QNB FİNANSBANK A.Ş.

Issue of US$500,000,000 6.875% Notes due 2024
under its US$5,000,000,000 Global Medium Term Note Programme
Issue price: 99.662

The US$500,000,000 6.875% Notes due 2024 (the "*Notes*") are being issued by QNB Finansbank A.Ş., a Turkish banking institution organised as a public joint stock company registered with the İstanbul Trade Registry under number 237525 (the "*Bank*" or the "*Issuer*"), under its US$5,000,000,000 Global Medium Term Note Programme (the "*Programme*").

The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "*Securities Act*"), of the United States of America (the "*United States*" or "*U.S.*") or any other U.S. federal or state securities laws and are being offered: (a) for sale to "qualified institutional buyers" (each a "*QIB*") as defined in, and in reliance upon, Rule 144A under the Securities Act ("*Rule 144A*") and (b) for sale in offshore transactions to persons who are not "U.S. persons" ("*U.S. persons*") as defined in, and in reliance upon, Regulation S under the Securities Act ("*Regulation S*"). For a description of certain restrictions on the sale and transfer of investments in the Notes, see "Plan of Distribution" herein and "Transfer and Selling Restrictions" in the Base Prospectus (as defined under "Documents Incorporated by Reference" below). Where the "United States" is referenced herein with respect to Regulation S, such shall have the meaning provided thereto in Rule 902 of Regulation S.

INVESTING IN THE NOTES INVOLVES RISKS. PROSPECTIVE INVESTORS SHOULD CONSIDER THE FACTORS SET FORTH UNDER "*RISK FACTORS*" FOR A DISCUSSION OF CERTAIN OF THESE RISKS.

The Notes will bear interest from (and including) 7 March 2019 (the "*Issue Date*") to (but excluding) 7 September 2024 (the "*Maturity Date*") at a fixed rate of 6.875% *per annum*. Interest will be payable semi-annually in arrear in equal instalments on the 7th day of each March and September in each year (each an "*Interest Payment Date*") up to (and including) the Maturity Date; *provided* that if any such date is not a Payment Business Day (as defined in Condition 7.6), then such payment will be made on the next Payment Business Day but without any further interest or other payment being made in respect of such delay. Principal of the Notes is scheduled to be repaid on the Maturity Date but may be repaid earlier under certain circumstances described herein and in the Base Prospectus. For a more detailed description of the Notes, see "Terms and Conditions of the Notes" herein.

This prospectus (this "*Prospectus*") has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC (as amended or superseded, the "*Prospectus Directive*"). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union (the "*EU*") law pursuant to the Prospectus Directive. Such approval relates only to Notes that are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU (as amended, "*MiFID II*") and/or that are to be offered to the public in any member state of the European Economic Area (the "*EEA*"). Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("*Euronext Dublin*") for the Notes to be admitted to its official list (the "*Official List*") and to trading on its regulated market (the "*Regulated Market*"); *however*, no assurance can be given that such application will be accepted. The Regulated Market is a regulated market for the purposes of MiFID II.

Application has been made to the Capital Markets Board (the "*CMB*") of the Republic of Turkey ("*Turkey*"), in its capacity as competent authority under Law No. 6362 (the "*Capital Markets Law*") of Turkey relating to capital markets, for its approval of the issuance and sale of the Notes by the Bank outside of Turkey. No Notes may be sold before the necessary approvals are obtained from the CMB. The CMB approval based upon which the offering of the Notes is conducted was obtained on 14 May 2018 and, to the extent (and in the form) required by applicable law, a written approval of the CMB in relation to the Notes will be required to be obtained on or before the Issue Date.

The Notes are expected to be rated at issuance "BB-" (negative outlook) by Fitch Ratings Limited ("*Fitch*") and "Ba3" (negative outlook) by Moody's Investors Service Ltd. ("*Moody's*" and, with Fitch, the "*Rating Agencies*"). The Bank has also been rated by the Rating Agencies, as set out on page 130 of the Base Prospectus (as amended by the second and third supplements to the Base Prospectus dated 11 September 2018 and 26 November 2018, respectively). Each of the Rating Agencies is established in the EU and is registered under Regulation (EC) No. 1060/2009, as amended (the "*CRA Regulation*"). As such, each of the Rating Agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority ("*ESMA*") on its website (at https://www.esma.europa.eu/supervision/credit-rating-agencies/risk) in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Notes are being offered in reliance upon Rule 144A and Regulation S by each of Citigroup Global Markets Limited, J.P. Morgan Securities plc, Mizuho International plc, QNB Capital LLC, Société Générale and Standard Chartered Bank (each a "*Joint Bookrunner*" and, collectively, the "*Joint Bookrunners*"), subject to their acceptance and right to reject orders in whole or in part. It is expected that: (a) delivery of the Rule 144A Notes will be made in book-entry form only through the facilities of The Depository Trust Company ("*DTC*") against payment therefor in immediately available funds on the Issue Date and (b) delivery of the Regulation S Notes will be made in book-entry form only through the facilities of Euroclear Bank SA/NV ("*Euroclear*") and/or Clearstream Banking S.A. ("*Clearstream, Luxembourg*") against payment therefor in immediately available funds on the Issue Date.

Joint Bookrunners

Citigroup | **J.P. Morgan** | **Mizuho Securities**

QNB Capital | **Société Générale Corporate & Investment Banking** | **Standard Chartered Bank**

The date of this Prospectus is 5 March 2019.

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

RESPONSIBILITY STATEMENT

The Issuer accepts responsibility for the information contained in (including incorporated by reference into) 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 (including the information incorporated herein by reference) 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: (a) this Prospectus (including the information incorporated herein by reference) contains all information that in its view is material in the context of the issuance and offering of the Notes (or beneficial interests therein), (b) the information contained in (including incorporated by reference into) this Prospectus is true and accurate in all material respects and is not misleading, (c) any opinions, predictions or intentions expressed in this Prospectus (including in any of the documents (or portions thereof) incorporated herein by reference) on the part of the Issuer are honestly held or made by the Issuer and are not misleading in any material respects, and there are no other facts the omission of which would make this Prospectus or any of such information or the expression of any such opinions, predictions or intentions misleading in any material respect, and (d) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

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

To the fullest extent permitted by law, none of the Fiscal Agent, Principal Paying Agent, Registrar, United States Paying Agent, other Paying Agent or Transfer Agent (each as set out in the Final Terms, and together, the "*Agents*") or the Joint Bookrunners accept any responsibility for the information contained in (including incorporated by reference into) this Prospectus or any other information provided by (or on behalf of) the Issuer in connection with the Notes or for any statement consistent with this Prospectus made, or purported to be made, by a Joint Bookrunner or on its behalf in connection with the issue and offering of the Notes (or beneficial interests therein) and none of the Joint Bookrunners or the Agents accepts any responsibility for any acts or omissions of the Issuer or any other person in connection with the issue and offering of the Notes (or beneficial interests therein). Each Joint Bookrunner accordingly disclaims all and any liability that it might otherwise have (whether in tort, contract or otherwise) in respect of the accuracy or completeness of any such information or statements. The Joint Bookrunners expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor or potential investor in the Notes of any information coming to their attention.

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

Neither this Prospectus nor any other information supplied by (or on behalf of) the Issuer or any of the Joint Bookrunners in connection with the Notes: (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Joint Bookrunners that any recipient of this Prospectus or any such other information should invest in the Notes. Each investor contemplating investing in the Notes should: (i) determine for itself the relevance of the information contained in (including incorporated by reference into) this Prospectus, (ii) make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and (iii) make its own determination of the suitability of any such investment in light of its own circumstances, with particular reference to its own investment objectives and experience, and any other factors that are relevant to it in connection with such investment, in each case, based upon such investigation as it deems necessary.

Neither this Prospectus nor, except to the extent explicitly stated therein, any such other information supplied in connection with the issue of the Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Joint Bookrunners to any person to subscribe for or purchase any Notes (or beneficial interests therein).

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes (or beneficial interests therein) shall in any circumstances imply that the information contained herein is correct at any time subsequent to the date hereof (or, if such information is stated to be as of an earlier date, subsequent to such earlier date) or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same. This Prospectus may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted by (or on behalf of) the Issuer or a Joint Bookrunner.

GENERAL INFORMATION

The distribution of this Prospectus and/or the offer or sale of Notes (or beneficial interests therein) might be restricted by law in certain jurisdictions. None of the Issuer or the Joint Bookrunners represent that this Prospectus may be lawfully distributed, or that the Notes (or beneficial interests therein) may be lawfully offered, in any such jurisdiction or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer that is intended to permit a public offering of the Notes (or beneficial interests therein) or distribution of this Prospectus, any advertisement or any other material in any jurisdiction in which action for that purpose is required. Accordingly: (a) no Notes (or beneficial interests therein) may be offered or sold, directly or indirectly, and (b) neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction except, in each case, under circumstances that will result in compliance with all applicable laws. Persons into whose possession this Prospectus or any Notes (or beneficial interests therein) come(s) must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus, any advertisement or other material and the offering and/or sale of the Notes (or beneficial interests therein). In particular, there are restrictions on the distribution of this Prospectus and the offer and/or sale of the Notes (or beneficial interests therein) in (*inter alia*) the United States, the EEA (including the United Kingdom and Belgium), Turkey, Japan, Switzerland, the People's Republic of China (the "*PRC*"), Thailand, Singapore and the Hong Kong Special Administrative Region of the PRC ("*Hong Kong*"). See "Plan of Distribution" herein and "Transfer and Selling Restrictions" in the Base Prospectus.

In making an investment decision, investors must rely upon their own examination of the Issuer and the terms of the Notes, including the merits and risks involved. The Notes have not been approved or disapproved by the Securities and Exchange Commission (the "*SEC*") of the United States or any other securities commission or other regulatory authority in the United States and, other than the approvals of the Banking Regulation and Supervision Agency (the "*BRSA*") of Turkey and the CMB (*i.e.*, the Programme Approvals described below) and the Central Bank of Ireland described herein, have not been approved or disapproved by any securities commission or other regulatory authority in Turkey or any other jurisdiction, nor have the foregoing authorities (other than the Central Bank of Ireland to the extent described herein) approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary might be unlawful.

