Loans and Other Receivables; provided that at least 10 per cent. of the total sum of receivables has been repaid. If such loans and other receivables become subject to a redemption plan for a second time as a result of new loans having been utilised, then such loans and receivables shall be classified as Loans and Other Receivables with Limited Collection Ability until 5 per cent. of the total sum of receivables has been repaid. As long as such percentage of payments foreseen in the redemption plan are made within the

payment periods envisaged for Loans and Other Receivables with Limited Collection Ability, it is in the bank's discretion to set aside special provisions for such loans and receivables.

Pursuant to Provisional Article 5, if there are loans or any other receivables that are classified in groups 3, 4 and 5, then the receivables relating to Libya shall be classified in the same group with such loans and/or other receivables. Until 31 December 2012, and so long as the classification methods as set out in the regulation are complied with, if a borrower fails to repay such loans or any other receivables, then a bank is allowed to refinance the borrower with additional funding in order to strengthen its liquidity position or to structure a new repayment plan up to three times. Any restructured loans may be transferred to the "Loans Restructured and Tied to a Redemption Plan Account" if:

- at least 5 per cent. of the total sum of receivables in the first restructuring has been repaid and the restructured loans have been monitored under their respective group(s) for a period of at least three months;
- at least 10 per cent. of the total sum of receivables in the second restructuring has been repaid and the restructured loans have been monitored under their respective group(s) for a period of six months; and
- at least 15 per cent. of the total sum of receivables in the third restructuring has been repaid and the restructured loans have been monitored under their respective group(s) for a period of one year.

Capital Adequacy

In November 2006, the BRSA issued new regulations on measurement and assessment of capital adequacy of banks. Article 45 of the Banking Law defines "Capital Adequacy" as having adequate equity against losses that could arise from the risks encountered. Pursuant to the same article, banks must calculate, achieve, perpetuate and report their capital adequacy ratio, which, within the framework of the BRSA's regulations, cannot be less than 8 per cent..

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.

As an example, pursuant to recent amendments to the Regulation on Measurement and Assessment of Capital Adequacy of Banks on 18 June 2011, Turkish banks are required to apply to consumer loans (excluding auto and housing loans) a risk-weighting model based upon the outstanding term of such loans that takes into account the risks that may arise due to long-term consumer loans. With respect to capital adequacy, the recent amendments require that the risk weight applied to consumer loans (excluding auto and housing loans) with terms of one to two years be 150 per cent. and to those with terms of more than two years be 200 per cent.

Under the Regulation on Equities of Banks published in the Official Gazette No. 26333 dated 1 November 2006, subordinated loans are grouped as "primary subordinated loans" and "secondary subordinated loans" and are listed as one of the items that constitute "Tier II" capital. The portion of primary subordinated loans equal to a range of 15 per cent. to 50 per cent. of "Tier I" capital is included in the calculation of "Tier I" capital. The portion of total subordinated debts and primary subordinated debts that exceeds 50 per cent. of Tier 1 and the portion of general reserves that exceeds 125 per 10,000 of the total of the sum as a basis for credit risk, market risk and operational risk is not taken into consideration in calculating the Tier-II capital.

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 BRSA. Within this framework, a comprehensive liquidity arrangement was put into force by the BRSA with the consent of the Central Bank.

The reserve requirements regarding foreign currency liabilities vary by category, as set forth below:

Category of Foreign Currency Liabilities	Required Reserve Ratio
Demand deposits, notice deposits and private current accounts, precious metal deposit accounts, deposits/participation accounts up to 1-year maturity	11%
Deposits/participation accounts and precious metal deposit accounts with 1-year and longer maturity and cumulative deposits/participation accounts	9%
Other liabilities up to 1-year maturity (including 1-year)	11%
Other liabilities up to 3-year maturity (including 3-year)	9%
Other liabilities longer than 3-year maturity	6%
Special fund pools	Ratios for corresponding maturities above

The reserve ratios listed in the table below became effective on 28 October 2011 and the banks were required to maintain the required reserves calculated using the new ratios from 11 November 2011.