None of the Joint Bookrunners, the Issuer or any of their respective affiliates, counsel or other representatives makes any representation to any actual or potential investor in the Notes regarding the legality under any applicable law of its investment in the Notes. Any investor in the Notes should ensure that it is able to bear the economic risk of an investment in the Notes for an indefinite period of time.

The Notes might not be a suitable investment for all investors. Each potential investor contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of that investment in light of its own circumstances, with particular reference to its own investment objectives and experience, and any other factors that are relevant to it in connection with such investment. In particular, each potential investor in the Notes should consider, either on its own or with the help of its financial and other professional advisers, whether it:

(a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in (including incorporated by reference into) this Prospectus or any supplement hereto,

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

(c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal and interest payments is different from the potential investor's currency,

(d) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets, and

(e) is able to evaluate possible scenarios for economic, interest rate and other factors that might affect its investment in the Notes and its ability to bear the applicable risks.

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

The Issuer has obtained the CMB approval letter (dated 14 May 2018 and numbered 29833736-105.02.02-E.5371) and the CMB approved issuance certificate (in Turkish: *onaylanmış ihraç belgesi*) (dated 14 May 2018) (together, the "*CMB Approval*") and the BRSA approval letter (dated 25 April 2018 and numbered 20008792-101.01.04[31]-E.5709) (the "*BRSA Approval*" and, with the CMB Approval, the "*Programme Approvals*") required for the issuance of the Notes. In addition to the Programme Approvals, to the extent (and in the form) required by applicable law, a written approval of the CMB in respect of the Notes is required to be obtained by the Issuer on or before the Issue Date.

Pursuant to the Programme Approvals, the offer, sale and issue of the Notes have been authorised and approved in accordance with Decree No. 32 on the Protection of the Value of the Turkish Currency (as amended from time to time, "*Decree 32*"), the Banking Law No. 5411 of 2005, as amended (the "*Banking Law*"), and its related law, the Capital Markets Law and the Communiqué on Debt Instruments No. VII-128.8 of the CMB (the "*Debt Instruments Communiqué*") and its related law.

In addition, in accordance with the Programme Approvals, the Notes (or beneficial interests therein) may only be offered or sold outside of Turkey. Under the Programme Approvals, the BRSA and CMB have authorised the offering, sale and issue of the Notes on the condition that no transaction that qualifies as a sale or offering of Notes (or beneficial interests therein) in Turkey may be engaged in. Notwithstanding the foregoing, pursuant to the BRSA decisions dated 6 May 2010 (No. 3665) and in accordance with Decree 32, residents of Turkey may, in the secondary markets only, purchase or sell Notes (or beneficial interests therein) (as they are denominated in a currency other than Turkish Lira) in offshore transactions on an unsolicited (reverse inquiry) basis; *provided* that such purchase or sale is made through licensed banks authorised by the BRSA or licensed brokerage institutions authorised pursuant to CMB regulations and the purchase price is transferred through such licensed banks. As such, Turkish residents should use such licensed banks or such licensed brokerage institutions when purchasing the Notes (or beneficial interests therein) and should transfer the purchase price through such licensed banks.

Notes offered and sold to QIBs in reliance upon Rule 144A (the "*Rule 144A Notes*") will be represented by beneficial interests in one or more global note(s) in registered form (each a "*Rule 144A Global Note*") on the Issue Date. Notes offered and sold pursuant to Regulation S in offshore transactions to persons who are not U.S. persons (the "*Regulation S Notes*") will be represented by beneficial interests in a global note in registered form (the "*Regulation S Registered Global Note*" and, with the Rule 144A Global Note(s), the "*Global Notes*").

The Rule 144A Global Note(s) will be deposited on or about the Issue Date with The Bank of New York Mellon, New York Branch, in its capacity as custodian (the "*Custodian*") for, and will be registered in the name of Cede & Co. as nominee of, DTC. Except as described in this Prospectus, beneficial interests in the Rule 144A Global Note(s) will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. The Regulation S Registered Global Note will be deposited on or about the Issue Date with a common depositary (the "*Common Depositary*") for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee of the Common Depositary. Except as described in this Prospectus, beneficial interests in the Regulation S Registered Global

Note will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

Each investor in the Notes will be deemed to have made certain representations and agreements as described in the Base Prospectus. Any resale or other transfer, or attempted resale or other attempted transfer, of the Notes (or a beneficial interest therein) that is not made in accordance with the transfer restrictions and all applicable laws might subject the transferor and/or transferee to certain liabilities under applicable laws.

Monies paid for the purchase of Notes (or beneficial interests therein) are not protected by the insurance coverage provided by the Savings Deposit Insurance Fund (*Tasarruf Mevduatı Sigorta Fonu*) (the "*SDIF*") of Turkey.

Pursuant to the Debt Instruments Communiqué, the Issuer is required to notify the Central Registry Agency (*Merkezi Kayıt Kuruluşu A.Ş.*) (trade name: Central Registry İstanbul (*Merkezi Kayıt İstanbul*)) ("*Central Registry İstanbul*") within three İstanbul business days from the Issue Date of the amount, Issue Date, ISIN, interest commencement date, maturity date, interest rate, name of the custodian and currency of the Notes and the country of issuance.

NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "*SFA*") and the Securities and Futures (Capital Markets Products) Regulations 2018 (the "*CMP Regulations 2018*"), the Issuer has determined the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

MIFID II PRODUCT GOVERNANCE / ELIGIBLE COUNTERPARTIES AND PROFESSIONAL CLIENTS ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (a) the target market for the Notes (and beneficial interests therein) is eligible counterparties and professional clients only, each as defined in MiFID II, and (b) all channels for distribution of the Notes (and beneficial interests therein) to eligible counterparties and professional clients are appropriate. Any person or entity subsequently offering, selling or recommending the Notes (or beneficial interests therein) (a "*distributor*") should take into consideration the manufacturers' target market assessment; *however*, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (or beneficial interests therein) (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

U.S. INFORMATION

The Notes have not been and will not be registered under the Securities Act or any other U.S. federal or state securities laws and the Notes (or beneficial interests therein) may not be offered or sold in the United States or to, or for the account or benefit of, a U.S. person except pursuant to an exemption from the registration requirements of the Securities Act and in accordance with all applicable securities laws of the United States and each state or other jurisdiction of the United States. In the United States, this Prospectus is only being submitted on a confidential basis to a limited number of QIBs and to investors with whom "offshore transactions" under Regulation S can be entered into for informational use solely in connection with the consideration of an investment in the Notes. Its use for any other purpose in the United States or by any U.S. person is not authorised.

Potential investors that are U.S. persons should note that the Issue Date for the Notes will be more than two business days (this settlement cycle being referred to as "*T+2*") following the trade date of the Notes. Under Rule 15c6-l of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), of the United States, trades in the secondary market generally are required to settle in two business days unless otherwise expressly agreed to by the parties at the time of the transaction. Accordingly, investors who wish to trade interests in Notes in the United States on the trade date relating to the Notes or the next business days will likely be required, by virtue of the fact that the Notes initially will settle on a settlement cycle longer than T+2, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement.

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes (or beneficial interests therein) for so long as they are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer has undertaken in a deed poll dated 26 April 2018 (such deed poll as amended, restated or supplemented from time to time, the "*Deed Poll*") to furnish, upon the request of an investor in such Notes, to such investor or to a prospective purchaser designated by such investor, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes (or beneficial interests therein) to be transferred are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

STABILISATION

In connection with the issue of the Notes, Standard Chartered Bank (the "*Stabilising Manager*") (or persons acting on behalf of the Stabilising Manager) might overallot Notes or effect transactions with a view to supporting the market price of an investment in the Notes at a level higher than that which might otherwise prevail; *however*, stabilisation might not necessarily occur. Any stabilisation action or overallotment might begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, might cease at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Notes. Any stabilisation action or overallotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules. Notwithstanding anything herein to the contrary, the Bank may not (whether through overallotment or otherwise) issue more Notes than have been authorised by the CMB or are permitted under the Programme.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Alternative Performance Measures

To supplement the Bank's consolidated and unconsolidated financial statements presented in accordance with the BRSA Accounting and Reporting Principles, the Bank uses certain ratios and measures included (including through incorporation by reference) in this Prospectus that might be considered to be "alternative performance measures" (each an "*APM*") as described in the ESMA Guidelines on Alternative Performance Measures (the "*ESMA Guidelines*") published by ESMA on 5 October 2015. The ESMA Guidelines provide that an APM is understood as "a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework." The ESMA Guidelines also note that they do not apply to APMs "disclosed in accordance with applicable legislation, other than the applicable financial reporting framework, that sets out specific requirements governing the determination of such measures."

Any APMs included in this Prospectus are not alternatives to measures prepared in accordance with the BRSA Accounting and Reporting Principles and might be different from similarly titled measures reported by other companies. The Bank's management believes that this information, when considered in conjunction with measures reported under the BRSA Accounting and Reporting Principles, is useful to investors because it provides a basis for measuring the organic operating performance in the periods presented and enhances investors' overall understanding of the Group's financial performance. In addition, these measures are used in internal management of the Group, along with financial measures reported under the BRSA Accounting and Reporting Principles, in measuring the Group's performance and comparing it to the performance of its competitors. In addition, because the Group has historically reported certain APMs to investors, the Bank's management believes that the inclusion of APMs in this Prospectus provides consistency in the Group's financial reporting and thus improves investors' ability to assess the Group's trends and performance over multiple periods. APMs should not be considered in isolation from, or as a substitute for, financial information presented in compliance with the BRSA Accounting and Reporting Principles.

For the Group, measures that might be considered to be APMs in this Prospectus (and that are not defined or specified by the BRSA Accounting and Reporting Principles or any other legislation applicable to the Bank and are not defined in the Base Prospectus) include (without limitation) the following (such terms being used in this Prospectus as they are defined below):

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

cost of funding: For a particular period and indebtedness, this is: (a) the interest expense on such indebtedness for such period *divided by* (b) the average amount of such indebtedness for such period (calculated by averaging the amount thereof as of the balance sheet date immediately prior to the commencement of such period (*i.e.*, for any year, December 31 of the previous year) and each intervening month-end date).

net interest income as a percentage of average interest-earning assets: For a particular period, this is: (a) net interest income for such period *as a percentage of* (b) the average interest-earning assets during such period.

NPL ratio: As of a particular date, this is: (a) non-performing loans ("*NPLs*") as of such date *as a percentage of* (b) the aggregate amount of loans and receivables (performing) and NPLs as of such date.

NPLs to total shareholders' equity: As of a particular date, this is: (a) NPLs as of such date *divided by* (b) the total shareholders' equity as of such date.

Reconciliations for the above (to the extent that any of such items are APMs) to the applicable financial statements are not included as they are not required by the ESMA Guidelines in these circumstances, including as a result of Article 29 thereof where the items described in the APM are directly identifiable from the financial statements (*e.g.*, where an applicable APM is merely a calculation of one or more item(s) in the financial statements as a percentage of another item in the financial statements).

The following are definitions of certain terms that are used in the calculations of the terms defined above (such terms being used in this Prospectus as they are defined below):

average interest-bearing liabilities: For a particular period, this is the sum of the monthly averages of total deposits excluding demand deposits, funds borrowed, funds provided under repurchase agreements, marketable securities issued and subordinated debt calculated by averaging the amount of such interest-bearing liabilities as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any calendar year, 31 December of the previous year) and each intervening month-end date.

average interest-earning assets: For a particular period, this is the average of the amount of interest-earning assets, which includes total banks, total securities, total money market placements, total performing loans, total leasing receivables and total factoring receivables, as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any calendar year, 31 December of the previous year) and each intervening quarter-end date.

Currency Presentation and Exchange Rates

In this Prospectus, all references to: (a) "*Turkish Lira*" and "*TL*" refer to the lawful currency for the time being of Turkey, (b) "*U.S. dollars,*" "*US$*" and "*$*" refer to United States dollars and (c) "*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. No representation is made that the Turkish Lira or U.S. dollar amounts in this Prospectus could have been or could be converted into U.S. dollars or Turkish Lira, as the case may be, at any particular rate or at all. For a discussion of the effects on the Group of fluctuating exchange rates, see "Risk Factors – Risks Related to the Group's Business – Foreign Exchange Risk" in the Base Prospectus.

Certain Defined Terms, Conventions and Other Considerations in Relation to the Presentation of Information in this Prospectus

In this Prospectus: (a) "*Bank*" or "*Issuer*" means QNB Finansbank A.Ş. on a standalone basis and "*Group*" means the Bank and its subsidiaries (and, with respect to consolidated accounting information, entities that are consolidated into the

Bank) and (b) the term "*law*" shall (unless the context otherwise requires) be deemed to include legislation, regulations and other legal requirements.

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments and, accordingly, figures shown in the same category presented in different tables might vary slightly and figures shown as totals in certain tables might not be an arithmetic aggregation of the figures that precede them.

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

The language of this Prospectus is English. Certain legal references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. In particular, but without limitation, the titles of Turkish laws and the names of Turkish institutions referenced herein (and in the documents (or portions thereof) incorporated herein by reference) have been translated from Turkish into English. The translations of these titles and names are direct and accurate.

All data relating to the Turkish banking sector in this Prospectus have been obtained from the BRSA's website at www.bddk.org.tr, the website of the Banks Association of Turkey (*Türkiye Bankalar Birliği*) (the "*Banks Association of Turkey*") at www.tbb.org.tr or the website of the Interbank Card Centre (*Bankalararası Kart Merkezi*) at www.bkm.com.tr/bkm, and all data relating to the Turkish economy, including statistical data, have been obtained from the website of the Turkish Statistical Institute (*Türkiye İstatistik Kurumu*) ("*TurkStat*") at www.turkstat.gov.tr, the website of the Central Bank of Turkey (*Türkiye Cumhuriyet Merkez Bankası*) (the "*Central Bank*") at www.tcmb.gov.tr or the website of the Ministry of Treasury and Finance of Turkey (the "*Turkish Treasury*") at www.hazine.gov.tr. Such data have been extracted from such websites without material adjustment, but might not appear in the exact same form on such websites or elsewhere. Such websites do not, and should not be deemed to constitute a part of, or be incorporated into, this Prospectus.

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

TABLE OF CONTENTS

RISK FACTORS

Prospective investors in the Notes should consider carefully the information contained in this Prospectus and the documents (or portions thereof) that are incorporated herein by reference, and in particular should consider all the risks inherent in making such an investment, including the information under the heading "Risk Factors" on pages 12 to 47 (inclusive) of the Base Prospectus (as supplemented through the date hereof) (the "Programme Risk Factors"), before making a decision to invest.

In investing in the Notes, investors assume the risk that the Issuer might become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors that individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur as the Issuer might not be aware of all relevant factors and certain factors that it currently deems not to be material might become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in the Programme Risk Factors a number of factors that might materially adversely affect its business and ability to make payments due under the Notes.

In addition, a number of factors that are material for the purpose of assessing the market risks associated with the Notes are also described in the Programme Risk Factors. Prospective investors in the Notes should also read the detailed information set out elsewhere in (or incorporated by reference into) this Prospectus and reach their own views prior to making any investment decision relating to the Notes; *however*, the Bank does not represent that the risks set out in the Programme Risk Factors or herein are exhaustive or that other risks might not arise in the future.

The Programme Risk Factors are (except to the extent noted otherwise herein) incorporated by reference into this Prospectus and, for these purposes, references in the Programme Risk Factors to "Notes" shall be construed as references to the Notes described in this Prospectus.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or the indicated parts thereof), which have previously been published or are published simultaneously with this Prospectus and have been filed with the Central Bank of Ireland and Euronext Dublin, shall be incorporated into, and form part of, this Prospectus:

(a) the sections of the Base Prospectus dated 26 April 2018 (the "*Original Base Prospectus*") as supplemented on 29 May 2018, 11 September 2018, 26 November 2018 and 26 February 2019 (the "*Base Prospectus*") relating to the Programme and titled as set out in the table below (*it being understood* that such supplements are also incorporated by reference herein as relevant and the sections of the Original Base Prospectus set out in the table below should be read in conjunction with such supplements):

	Page references (inclusive)
Cautionary Statement Regarding Forward-Looking Statements	v to vi
Available Information	vii
Presentation of Financial and Other Information	viii to xii
Overview	1 to 11
Risk Factors (other than "Risks Related to Notes Denominated in Renminbi")	12 to 47
Form of the Notes	48 to 51
Terms and Conditions of the Notes	68 to 101
Use of Proceeds	102
Selected Consolidated Financial Information of the Group	103 to 105
Capitalisation of the Group	106
Business of the Group	107 to 130
Recent Developments	***
Risk Management	131 to 143
Management	144 to 153
Share Capital and Ownership	154
Related Party Transactions	155 to 156
The Turkish Banking Sector	157 to 158
Turkish Regulatory Environment	159 to 185
Book-Entry Clearance Systems	186 to 190
Taxation	191 to 193
Certain Considerations for ERISA and other U.S. Employee Benefit Plans	194 to 195
Transfer and Selling Restrictions	197 to 210
Enforcement of Judgments and Service of Process	212
Appendix A - Summary of Significant Differences between IFRS and BRSA Accounting and Reporting Principles	220

*** Inserted into the Original Base Prospectus by way of the supplement thereto dated 29 May 2018 and amended by the supplements thereto dated 26 November 2018 and 26 February 2019.

(b) the audited consolidated BRSA Financial Statements of the Group as of and for each of the years ended 31 December 2017 (including comparative information for 2016) and 2018 (including comparative information for 2017) and any notes thereto and the independent auditors' reports thereon (the "*BRSA Consolidated Financial Statements*"), and

(c) the audited unconsolidated BRSA Financial Statements of the Bank as of and for each of the years ended 31 December 2017 (including comparative information for 2016) and 2018 (including comparative information for 2017) and any notes thereto and the independent auditors' reports thereon (with the BRSA Consolidated Financial Statements, the "*BRSA Financial Statements*"),

With respect to the BRSA Financial Statements, please see "Other General Information – Independent Auditors" below.

Following the publication of this Prospectus, a supplement to this Prospectus might be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document (or portions thereof) incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document (or portions thereof) that is incorporated by reference into this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

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

Copies of documents incorporated (or portions of which have been incorporated) by reference into this Prospectus can be obtained without charge from the registered office of the Bank and from the Bank's website: https://www.qnbfinansbank.com/en/investor-relations/financial-information (such website is not, and should not be deemed to, constitute a part of, or be incorporated into, this Prospectus).

Any documents (or portions thereof) themselves incorporated by reference into the documents (or portions thereof) incorporated by reference into this Prospectus do not (and shall not be deemed to) form part of (and are not incorporated into) this Prospectus.

Any statement contained in a document (or a portion thereof) that is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein or in any other document incorporated by reference herein, or in any supplement hereto, modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Where there is any inconsistency between the information contained in this Prospectus and the information contained in (or incorporated by reference into) the information incorporated by reference herein, the information set out in this Prospectus shall prevail.

The information set out in any part of the documents listed above that is not incorporated by reference into this Prospectus is either not relevant to prospective investors in the Notes or is set out elsewhere in (including being incorporated by reference into) this Prospectus, in each case, subject to and in accordance with the provisions of the Prospectus Directive.

The contents of any website (except for the documents (or portions thereof) incorporated by reference into this Prospectus to the extent set out on any such website) referenced in this Prospectus do not (and shall not be deemed to) form part of (and are not incorporated into) this Prospectus.

OVERVIEW OF THE OFFERING

The following overview (the "Overview") does not purport to be complete but sets out certain information relating to the offering of the Notes, including the principal provisions of the terms and conditions thereof. The following is indicative only and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus (including in the portions of the Base Prospectus incorporated by reference herein). See, in particular, "Terms and Conditions of the Notes" (the "Conditions") set out on pages 68 to 102 of the Original Base Prospectus. Terms used in this Overview and not otherwise defined herein shall have the meanings given to them in the Conditions.