The reserve requirements regarding Turkish Lira liabilities vary by category, as set forth below:

Category of Turkish Lira Liabilities	Required Reserve Ratio
Demand deposits, notice deposits and private current accounts	11%
Deposits/participation accounts up to 1-month maturity (including 1-month)	11%
Deposits/participation accounts up to 3-month maturity (including 3-month)	11%
Deposits/participation accounts up to 6-month maturity (including 6-month)	8%
Deposits/participation accounts up to 1-year maturity	6%
Deposits/participation accounts with 1-year and longer maturity and cumulative deposits/participation accounts	5%
Other liabilities up to 1-year maturity (including 1 year)	11%
Other liabilities between 1 and 3-year maturity	8%
Other liabilities longer than 3-year maturity	5%
Special fund pools	Ratios for corresponding maturities above

Pursuant to the "Amendment to the Communiqué regarding Reserve Requirements" published in the Official Gazette dated 12 September 2011 (effective as of 14 October 2011), the reserve requirements will also apply to gold deposit accounts. Furthermore, the banks are permitted to maintain (i) up to 40 per cent. of their Turkish Lira liabilities in U.S. dollars and/or euro (this specific provision is effective as of 16 September 2011) and up to 10 per cent. of their Turkish Lira liabilities in standard gold (ii) the total amount of the reserve requirements applicable to precious metal deposit accounts and up to 10 per cent. of the reserve

requirements applicable to foreign currency liabilities (other than precious metal deposit accounts) in standard gold.

Starting in September 2010, reserve accounts kept in TL became non-interest-bearing (reserve accounts in foreign currencies have not been interest-bearing since 2008).

The regulations state that the liquidity adequacy ratio of a bank is the ratio of liquid reserves to liabilities of the bank. A bank must maintain a weekly arithmetic average of 100 per cent. liquidity adequacy before the first maturity period (0-7 days before the maturity date of liabilities on a weekly average as defined by the regulation) and second maturity period (0-31 days before the maturity date of liabilities on a monthly average) for its aggregate liabilities and 80 per cent. liquidity adequacy for its foreign currency liabilities.

Foreign Exchange Requirements

The ratio of a bank's foreign exchange net position to its capital base should not exceed 20 per cent., which calculation is required to be made on a weekly basis. The net foreign exchange position is the difference between the Turkish lira equivalent of a bank's foreign exchange assets and its foreign exchange liabilities. For the purpose of computing the net foreign exchange position, foreign exchange assets include all active foreign exchange accounts held by a bank 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 per cent., 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 and be appointed from among the members of the board of directors who do not have executive duties. The duties and responsibilities of the audit committee include the supervision of the efficiency and adequacy of the 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.

The BRSA, as the principal regulatory authority in the Turkish banking sector, has the right to monitor compliance by banks with the requirements relating to audit committees. As part of exercising this right, the BRSA reviews audit reports prepared for banks by their independent auditing firms. Banks are required to select an independent audit firm in accordance with the regulation of the BRSA related to the authorisation and activities of independent firms to perform auditing of banks. Independent auditors are held liable for damages and losses to relevant parties referred to under the same legislation. Professional liability insurance is required for (a) independent auditors and (b) evaluators, rating agencies and certain other outsourcing services (if requested by the service-acquiring bank or required by the BRSA). Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with certain consolidation principles established by the BRSA. The year-end consolidated financial statements are required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms.

The reports prepared by independent audit firms are also filed with the CMB if the bank's shares are quoted on the Istanbul Stock Exchange. 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. Audits by certified bank auditors encompass all aspects of a bank's operations, its financial statements and other matters affecting the bank's financial position, including its domestic banking activities, foreign exchange transactions and tax liabilities. Additionally, such audits seek to ensure compliance with applicable laws and the constitutional documents of the bank. The results of such audits are reported to the Ministry of Finance, which has broad remedial powers. The Central Bank has the right to monitor compliance by banks with the Central Bank's regulations through off-site examinations.

The SDIF

Article 111 of the Banking Law relates to the SDIF and its principles. The SDIF has been established to develop trust and stability in the banking sector by strengthening the financial structures of Turkish banks, restructuring Turkish banks as needed and insuring the savings deposits and participation funds of Turkish banks. The SDIF is a public legal entity set up to insure savings deposits and participation funds held with 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.