Issue:	US$500,000,000 6.875% Notes due 2024 (*i.e.*, the Notes) issued under the US$5,000,000,000 Global Medium Term Note Programme of the Bank.
Issuer Legal Entity Identifier (LEI):	789000Q21SW842S9IJ58
Interest and Interest Payment Dates:	The Notes will bear interest from (and including) the Issue Date (*i.e.*, 7 March 2019) at the rate of 6.875% *per annum*, payable semi-annually in arrear in equal instalments on each Interest Payment Date (*i.e.*, the 7th day of each March and September in each year); *provided* that, as described in Condition 7.6, if any such date is not a Payment Business Day, then such payment will be made on the next Payment Business Day but without any further interest or other payment being made in respect of such delay. The first interest payment on the Notes (representing a full six months of interest) will be made on the first Interest Payment Date.
Maturity Date:	Unless previously redeemed or purchased and cancelled as provided in the Conditions, the Notes will be redeemed by the Bank at their principal amount on the Maturity Date (*i.e.*, 7 September 2024).
Use of Proceeds:	The net proceeds of the offering of the Notes will be used by the Bank for general corporate purposes.
Status:	The Notes will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Bank and (subject as provided above) will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Bank, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.
Negative Pledge:	Subject to certain exceptions set out in Condition 4, so long as any Note remains outstanding, the Bank will not create or have outstanding any Security Interest upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness unless the Bank, in the case of the creation of a Security Interest (as defined in Condition 4), before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that: (a) all amounts payable by it under the Notes are secured by the Security Interest equally and rateably with the Relevant Indebtedness, (b) another Security Interest or (whether or not it includes the giving of a Security Interest)

another arrangement is provided for the benefit of the Noteholders as is approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders or (c) such Security Interest is provided as is approved by an Extraordinary Resolution of the Noteholders. See Condition 4 in the Conditions.

Certain Covenants:..

The Conditions provide that the Bank agrees to certain covenants, including covenants limiting transactions with affiliates. See Condition 5 in the Conditions for the details of such covenants and the exceptions to them.

Taxation; Payment of Additional Amounts:...............

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

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

Optional Redemption for Tax Reasons:......................

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

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 5 March 2019, on the next Interest Payment Date, the Bank would be required to:

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

    (ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the applicable prevailing rate on 5 March 2019, and

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

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

Form, Transfer and Denominations: Notes offered and sold in reliance upon Regulation S will be represented by beneficial interests in the Regulation S Registered Global Note, in registered form, without interest coupons attached, which will be deposited with the Common Depositary and registered in the name of a nominee of the Common Depositary. Notes offered and sold in reliance upon Rule 144A will be represented by beneficial interests in the Rule 144A Global Note(s), in registered form, without interest coupons attached, which will be deposited with the Custodian and registered in the name of Cede & Co. as nominee for DTC. Except in limited circumstances, certificates for the Notes will not be issued to investors in exchange for beneficial interests in the Global Notes.

Interests in the Regulation S Registered Global Note will be represented in, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg (or their respective direct or indirect participants, as applicable). Interests in the Rule 144A Global Note(s) will be represented in, and transfers thereof will be effected only through, records maintained by DTC (or its direct or indirect participants, as applicable).

Interests in the Global Notes will be subject to certain restrictions on transfer. See "Transfer and Selling Restrictions" in the Base Prospectus.

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

ERISA: Subject to certain conditions, the Notes may be invested in by an "employee benefit plan" as defined in and subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended, a "plan" as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "*Code*"), or any entity whose underlying assets include "plan assets" of any of the foregoing. See "Certain Considerations for ERISA and other U.S. Employee Benefit Plans" in the Base Prospectus as amended by the supplement dated 26 November 2018.

Governing Law: The Notes, the Agency Agreement, the Deed Poll and the Deed of Covenant and any non-contractual obligations arising out of or in connection with any of them are (or will be, as applicable) governed by, and construed in accordance with, English law.

Listing and Admission to Trading:	Application has been made by the Bank to Euronext Dublin for the Notes to be admitted to the Official List and trading on the Regulated Market; *however*, no assurance can be given that such application will be accepted.
Turkish Selling Restrictions:	The offer and sale of the Notes (or beneficial interests therein) are subject to restrictions in Turkey in accordance with applicable CMB and BRSA laws. See "Transfer and Selling Restrictions – Selling Restrictions – Turkey" in the Base Prospectus.
Other Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act or any other U.S. federal or state securities laws and the Notes (or beneficial interests therein) may not be offered or sold in the United States or to, or for the account or benefit of, a U.S. person except to QIBs in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with all applicable securities laws of the United States and each state or other jurisdiction of the United States. The offer and sale of Notes (or beneficial interests therein) is also subject to restrictions in (*inter alia*) in (*inter alia*) the United States, the EEA (including the United Kingdom and Belgium), Switzerland, Turkey, Japan, the People's Republic of China (the "*PRC*"), Thailand, Singapore and the Hong Kong Special Administrative Region of the PRC. See "Transfer and Selling Restrictions – Selling Restrictions" in the Base Prospectus.
Risk Factors:	There are certain factors that might affect the Issuer's ability to fulfil its obligations under the Notes. The material of these are set out under "Risk Factors" in the Base Prospectus (as deemed updated hereby) and include risks related to the Group and its business, the Group's relationship with the Issuer's principal shareholders, Turkey and the Turkish banking industry. In addition, there are certain other factors that are material for the purpose of assessing the risks associated with the Notes, including certain market risks. See "Risk Factors."
Issue Price:	99.662% of the principal amount of the Notes.
Yield:	6.950% *per annum*.
Regulation S Registered Global Note Security Codes:	ISIN: XS1959391019 Common Code: 195939101
Rule 144A Global Note(s) Security Codes:	CUSIP: 31772DAD4 ISIN: US31772DAD49 Common Code: 195946582
Representation of Noteholders:	There will be no trustee.
Expected Ratings:	"BB-" (negative outlook) by Fitch and "Ba3" (negative outlook) by Moody's.

Fiscal Agent, Transfer Agent and Principal Paying Agent:...	The Bank of New York Mellon, London Branch
Registrar and Paying Agent:.......................................	The Bank of New York Mellon SA/NV, Luxembourg Branch
United States Paying Agent and Transfer Agent:	The Bank of New York Mellon, New York Branch

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

The following discussion and analysis of the consolidated financial position and results of operations of the Group covers the financial years ended 31 December 2016, 2017 and 2018. Unless otherwise specified, the financial information presented in this discussion has been extracted from the BRSA Financial Statements without material adjustment. This section should be read in conjunction with such BRSA Financial Statements and the other financial information included in (including incorporated by reference into) this Prospectus (including the sections entitled "Presentation of Financial and Other Information" and "Risk Factors – Risks related to the Group's Business – Audit Qualification" in the Base Prospectus). The BRSA Financial Statements have been prepared in accordance with the BRSA Accounting and Reporting Principles as described in "Presentation of Financial and Other Information" in the Base Prospectus. For a discussion of current significant differences between IFRS and the BRSA Accounting and Reporting Principles, see Appendix A ("Overview of Significant Differences between IFRS and BRSA Accounting and Reporting Principles") to the Base Prospectus; *however*, following the adoption of TFRS 9 for the first time as of 1 January 2018, there is less difference between BRSA Accounting and Reporting Principles and IFRS regarding impairment principles. For further details regarding implementation of TFRS 9 principles, see the discussion below and Section Three of the consolidated BRSA Financial Statements as of and for the year ended 31 December 2018.

Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements." Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the section entitled "Cautionary Statement Regarding Forward-Looking Statements" in the Base Prospectus.

The Group's financial condition and results of operations depend significantly upon the macro-economic, political and regulatory conditions prevailing in Turkey and prospective investors should consider the factors set forth under "Risk Factors – Risks Related to the Group's Business" and "Risk Factors – Risks Related to Turkey" in the Base Prospectus.

The discussion and analysis of the financial position and results of operations of the Group in this Prospectus are based upon the BRSA Financial Statements. As the Group has historically presented its financial statements to investors and potential investors using the BRSA Accounting and Reporting Principles and uses such financials for regulatory requirements, the Bank's management believes that providing BRSA financial data in this Prospectus will provide for a consistent presentation of the Group's financial performance.

Introduction

The Bank is a Turkish private commercial bank that, as of 31 December 2018, provided products and services to approximately 5.4 million customers, including retail banking customers, SME banking customers, corporate and commercial banking customers and other customers in Turkey. As of 31 December 2018, the Group had total assets of TL 163,500.2 million, total loans and receivables (which includes loans and receivables and loans at fair value through profit and loss (hereinafter referred to as "*total loans and receivables*")) of TL 100,376.6 million, total deposits of TL 86,826.2 million and total equity of TL 14,603.4 million.

The Group's total assets as of 31 December 2018 were 24.6% greater than the TL 131,194.7 million of total assets as of 31 December 2017, itself a 25.8% increase from TL 104,325.8 million as of 31 December 2016. The Group's net profit for 2018 was TL 2,573.2 million, an increase of 45.2% from TL 1,772.4 million for 2017, itself a 43.1% increase from TL 1,238.3 million for 2016. As of 31 December 2018, the Bank was the fifth largest private bank in Turkey in terms of total loans and equity.

Since its initial entry to the Turkish banking market in 1987, the Bank has grown its branch network significantly. The Bank's branch network increased from 309 branches as of 31 December 2006 to 542 branches (including one branch in the Atatürk Airport Free Trade Zone in İstanbul and one branch in Bahrain) as of 31 December 2018. As of such date, the Bank's branch network consisted of 519 full-service branches, 13 retail-only branches, four corporate-only branches and six commercial-only branches located in 53 commercial centres in Turkey, mainly in İstanbul, İzmir, Ankara and Antalya. As of 31 December 2018, the Bank employed 13,466 employees.

In addition to its branch network, the Group has made significant investments in alternative delivery channels such as automated teller machine ("*ATM*") and point-of-sale ("*POS*") networks, internet banking, mobile banking and a call centre. In October 2012, the Group launched Enpara.com, an online banking platform designed to provide banking and payment services to retail customers in Turkey without the use of any physical branches. Since its establishment, Enpara.com has grown its registered customer base from 18,000 customers to 1,260,248 customers as of 31 December 2018, with 78% of such customers not having been pre-existing customers of the Group.

The Group has three main business segments: corporate and commercial banking, SME banking and retail banking, additional information about each of which is provided below:

- *Corporate and Commercial Banking*. The Group's corporate and commercial banking activities primarily consist of traditional and non-cash lending, project and structured finance, trade finance, cash management, corporate syndication, secondary market transactions, deposit taking and certificated debt instruments. The corporate and commercial banking segment consists of: (a) corporate banking, which serves large businesses (including multinational corporations), and (b) commercial banking, which serves enterprises with annual revenues from TL 40.0 million to less than TL 300.0 million. As of 31 December 2018, the Group's corporate and commercial banking operations had 11,892 customers and performing loans and receivables of TL 41.0 billion, representing 43.0% of the Group's performing loans and receivables.

- *SME Banking*. The Bank's SME banking activities consist primarily of revolving credit lines, instalment loans, overdrafts, business housing loans and demand deposits. As one of the first banks in Turkey to focus on this segment, the Bank started its SME banking operations at the beginning of 2003 to support Turkish small businesses. The SME banking segment consists of: (a) Agricultural Banking, (b) SME Banking Small Enterprises, which serves enterprises with annual revenues of up to TL 4.0 million, and (c) SME Banking Medium Enterprises, which serves enterprises with annual revenues from TL 4.0 million to less than TL 40.0 million. In recent years, SME banking has represented an increasingly important part of the Group's overall loan portfolio. As of 31 December 2018, the Group's SME banking operations had 336,090 active customers and performing loans and receivables of TL 23.4 billion, representing 24.6% of the Group's performing loans and receivables.

- *Retail Banking*. The Group's retail banking activities consist primarily of mortgages, consumer lending, credit and debit card services, deposits, investments and insurance products. The Group's offerings to retail customers are divided into three main further sub-groups: (a) private banking, which serves individuals with liquid assets under management exceeding TL 750,000 through customised service offerings, (b) the affluent segment, which serves individuals with assets under management between TL 100,000 and TL 750,000, offering features such as dedicated relationship managers and a diverse set of banking and non-banking services and benefits, and (c) the mass market segment with a wide variety of products and services. Retail banking has been one of the principal drivers of the Group's growth during recent years, including the contribution from enpara.com. As of 31 December 2018, the Group had approximately 4.1 million retail banking customers (excluding credit card customers) and performing retail loans and receivables (including mortgage, credit card and consumer loans (which comprise personal need loans, overdrafts and auto loans)) of TL 30.9 billion, representing 32.4% of the Group's performing loans and receivables (representing total gross loans, including financial assets measured at fair value through profit and loss, *minus* specific provisions).

The Group also undertakes leasing, factoring, insurance and investment banking activities through its subsidiaries and other affiliates. The Bank's registered office is located at Esentepe Mahallesi, Büyükdere Cad., Kristal Kule Binası, No: 215, Şişli, İstanbul, Turkey, telephone number +90-212-318-5155. Its registration number is 237525.

Transition to TFRS 9

As of 1 January 2018, the Group started to apply TFRS 9 standards, regarding the classification and measurement of financial assets, in its financial statements for the first time (having applied replaced TAS 39 (Financial Instruments: Recognition and Measurement) ("*TAS 39*") previously). The Group has not restated comparative information for financial instruments for 2017 within the scope of TFRS 9 and the total difference arising from the adoption of TFRS 9 has, as of 1 January 2018, been recognised directly in the current period's statement of changes in shareholders' equity. See Parts VII, VIII and XXVII of Section Three of the consolidated BRSA Financial Statements as of and for the year ended 31 December

2018 for details of the impact of the first time adoption of TFRS 9 as of 1 January 2018 on the consolidated financial statements.

To determine their classification and measurement category, TFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based upon both the Group's business models for managing the assets and the instruments' contractual cash flow characteristics.

As of 1 January 2018, TAS 39 measurement categories of financial assets measured at fair value through profit or loss, available for sale and held-to-maturity were replaced by: (a) financial assets measured at fair value through profit or loss, (b) debt instruments measured at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition, (c) equity instruments measured at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition (the financial assets in clauses (b) and (c) collectively being "financial assets measured at fair value through other comprehensive income"), and (d) financial assets measured at amortised cost. Further information on these categories is set out below:

Financial assets measured at fair value through profit/loss: These are financial assets other than those that are managed within a business model that aims to collect contractual cash flows or a business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the financial assets; and, if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at a certain date, that are either acquired for generating a profit from short-term fluctuations in prices or are financial assets included in a portfolio aiming for short-term profits. These financial assets are initially recognised at fair value and measured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement. Interest income earned on these financial assets, and the difference between their acquisition costs and amortised costs, are recorded as interest income in the statement of profit or loss. The differences between the amortised costs and the fair values of such financial assets are recorded under trading account income/losses in the statement of profit or loss. In cases where such financial assets are sold before their maturities, the gains/losses on such sales are recorded under trading account income/losses.

Financial assets measured at fair value through other comprehensive income: These are financial assets that are managed within a business model that aims to collect contractual cash flows or a business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the financial assets. These financial assets are recognised by adding their transaction cost to their acquisition cost. After their initial recognition, these financial assets are measured at fair value; *provided* that equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost *minus* a provision for impairment. Interest income on these financial assets (calculated using an effective interest rate method) and dividend income on these financial assets are recorded to the income statement. "Unrealised gains and losses" arising from the difference between the amortised cost and the fair value of these financial assets are not reflected in the income statement until the acquisition of the financial asset, sale or other disposal of the financial asset and impairment of the financial asset but are accounted under the "other comprehensive income/expense items to be recycled to profit/loss" under shareholders' equity.

Financial assets measured at amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortised cost. These financial assets are initially recognised at their acquisition cost (including the transaction costs) and are subsequently recognised at amortised cost by using an effective interest rate method. Interest income obtained from these financial assets is accounted for in the income statement.

The accounting for financial liabilities remain largely the same as it was under TAS 39 except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at fair value through profit or loss (with the condition of not impacting accounting mismatch significantly).

Under TFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based upon the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and non-financial host contracts has not changed.

Impairment

TFRS 9 changed the accounting method for loan loss impairments by replacing TAS 39's incurred loss approach with a forward-looking expected credit loss (the "*ECL*") approach, which forms an impairment model that has three stages based upon the change in credit quality since initial recognition. The ECLs are measured as an allowance equal to either 12-month ECL assets for stage 1 assets or lifetime ECL assets for stage 2 or stage 3 (credit-impaired) assets. An asset moves from stage 1 to stage 2 when its credit risk increases significantly since initial recognition.

Hedge Accounting

TFRS 9 introduced hedge accounting rules aiming alignment with risk management activities; *however*, TFRS 9 allow companies to defer application of TFRS 9 hedge accounting rules and instead to continue applying hedge accounting provisions of TAS 39 as a policy choice. Accordingly, as of the date of this Prospectus, the Bank and its financial subsidiaries continue to apply hedge accounting in accordance with TAS 39.

Transition to TFRS 9

In accordance with the transition rules of TFRS 9, the Bank chose to not restate the prior periods' financial statements but instead recognised the impact of the transition to TFRS 9 accounting as of 1 January 2018 under the "prior year profit or loss" accounts of the Bank's equity. Accordingly, as of 1 January 2018, the Group's equity decreased by TL 167,790 thousand due to the TFRS 9 transition (TL 121,200 thousand for the Bank). As part of these accounting changes, the following amounts have been classified under "Extraordinary Reserves" in the shareholders' equity and have been reflected in the opening balance sheet as of 1 January 2018: (a) a TL 711,289 thousand increase resulting from the Group's provision for impairment of the previous period and the provision for loss that is measured in accordance with TFRS 9's impairment model (TL 651,560 thousand for the Bank), (b) deferred tax assets of TL 486,511 thousand (TL 474,448 thousand for the Bank) and (c) a corporate tax charge of TL 46,444 thousand (same for the Bank).

With the adoption of TFRS 9, some of the securities of the Group that were classified at fair value through other comprehensive income before 1 January 2018 are now classified at their amortised cost (resulting in the amortised cost value being TL 1,720,595 thousand for the Group and the Bank as of 1 January 2018) and some of the Group's securities that were classified at amortised cost before 1 January 2018 are now classified at fair value through other comprehensive income (resulting in the book value being TL 42,573 thousand for the Group and the Bank as of 1 January 2018). The after tax remeasurement differences (net) of these securities amounted to TL 79,836 thousand for both the Group and the Bank and the expected loss reserve of these securities amounted to TL 8,677 thousand for both the Group and the Bank as of the same date and were classified under "income/expenses from valuation and/or reclassification of financial assets measured at fair value through other comprehensive income." The reconciliation of financial assets for the Group as per TFRS 9 is set forth below:

	Book Value Before TFRS 9 31 December 2017	Reclassifications	Remeasures	TFRS 9 Book Value 1 January 2018	Tax Effect	Equity Effect
			(*TL thousands*)			
Financial Assets:						
Measured at Amortised Cost						
Pre-classification balance (held to maturity)	7,168,664	—	—	—	—	—
Classified from Measured at Fair Value through Other Comprehensive Income	—	1,720,595	99,484		(21,886)	77,596
Classified as Measured at Fair Value through Other Comprehensive Income	—	(42,573)	—	—	—	—
Post-classification book value	—	—	—	8,946,170	—	—
Measured at Fair Value through Other Comprehensive Income						
Pre-classification balance (available to sale)	8,349,710	—	—	—	—	—
Classified as held-to-maturity	—	42,573	2,872	—	(632)	2,240
Classified as held-to-maturity	—	(1,720,595)	—	—	—	—
Post-classification book value	—	—	—	6,674,725	—	—
Expected loss provision	—	—	11,124	—	(2,447)	8,677
Loans and Other Receivables Measured at Amortised Cost (Gross)						
Pre-classification value measured at Amortised Cost	85,969,070	—	—	—	—	—
Financial Assets Measured at Fair Value through Profit/Loss	10,579	—	—	—	—	—
Classified as Measured at Amortised Cost	—	10,579	—	—	—	—
Classified from Measured at Fair Value through Profit/Loss	—	(10,579)	—	—	—	—
Post-classification value measured at Amortised Cost	—	—	—	85,979,649	—	—
Post-classification value Measured at Fair Value through Profit/Loss	—	—	—	—	—	—
Expected loss provision(1)	(5,113,639)	—	(653,351)	(5,766,990)	442,241	(211,110)
Factoring Receivables						
Expected loss provision	(41,988)	—	(9,133)	(51,121)	2,009	(7,124)
Lease Receivables						
Expected loss provision	(82,091)	—	(48,805)	(130,896)	10,736	(38,069)

(1) Includes amounts related to loans and receivables, other receivables and off-balance sheet financial assets.