(a) Insurance of Deposits and Participation Funds

Pursuant to Article 63 of the Banking Law, savings deposits and participation funds (belonging to real persons) held with banks are insured by the SDIF. The scope and amount of savings deposits and participation funds subject to the insurance, the tariff of the risk-based insurance premium, the time and method of collection of this premium, and other relevant matters are determined by the SDIF upon consultation with the Undersecretariat of the Treasury, the BRSA and the Central Bank.

(b) Borrowings of the SDIF

Under Article 131 of the Banking Law, the SDIF may, in extraordinary situations, borrow with the authorisation of the Undersecretariat of the Treasury or it might borrow long-term government securities from the Undersecretariat of the Treasury. The principles and procedures regarding the borrowing of government debt securities, including their interest rates and terms and conditions of repayment to the Undersecretariat of the Treasury, are to be determined together by the Undersecretariat of the Treasury and the SDIF.

(c) Power to require Advances from Banks

If the assets of the SDIF do not meet the demands and the resources of the SDIF, then (subject to the consent of the BRSA) banks may be required to make advances of up to the total insurance premiums paid by them in the previous year to be set-off against their future premium obligations.

(d) Contribution of the Central Bank

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

(e) Savings Deposits and Participation Funds that are not subject to Insurance

Deposits and participation funds 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 by 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 insurance.

(f) Premiums as an Expense Item

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

(g) Liquidation

In the event of the bankruptcy of a bank, the SDIF is a privileged creditor and may liquidate the bank under the provisions of the Execution and Bankruptcy Act, exercising the duties and powers of the bankruptcy office and creditors' meeting and the bankruptcy administration.

(h) Claims

In the event of the bankruptcy of a bank, holders of savings deposits and participation funds will have a first-degree privileged claim in respect of the part of their deposit and participation fund that is not covered by the SDIF.

Up to TL 50,000 of the amounts of deposit accounts and participation funds benefit from the SDIF insurance guarantee.

Cancellation of Banking License

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

- The assets of a bank are insufficient or are likely to become insufficient to cover its obligations as they become due;
- A bank is not complying with liquidity requirements;
- A bank's profitability is not sufficient to conduct its business in a secure manner due to disturbances in the relation and balance between the expenses and profit;
- The regulatory equity capital of a bank is not sufficient or is to likely to become insufficient;
- The quality of assets of a bank have been impaired in a manner potentially weakening its financial structure,
- The decisions, transactions or applications of a bank are in breach of the Banking Law, relevant regulations or the decisions of the BRSA;
- A bank fails to establish internal audit, supervision and risk management systems or to effectively and sufficiently conduct such systems or any factor impedes the supervision of such systems, or any factor impedes the audit; or
- Imprudent acts of a 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 increase its equity capital;
- Not to distribute dividends for a period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund;
- To increase its loan provisions;
- To stop extension of loans to its shareholders;
- To dispose of its assets in order to strengthen its liquidity;
- To limit or stop its new investments;
- To restrict payment of fees and other types of payments;
- To cease its long term investments;
- To comply with the relevant banking legislation;
- To cease its risky transactions, by re-evaluating its credit policy;
- To take all actions to decrease any maturity foreign exchange and interest rate risks; and/or
- To exercise other necessary actions to be determined by BRSA,

for a period determined by BRSA and in accordance with a plan approved by BRSA.

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 its having taken such actions, or its financial structure has become so weak that it could not be strengthened, then the BRSA may require such bank:

- To strengthen its financial structure, 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 under any name whatsoever, excluding the regular payments to be made to its members;
- To limit or prohibit extension of any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors;
- To convene an extraordinary general assembly in order to change the members of the board of directors or assign new member(s) to the board of directors, in the event any board member is responsible for non-compliance with relevant legislation or increase of risks as stipulated above the failure to apply the aforementioned actions;
- To implement short-, medium- or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the bank; and/or

- To exercise other necessary actions to be determined by BRSA.

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 or its whole organisation by its field of activity for a temporary period as to include its relations with its local or foreign branches and correspondents;
- To apply various restrictions, including restrictions on rate ratio and maturity with respect to resource collection and utilisation;
- To remove from office (in whole or in part) its members of the board of directors, general manager and deputy general managers and department and branch managers and obtain approval from the BRSA as to the persons to be appointed to replace these;
- To make available long-term loans, provided that these will not exceed the amount of deposit or participation funds subject to insurance, and be served 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 exercise other necessary actions to be determined by BRSA.