As noted in the preceding table, the "expected loss provision" for loans and factoring and lease receivables has been revised as of 1 January 2018 to reflect the ECL approach described in "-Impairment" above. The following table provides a reconciliation of the opening balances of the provisions for expected credit losses to TFRS 9:

	Book Value Before TFRS 9 31 December 2017	Remeasures	Book Value After TFRS 9 1 January 2018
Provisions		(*TL thousands*)	
Loans	**5,019,890**	**665,385**	**5,685,275**
Stage 1	*1,125,990*	*(100,233)*	*1,025,757*
Stage 2	*228,613*	*898,122*	*1,126,735*
Stage 3	*3,665,287*	*(132,504)*	*3,532,783*
Financial Assets(1)	**59,270**	**(18,424)**	**40,846**
Non-cash Loans(2)	**158,558**	**64,328**	**222,886**
Stages 1 and 2	*91,845*	*120,072*	*211,917*
Stage 3	*66,713*	*(55,744)*	*10,969*
Total	**5,237,718**	**711,289**	**5,949,007**

(1) Within the scope of TFRS 9, provisions include provisions for "amortised cost," "fair value through other comprehensive income," "receivables from banks" and "receivables from money markets."

(2) Before the implementation of TFRS 9, the expected credit losses for stage 1 and 2 non-cash loans were classified as "general provisions" and the expected credit losses for stage 3 non-cash loans were classified as "other provisions" in the liabilities. In accordance with TFRS 9, the expected credit loss provisions for all three stages of non-cash loans are included in the "other provisions" line item in the liabilities.

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

The Group's financial condition, results of operations and prospects depend significantly upon the macro-economic, political and regulatory conditions prevailing in Turkey. The impact of these and other potential factors might vary significantly in the future and many of these factors are outside the control of the Group. Prospective investors should (among other things) consider the factors set forth under "Cautionary Statement Regarding Forward-Looking Statements" in the Base Prospectus and "Risk Factors." The following describes the most significant of such factors since the beginning of 2016.

Political Developments

On 15 July 2016, the Turkish government was subject to an attempted coup by a group within the Turkish army. The Turkish government and the Turkish security forces (including the Turkish army) took control of the situation in a short period of time and the ruling government remained in control. On 20 July 2016, the government declared a three month state of emergency in the country, entitling the government to exercise additional powers. Under Article 120 of the Turkish Constitution, in the event of serious indications of widespread acts of violence aimed at the destruction of the free democratic order, a state of emergency may be declared in one or more regions of, or throughout, the country for a period not exceeding six months; *however*, this period may be extended. After various extensions, the state of emergency terminated in July 2018.

Following the coup attempt, the government has initiated legal proceedings against numerous institutions (including schools, universities, hospitals, associations and foundations), some of which were closed down and their assets and receivables were seized, and arrested, discharged or otherwise limited thousands of members of the military, the judiciary and the civil service, restricted media outlets and otherwise taken actions in response to the coup attempt, including expansion of these actions to members of the business community and journalism sector. As of the date of this Prospectus, investigations with respect to the attempted coup are on-going. There might be further arrests and actions taken by the government in relation to these investigations, including changes in policies and laws. Further investigations and arrests might impact the ability of the Group's customers to meet their obligations to the Group. Although the Group's operations have not been materially affected by the attempted coup, the political and social circumstances following the attempted coup, its aftermath (including rating downgrades of Turkey and the Bank) or any other political developments might have a negative impact on the Turkish economy (including the value of the Turkish Lira, international investors' willingness to invest in Turkey and domestic demand), Turkey's relationships with the EU, the United States and/or other jurisdictions, Turkey's institutions (including as a result of arrests, suspension or dismissal of a number of individuals working in the public sector) and regulatory framework, the Bank's and/or the Group's business, liquidity, results of operations and/or conditions (financial or otherwise).

Following the presidential elections held on 24 June 2018, as of 9 July 2018, the parliamentary system was transformed into a presidential system and President Erdoğan now holds additional powers granted to the president. On 9 July 2018, President Erdoğan announced the new ministers of his cabinet, which included the appointment of the former minister of Energy and Natural Resources and his son-in-law, Berat Albayrak, as the minister of Treasury and Finance. On 10 July 2018, President Erdoğan issued a decree empowering the president to appoint: (a) the governor of the Central Bank, whereas the Council of Ministers had the authority to appoint the governor of the Central Bank in the parliamentary system, and (b) the deputy governors of the Central Bank, while this appointment was previously made by the Council of Ministers among the candidates suggested by the governor of the Central Bank. As such, uncertainty in relation to the independence of the Central Bank and/or the Ministry of Treasury and Finance continues.

On 1 August 2018, OFAC took action targeting Turkey's Minister of Justice and Minister of Interior, indicating that these Ministers played leading roles in the organisations responsible for the arrest and detention of American pastor Andrew Brunson, and blocked any property, or interest in property, of these Ministers within the United States and generally prohibited U.S. persons from engaging in transactions with them. Following such action, Turkey imposed reciprocal sanctions against two American officials. On 10 August 2018, the President of the United States stated that he had authorised higher tariffs on steel and aluminium imports from Turkey. On 15 August 2018, Turkey retaliated by increased tariffs on certain imports from the United States, such as cars, alcohol and tobacco. These actions contributed to a decline in the value of the Turkish Lira, which fell to a record low (exceeding TL 7.2 per U.S. dollar in the week ended on 12 August 2018) before strengthening to TL 5.3 as of 31 December 2018, including due to the higher than expected interest rate hike (625 basis points) by the Central Bank on 13 September 2018, the fiscal consolidation announced in the "New Economic Programme" of the government, certain measures taken by the BRSA, the promise of investments from Qatar and, following the release of Mr. Brunson on 12 October 2018, improving relations between Turkey and the United States. The events prior to the release of Mr. Brunson contributed to the deterioration of the relationship between Turkey and the United States and any future similar events might have an adverse effect on the Turkish economy and/or might impact investors' perception of the risks relating to investments in Turkish issuers, including the Bank.

For additional information on political developments in Turkey, see "Risk Factors – Risks Related to Turkey – Political Developments" in the Base Prospectus.

Turkish Economy

Most of the Group's operations are conducted, and substantially all of its customers are located, in Turkey. In addition, much of the business of the Group's non-Turkish subsidiaries is related to Turkey. Accordingly, the Group's ability to recover on loans, and its business, financial condition and results of operations, are substantially dependent upon the political and economic conditions prevailing in Turkey, including factors such as economic growth rates, currency fluctuations, the Central Bank's regulatory policy, inflation and fluctuations in interest rates in Turkey.

The following table provides certain macro-economic indicators for Turkey, including real GDP, inflation rates and the Central Bank's overnight Turkish Lira borrowing interest rate for each of the indicated periods:

	2016	2017	2018
Nominal GDP at current prices (TL millions)	2,608,526	3,106,537	3,576,259
Real GDP growth	3.2%	7.4%	5.3%[4]
Deficit/surplus of consolidated budget/GDP	(1.1)%	(1.5)%	(1.9)%
Consumer Price Inflation[1]	8.5%	11.9%	20.3%
Producer Price Inflation[1]	9.9%	15.5%	33.6%
Central Bank overnight TL interest rate, period-end	7.25%	7.25%	22.50%
Central Bank weekly TL repo rate, period-end[2]	8.00%	8.00%	24.00%
Refinancing rate of the Central Bank, period-end	8.50%	9.25%	25.50%
Central Bank late liquidity window lending interest rate, period-end	10.00%	12.75%	27.00%
Central Bank weighted average cost of funding, period-end	8.31%	12.75%	24.00%
Nominal appreciation (depreciation) of the Turkish Lira against the U.S. dollar[3]	(21.5)%	(7.9)%	(39.4)%
CPI-based real effective exchange rate appreciation (depreciation) (2003=100)	(5.9)%	(7.7)%	(11.8)%
Total gross gold and international currency reserves, period-end (U.S. dollars, millions)	106,101	107,651	91,930

Sources: TurkStat for nominal GDP at current prices, real GDP growth, inflation, Turkish Ministry of Treasury and Finance, General Directorate of Public Accounts, for deficit/surplus of consolidated budget and Central Bank for reference overnight borrowing interest rate, refinancing rate, nominal appreciation (depreciation) of the Turkish Lira against the U.S. dollar, real effective exchange rate and total gross gold and international currency reserves.

(1) Annual percentage change of the applicable index.

(2) The Central Bank announces the weekly repo lending rate as the reference rate.

(3) Yearly percentage change in Central Bank buying rates.

(4) This reflects the twelve months ended 30 September 2018.

Interest Rates

One of the primary factors influencing the Group's profitability is the level of interest rates in Turkey, which in turn influences the return on its securities portfolio and its loan and deposit rates. Interest earned and paid on the Group's assets and liabilities reflect, to a certain degree, inflation, expectations regarding inflation, shifts in short-term interest rates set by the Central Bank and movements in long-term real interest rates. The fluctuations in short-term and long-term interest rates impact the Group's net interest income differently based upon the repricing profile of the Group's interest-earning assets and interest-bearing liabilities. Although the impact of decreasing interest rates earned on assets has had a direct and material impact on the Group's profitability, and the Group has been further negatively affected by competitive pressures from both the public and private sector banks to raise or maintain interest rates on deposits in order to attract and retain depositors, the Group has utilised alternative sources for raising funds with lower costs compared to deposits, thereby mitigating this competitive pressure. In addition, the Group actively monitors the interest rate risk of its assets and liabilities and executes hedging derivatives (particularly interest rate swaps) in order to limit interest rate risk within desired levels and regulatory limits.

Because the Group's interest-bearing liabilities (principally deposits) generally reprice faster than its interest-earning assets, changes in the short-term interest rates in the economy generally are reflected in the rates of interest paid by the Group on its liabilities before such interest rates are reflected in the rates of interest earned by the Group on its assets. Therefore, when short-term interest rates fall, the Group is both positively affected (for example, the value of its fixed rate securities portfolio might increase and its interest margins might improve), but might also be negatively impacted (for example, through the decline in net interest margins on assets funded by 0% interest rate demand deposits). On the other hand, when short-term rates increase, the Group's interest margin is generally negatively affected as it will generally pay higher interest rates on its interest-bearing liabilities before it can modify the rates of its interest-earning assets. An increase in long-term rates generally has at least a short-term negative effect on the Group's net interest margin because its interest-earning assets generally have a longer repricing duration than its interest-bearing liabilities and because a portion of its interest-earning assets have fixed rates of interest; *however*, such an increase generally leads to higher interest margins following the repricing and replacement of assets at higher yields. In addition, rising interest rates are expected to reduce the value of the Group's existing investment securities portfolio while ultimately being expected to result in increased interest income on additional assets included in this portfolio.

The following table provides the net interest margin of the Group for the periods indicated.

	2016	2017	2018
Net interest margin	6.4%	6.3%	6.5%
Average spread	4.5%	3.7%	4.0%

Margins have frequently been subject to pressure from the tightening of monetary policy in Turkey and high levels of competition. In 2016, 2017 and 2018, tight liquidity conditions persisted throughout the year and the Bank closely monitored its funding costs. Accordingly, during such years, the Bank's main pillar of asset liability management was diversifying its funding portfolio with cheaper funding sources, which (along with the increased yields on loans and securities) helped to maintain its net interest margin during the period. The Group's primary sources of funding for the periods under review have typically been short-term deposits, funds borrowed, marketable securities issued and repurchase ("repo") transactions with the Central Bank. The Group's cost of funding in relation to repo transactions and deposit-based funding generally decreases as the Central Bank rates decrease and vice-versa. Average spreads in 2017 and 2018 were lower than in 2016 mainly due to higher deposit costs since, as their terms are shorter, deposits reprice faster and thus the negative impact from higher deposit costs are not compensated for via the repricing of loans and securities until later future periods.

In light of interest rate fluctuations that have had, and are expected to continue to have, a negative impact on margins, the Group's strategy is to seek to increase its business volumes and to focus on cost control, profitability and asset quality. The Group also engages in hedging activities with respect to interest rates and, during the periods under review, expenses with respect to such hedging activities generally had a negative impact on the Group's net interest margins. For example, in 2016, 2017 and 2018, the Group incurred net trading losses of TL 661.5 million, TL 1,142.5 million and TL 1,222.2 million, respectively, which losses were primarily attributable to TL 718.0 million, TL 1,375.1 million and TL 2,017.5 million, respectively, in trading losses from derivatives resulting from the net interest expenses for swap transactions. In addition to movements in market interest rates and the impact from the Group's hedging activities with respect to interest rates, a key variable impacting changes in the Group's interest income and interest expense has been competition among both Turkish private and public sector banks, which has intensified over the periods under review and has negatively impacted, and is expected to continue to negatively impact upon, the Bank's net interest margin (see "Risk Factors – Risks related to the Group's Business – Competition in the Turkish Banking Sector" in the Base Prospectus).

The fixed/floating composition of the Group's assets and liabilities is mainly determined by general market trends and customer demands. As a result, due to the highly competitive banking environment, the Group's ability to change the composition of loans and deposits within a short period of time is limited. On the other hand, the Group tries to diversify its total securities portfolio in terms of maturity and repricing periods in order to balance the duration mismatch of the entire balance sheet. In addition, the Group uses derivatives for hedging purposes to keep the duration mismatch of the balance sheet within the limits established by the Board of Directors.

Following the significant decline in the value of the Turkish Lira in 2018, which fell to a record low (exceeding TL 7.2 per U.S. dollar in the week ended on 12 August 2018), the Central Bank (on 13 September 2018) increased its benchmark lending rate by 6.25%, which increased the one week repo rate from 17.75% to 24.00%. As a result, the Group's deposit costs increased sharply, leading to pressure on spreads and net interest margin as the price of loans and securities are not repriced as quickly as deposits.

Exchange Rates

A significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly the U.S. dollar and the euro (38.3% of total assets and 52.6% of total liabilities as of 31 December 2018). While the Group monitors its net position in foreign currencies (*i.e.*, the amount by which its foreign currency risk-bearing assets differ from its foreign currency-denominated liabilities) and each of the Bank and the Group is required to comply with foreign currency position limits promulgated by the BRSA, each of the Bank and the Group has maintained and likely will continue to maintain gaps between the balances of its foreign currency-denominated assets and liabilities. The limit imposed by the BRSA is defined as an amount *plus/minus* 20% of the total capital used in the calculation of regulatory capital adequacy ratios.

Historically, the Bank has sought to maintain a balance between such assets and liabilities based upon the actual composition of its balance sheet and off-balance sheet positions at any time and, as a general matter, does not enter into any speculative positions. Under BRSA rules, any foreign exchange gains and losses are accounted for together with any gains and losses from the Group's investment in foreign exchange-based derivative financial instruments (*e.g.*, currency swaps).

Even though the Group seeks to balance its actual foreign exchange position based upon the composition of its portfolio, the Group's financial results are impacted by changes in foreign exchange rates as the Group translates such assets and liabilities, and interest earned from and paid on those assets and liabilities, into Turkish Lira. The overall effect of exchange rate movements on the Group's results of operations depends upon the rate of depreciation or appreciation of the Turkish Lira against its principal trading and financing currencies. The Group recorded net foreign exchange gains of TL 34.6 million in 2016, net foreign exchange gains of TL 26.6 million in 2017 and net foreign exchange losses of TL 1,941.9 million in 2018; *however,* these figures should be considered together with foreign exchange-based derivatives (*e.g.*, currency options and forwards), which are not accounted together with foreign exchange gains and losses. After considering foreign exchange losses together with such derivative financial instruments, the Group recorded net foreign exchange gains of TL 39.3 million in 2016, net foreign exchange gains of TL 223.3 million in 2017 and net foreign exchange gains of TL 778.1 million in 2018.

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

In 2018, Turkey experienced significant volatility in the value of the Turkish Lira, which negatively affected the Bank's and the Group's capital adequacy ratios by approximately 1.3%. This volatility impacted both assets and liabilities, including increasing the TL-equivalent value of the Group's foreign-currency assets, which resulted in an increase in risk-weighted assets, and increasing the TL-equivalent amount of the Group's foreign currency-denominated debt.

Central Bank Reserve Requirements

From time to time, the Central Bank, with a view toward supporting financial stability, increases the reserve requirement ratios for foreign exchange-denominated liabilities of banks and financing companies in order to encourage the extension of maturities of non-core liabilities. These reserve rate increases have had a material adverse effect on the Bank's profitability as, due to competitive pressures, the Bank has been only partially able to pass on such increases in its overall costs of funding to customers. The Bank tries to mitigate the adverse impact on net interest margins from increases in reserve requirements by benefiting from the flexibilities offered by the Central Bank for fulfilling the reserve requirement obligations of banks. See "Turkish Regulatory Environment – Liquidity and Reserve Requirements" in the Base Prospectus. The Central Bank's actions are frequently taken in part to reduce weakness and volatility in the value of the Turkish Lira by encouraging the banking sector to borrow foreign currencies on a longer-term basis.

In addition to the Central Bank's reserve requirement policy, it introduced the "Reserve Option Mechanism" as a monetary policy tool. As of 31 December 2018, the Central Bank's regulations permit Turkish banks to maintain 40% of their Turkish Lira reserve requirements in U.S. dollars and 30% of their Turkish Lira reserve requirements in gold. Within the Reserve Option Mechanism facility, the amount of foreign exchange or gold that can be held per unit of Turkish Lira is determined by certain reserve option coefficients and, as the portion of reserve requirements held in foreign exchange or gold increases, a bank has to hold higher amounts of foreign exchange or gold per unit of Turkish Lira. This mechanism provides banks with flexibility to adjust the cost of their Turkish Lira reserve requirements. The Group's policy is to seek to meet its Turkish Lira reserve requirement obligations by holding these assets in order to seek to decrease the total cost of its Turkish Lira reserve requirements; *however,* the 2015 Capital Adequacy Regulation, which entered into force on 31 March 2016, increased risk weights of foreign currency claims on the Central Bank in the form of required reserves from 0% to 50%, while Turkish Lira-denominated claims on the Central Bank continued to be subject to preferential treatment of 0% risk weight. On 24 February 2017, the BRSA published a decision that also enables banks to use a 0% risk weight for foreign currency reserves required to be held with the Central Bank. See “Turkish Regulatory Environment – Capital Adequacy” in the Base Prospectus.

Total Loan Portfolio

The Group has generally sought, and expects to continue to pursue, growth in the size of its loan portfolio. The Group’s loans and receivables were TL 100,376.6 million as of 31 December 2018, representing an increase of 21.8% from TL 82,438.9 million as of 31 December 2017, which itself reflected an increase of 31.6% from TL 62,637.1 million as of 31 December 2016. Although the Group experienced significant growth in its loan portfolio during 2018 through, in part, the impact of the depreciation of the Turkish Lira, no assurance can be given that such growth trends will be sustained in future periods or, if sustained, that such continued growth would not have an impact on asset quality.

The Group has placed an increased emphasis on increasing its SME and corporate and commercial banking segments since 2012 and the Group’s loan portfolio continues to reflect an increasing share of business banking loans, particularly due to the funding of loans guaranteed by the Credit Guarantee Fund, despite the slowdown in the growth in business banking loans in 2018. As of 31 December 2018, 68% of the Group’s loans and receivables were to SME and corporate customers, compared to 68% and 64% as of 31 December 2017 and 2016, respectively.

Provisioning for Impaired Loans

The Group’s results of operations can be significantly affected by the amount of provisions that the Group sets aside for NPLs. The Group classifies loans in line with the provisions of the Classification of Loans and Provisions Regulation and then calculates and allocates specific provisions in accordance with TFRS 9 as stipulated under such regulation (see “Turkish Regulatory Environment – Loan Loss Reserves” in the Base Prospectus). For a discussion of provisions since the beginning of 2016, see “– Results of Operations for 2016, 2017 and 2018 - Provision for Loan Losses and Other Receivables” and “Selected Statistical and Other Information – Summary of Loan Loss Experience” below.

As part of the Group’s risk management principles and effective management of its loan portfolio, the Group monitors market conditions and selectively sells NPLs when doing so is viewed as maximising recovery rates and returns. The Group sold NPL portfolios amounting to TL 1,195 million and TL 745.7 million in 2016 and 2017, respectively. The Group did not sell any NPLs in 2018.

In addition to specific provisions, the Group has in the past taken general reserves for possible results of the circumstances that might arise from possible changes in the economy and market conditions. Previously allocated general reserves were fully reversed in the last quarter of 2016 and no new such reserves were allocated in 2017 or 2018. The Group’s audit reports in the BRSA Financial Statements for 2016 and 2017, but not for 2018 as a result of the transition to TFRS 9, include a qualification as a result of the past general reserves allocated by the Group. See “Risk Factors – Risks related to the Group’s Business – Audit Qualification” in the Base Prospectus.