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 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 license of such bank to engage in banking operations and/or to accept deposits and transfer the management, supervision and control of the privileges of shareholders (excluding dividends) of such bank to the SDIF for the purpose of whole or partial transfer or sale of such bank to third persons or merger thereof, provided that the loss is deducted from the share capital of current shareholders.

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

another bank that is under its control. The SDIF is required to institute bankruptcy proceedings in the name of depositors against a bank whose banking license is revoked.

Annual Reporting

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

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

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

When the BRSA requests a bank's financial reports, the chairman of the board, audit committee, general manager, deputy general manager responsible for financial reporting and the relevant unit manager (or equivalent authorities) must sign the reports indicating their full names and titles and declare that the financial report complies with relevant legislation and accounting records. In addition, foreign banks must have the members of the board of managers of their Turkish branches sign the annual reports. Independent auditors must approve all annual reports that banks present to their general assemblies.

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

Further, banks are required to submit and publish activity reports that comply with the BRSA's established guidelines. These reports include the following information: management and organisation structures, human resources, activities, financial situations, assessment of management and expectations and a summary of the directors' report and independent auditor's report.

The Regulation on the Preparation and Publication of Annual Reports regulates the procedures and principles regarding the annual reports of banks to be published at the end of each fiscal year. According to the regulation, a bank's financial performance and the risks that it faces need to be assessed in the annual report. The annual report is subject to the approval of the board of directors and must be submitted to shareholders at least 15 days before the annual general assembly of the bank. Each bank must submit a copy of its annual report to the BRSA by the end of April and keep a copy of it in its headquarters and each branch and publish it on its website by the end of May.

Financial Services Fee

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

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes of acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Republic of Turkey

The following taxation section describes the principal tax consequences of an investment in the Notes by a person who is not a resident of Turkey and will not hold the Notes or a beneficial interest therein in connection with the conduct of a trade or business through a permanent establishment in Turkey. This summary does not intend to be a comprehensive description of all of the tax considerations that may be relevant to a decision to make an investment in the Notes. 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 with a fixed base or permanent establishment in Turkey.

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile is in Turkey or if its effective place of management is in Turkey. A resident legal entity is subject to Turkish taxes on its world-wide income, whereas a non-resident legal entity is only subject to Turkish taxes for the income made through a permanent establishment or a permanent representative, or for the income sourced in Turkey otherwise. A natural person is a resident of Turkey for tax purposes if such person has established domicile in Turkey, or stays in Turkey more than six months in a calendar year. Non-Turkish citizens, who stay in Turkey for six months or more in a calendar year for a specific job or business or particular purposes which are specified by the applicable Turkish income tax laws and double-tax-treaty provisions, are not treated as being resident in Turkey for tax purposes. A resident individual is liable for Turkish taxes on his world-wide income, while a non-resident individual is only liable for Turkish taxes on his income sourced in Turkey. Trading income is deemed as sourced in Turkey when it is provided through a permanent establishment or permanent representative. Income from movable capital investment (including investment in securities) is deemed as sourced in Turkey when capital is invested in Turkey. Capital gain is deemed as 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 for accounting purposes in Turkey.

A non-resident holder will not be liable for Turkish estate, inheritance or similar tax with respect to its investment in the Notes, nor will it be liable for any Turkish stamp issue, registration or similar tax or duty relating thereto.

Capital gains obtained by a non-resident individual or corporation may be subject to income tax or corporate tax if the Notes are traded before their maturity depending on the holding period of the Certificates before sale and the applicable, if any, double-tax-treaty provisions. The current rate of corporate tax is 20 per cent. The corporate profit remaining after-tax (dividends) of the non-resident shareholders would also be subject to 15 per cent. withholding tax when such profits are transferred from Turkey to abroad (double-tax-treaties could reduce these withholding tax rates on dividends to as low as 5 per cent.). Current income tax rate for individuals ranges between 15 per cent. and 35 per cent. depending on the respective amount bracket of income. The holding period criteria for taxation of capital gains varies upon the double-tax-treaties concluded between Turkey and the country of residency of the Noteholders (not all treaties include debt issues such as Notes).

The interest payments on the Notes by the Issuer to a non-resident holder will be subject to withholding at the following rates (under specific provisions of Council of Ministers Decree No. 2011/1854 overriding double-tax-treaty provisions save for capital gains):

- (i) 10 per cent. over payment of interest under the Notes with a maturity of less than one year;
- (ii) 7 per cent. over payment of interest under the Notes with a maturity from one year to three years;
- (iii) 3 per cent. over payment of interest under the Notes with a maturity from three years to five years;
- (iv) 0 per cent. over payment of interest under the Notes with a maturity of more than five years.

Provision of Beneficial Owner Information

The Issuer may be required to make available to the tax authorities of Turkey or one of its administrative subdivisions, as the case may be, certain details relating to beneficial owners who receive payments of interest or redemption proceeds on the Notes.

EU Savings Directive

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

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

Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

(i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EC Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an

individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it is currently levied at a rate of 35 per cent. as of 1 July 2011. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 35 per cent.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the Law) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

SUBSCRIPTION AND SALE

BNP Paribas (the **Lead Manager**), Banque Fédérative du Crédit Mutuel and Standard Chartered Bank (the **Co-Lead Managers** and, together with BNP Paribas, the **Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 9 May 2012, agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of the principal amount of Notes, less any applicable commissions. The Issuer has agreed to indemnify each Manager against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Notes have not been and will not be registered under the Securities Act 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 paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes 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 United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons. Each Manager has further agreed that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

- (a) 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 Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

France

Each Manager has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Prospectus or any other offering material relating to the Notes, and that such offers, sales and distributions have been and will be made in France only

to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*), other than individuals, all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French Code monétaire et financier.

Turkey

The Notes have been registered with the CMB only for the purpose of sale of the Notes outside Turkey in accordance with Article 15/b of the Decree No. 32, Articles 6 and 25 of Communiqué and Article 8 of the BRSA Regulation and, accordingly, the Notes will neither be offered nor sold to Turkish residents in accordance with the decision of the Board of the BRSA dated May 6, 2010, No. 3665 and announced by the BRSA letter dated May 10, 2010, No. 9392 nor will they be offered or sold within Turkey under current capital markets regulations.

General

No action has been taken by the Issuer or any Manager that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

1. The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 8 May 2012.

Listing

2. The Notes have been registered with the CMB for the purpose of sale of the Notes outside Turkey. Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to trading on the Luxembourg Stock Exchange's Euro MTF market and to be listed on the Official List of the Luxembourg Stock Exchange.

Clearing Systems

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS0780562665 and the Common Code is 078056266.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

No significant change

4. There has been no significant change in the financial or trading position of the Issuer since 31 December 2011 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2011.

Litigation

5. None of the Issuer nor any other member of the TEB Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the TEB Group.

Auditors

6. The auditors of the Issuer are DRT Bağıımız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (member of DELOITTE TOUCHE TOHMATSU LIMITED), independent certified public accountants in Turkey, an institution authorised by the BRSA, have audited the Issuer's consolidated financial statements in accordance with the International Financial Reporting Standards, without qualification, for each of the two financial years ended on 31 December 2011 and 31 December 2010 based on the International Standards of Auditing. The auditors of the Issuer have no material interest in the Issuer.

U.S. tax

7. The Notes and Coupons will contain the following legend: "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."

Documents Available

8. As long as the Notes are outstanding, copies of the following documents will be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:
- (a) the articles of association (with an English translation thereof) of the Issuer; and
 - (b) the audited consolidated annual financial statements of the Issuer in respect of the financial years ended 31 December 2011 and 31 December 2010 (with an English translation thereof), in each case together with the audit reports in connection therewith. The Issuer currently prepares audited consolidated accounts on an annual basis; and
 - (c) the Agency Agreement.

In addition, copies of this Prospectus and each document incorporated by reference is available on the Luxembourg Stock Exchange's website at www.bourse.lu.

Managers transacting with the Issuer

9. Each Manager and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

Assignment

10. The Notes shall not be transferred to the Issuer's affiliates or Subsidiaries.

Other securities

11. As of the date of this Prospectus, the Issuer has not issued any convertible debt securities, exchangeable debt securities or debt securities with warrants attached.

ISSUER

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United Kingdom

FISCAL AND PRINCIPAL PAYING AGENT

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To the Managers as to Turkish law

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İstanbul
Republic of Turkey

AUDITORS

To the Issuer

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LISTING AGENT

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