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

For further information on the Group’s internal loan provision requirements, see Section Two of the BRSA Financial Statements as of and for the year ended 31 December 2018.

Total Securities Portfolio

The Group maintains a securities portfolio that primarily includes Turkish government debt securities. The Group’s investment securities portfolio amounted to TL 21,423.7 million as of 31 December 2018. Of this amount, TL 12,932.2 million, or 60.4%, was classified as “Financial Assets Measured at Amortised Cost” and the remainder was classified as “Financial Assets Measured at Fair Value Through Other Comprehensive Income.” The Group also had a trading securities portfolio amounting to TL 45.7 million as of 31 December 2018. Interest income derived from the Group's trading securities portfolio and investment securities portfolio amounted to TL 2,551.7 million for 2018 (accounting for 14.8% of total interest income for the period), TL 1,241.3 million for 2017 (accounting for 10.9% of total interest income for the year) and TL 843.7 million for 2016 (accounting for 9.3% of total interest income for the year). The relative size of the Group's total securities portfolio was 13.1% of total assets as of 31 December 2018, 11.8% as of 31 December 2017 and 12.4% as of 31 December 2016. The decrease in 2017 was mainly due to loan growth that exceeded expectations due to the Credit Guarantee Fund programme, whereas the increase in 2018 was primarily due to a significant depreciation of the Turkish Lira against the U.S. dollar, which affected the Group's securities volume more than its total asset volume, and new purchases during the year. In 2016, the Turkish Lira yield curve decreased approximately 110 basis points in the short-end and increased approximately 50 basis points in the long-end. In 2017, the short-end and the long-end of the yield curve increased 277 basis points and 28 basis points, respectively. In 2018, the yield curve increased approximately 970 basis points in the short-end and increased approximately 340 basis points in the long-end.

The Bank's management expects that trading gains will not continue to be as significant going forward and that changes in the percentage of the Group's assets invested in securities will be driven by movements in its loan portfolio and leading central banks' monetary policies regarding global funding opportunity concerns.

Critical Accounting Policies

The Group's accounting policies are integral to understanding its results of operations and financial condition presented in the BRSA Financial Statements. The Group's critical and other significant accounting policies are described in Section Three of the BRSA Financial Statements as of and for the year ended 31 December 2018. The preparation of these financial statements requires management to make estimates and assumptions on some events that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported period. On an on-going basis, management evaluates its estimates and judgments, including those related to the allowance for contingencies, litigation and arbitration. Management bases its estimates and judgments upon historical experience and various other factors that the Bank's management believes to be reasonable under the circumstances. The Group's actual results might differ from the estimates under different assumptions, judgments or conditions.

The policies related to the critical accounting judgments are outlined below. All other significant accounting policies that are necessary for a fair presentation of the Group's financial condition and results of operations are presented in Section Three of the Group's BRSA Financial Statements as of and for the year ended 31 December 2018 incorporated by reference into this Prospectus.

Impairment of Financial Assets and Loan Loss Reserves

The Group's accounting policy for losses /expected credit losses arising from the impairment of customer loans and other financial assets is described in Part VIII of Section Three of the BRSA Financial Statements as of and for the year ended 31 December 2018. Under TFRS 9, the measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information, which is based upon assumptions for future movement of different economic drivers and how these drivers will affect each other. These estimates are driven by a number of factors, changes in which might result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. See Part VIII of Section Three of the BRSA Financial Statements as of and for the year ended 31 December 2018 for further discussions about impairment.

The Group reviews its financial assets as of each balance sheet date to determine whether there is objective evidence of impairment. If there is objective evidence that the Group will not be able to collect all amounts due (principal and interest) according to the original contractual terms of a loan, then the loan is considered impaired and classified as an "NPL." The Group considers a financial asset to be in default in the following two conditions:

(a) *Objective Default*: There is an objective default if the financial asset is past due more than 90 days, and

(b) *Subjective Default*: There is a subjective default if a financial asset is unlikely to be paid regardless of the existence of any past-due amount or the number of days past due.

Accordingly, if there is either an objective default or a subjective default on a financial asset, then the Group considers such financial asset defaulted and therefore classifies it as a stage 3 (credit-impaired) loan.

Starting from 1 January 2018, the allowance for a loan is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate, including any probable foreclosure of collateral. Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

The assessment of expected credit losses is performed either on a collective basis or an individual basis. Collective assessment is applied for segments defined on the basis of similar risk characteristics. On the other hand, individual assessment is performed for financial assets that are individually significant and exhibit specific characteristics. Accordingly, a number of the commercial and corporate loans are individually assessed. Calculations are performed by discounting the expected cash flows for the individual financial asset to its present value using the effective interest rate.

In addition to specific provisions for stage 3 loans and receivables, the Group also makes general provisions for stage 1 and 2 loans and receivables. As per the requirements of TFRS 9, the ECLs are measured as an allowance equal to either 12-month ECL assets for stage 1 assets or lifetime ECL assets for stage 2 or stage 3 (credit-impaired) assets. The Group records the provisions for balance sheet items under the related asset line item except that provisions for off-balance sheet items are recorded under liabilities.

Collections and reversals for provisioned loans made during a period and collections and reversals for provisioned loans made in prior periods are offset against "provision for loans and other receivables" in the income statement. Collections and reversals on principal made on written-off loans are recorded under "other operating income" and collections and reversals on interest of written-off loans are recorded under "interest on loans."

Write-offs are made only when all or part of a loan is deemed uncollectible and/or in the case of debt forgiveness, in each case in accordance with applicable law. Such loans are written-off after all necessary collection procedures have been completed and the amount of the loss has been determined. Write-offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts previously written-off decrease the amount of the provision for impairment losses on loans and receivables, finance lease receivables and factoring receivables in the income statement.

See also the discussion under "Significant Factors Affecting the Group's Financial Condition and Results of Operations – Provisions for Probable Loan Losses" for further risk assessment of the Group regarding probable loan losses.

Fair Value of Securities

The Group's securities are classified as either financial assets measured at fair value through profit or loss or investment securities (which include both financial assets available-for-sale and investments held-to-maturity that were replaced by financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost, respectively, subsequent to the adoption of TFRS 9). While financial assets measured at amortised cost are recorded at their acquisition cost and measured at amortised cost calculated as per the effective interest rate method, the Group's financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss (which collectively represented 54.6% of the Group's total securities portfolio (excluding derivative financial assets held for trading classified under financial assets measured at fair value through profit or loss (net) until the transition to TFRS 9 as of 1 January 2018) as of 31 December 2016, 54.1% as of 31 December 2017 and 39.6% as of 31 December 2018 (due to accounting policy changes and re-classifications made as a consequence of business model assessments based upon TFRS 9, the figure as of 31 December 2018 is not comparable with the figures for the previous periods) are recorded at fair value, with changes in fair value being recorded in income (for the trading portfolio and where there is an impairment or sale of financial assets available-for-sale and financial assets measured at fair value through other comprehensive income) or shareholders' equity (for mark-to-market movements in financial assets available-for-sale and financial assets measured at fair value through other comprehensive income). The following table sets out the distribution of the Group's securities recorded at fair value as of each of the indicated dates:

	31 December		
	2016	**2017**	**2018**
		(TL thousands)	
Financial assets measured at fair value through profit or loss (net) (excluding derivative financial assets held for trading)	50,811	89,389	45,739
Financial assets measured at fair value through other comprehensive income	7,032,113	8,349,875	8,445,773
Total	**7,082,924**	**8,439,264**	**8,491,512**

Fair value is defined as the value at which a position could be closed out or sold in a transaction with a willing and knowledgeable unrelated party, without any deduction for transaction costs. The Group estimates fair value using quoted market prices when available. When quoted market prices are not available, the Group uses a variety of models that include dealer quotes, pricing models and quoted prices from instruments with similar characteristics or discounted cash flows. The determination of fair value when quoted market prices are not available involves judgment by the Group's management. There is often limited market data to rely upon when estimating the impact of holding a large or aged position. Similarly, judgment must be applied in estimating prices when no external parameters exist. Other factors that can affect the estimates of fair value include incorrect model assumptions and unexpected correlations. The imprecision in estimating these factors might affect the amount of revenue or loss recorded for a specific asset or liability. As of 31 December 2018, the Group did not hold any financial assets measured at fair value through profit or loss and financial assets available-for-sale for which it could not use market prices or observable market inputs to determine fair value.

Besides the financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income, the Group also monitors the fair value of its financial assets measured at amortised cost to determine whether a decline in their fair value reflects that a write-down would be appropriate, which occurs if such a decline represents a loss event as described in Section Three of the BRSA Financial Statements as of and for the year ended 31 December 2018. Although the financial assets measured at amortised cost are kept at their amortised costs on the balance sheet and the marked-to-market differences on the financial assets measured at fair value through other comprehensive income are recorded under other comprehensive income (which directly adjusts the Group's common equity Tier 1 capital) instead of the income statement/statement of profit or loss, if the Group's management determines that the value of a financial asset measured at amortised cost has experienced a loss event, then such securities would be written-down and be reflected in "impairment losses on associates, affiliates and investments financial assets measured at amortised cost," which is a component of provision for losses on loans and other receivables in the income statement/statement of profit or loss. Factors that are used by the Group's management in determining whether a decline is other than temporary and represents a loss event include the credit quality of the issuer, the conditions of the issuer's operations and business segments, the observed period of the loss, the degree of the loss and management's expectations. Besides, as a consequence of the TFRS 9 adoption as of 1 January 2018, the Group has also started to calculate expected credit losses at initial recognition for all financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income that have not yet experienced a loss event.

Classification and Measurement of Financial Assets

Financial assets mainly consist of cash, stocks, bonds, bank deposits, loans and derivatives. Which category a financial instrument is to be classified into at its initial recognition depends upon both the business model for managing financial assets and the contractual cash flow characteristics of that financial asset.

As per TFRS 9, the Group classifies a financial asset on the basis of its contractual cash flow characteristics if such financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. TFRS 9 requires the Bank to apply judgment to assess whether payments received on financial assets are solely payments of principal and interest, which includes only time value of money. Therefore, the Bank is required to consider relevant factors such as the currency in which a financial asset is denominated and the period for which an interest rate is set. When the cash flows under a contract for a financial asset are determined not to be solely payments of principal and interest, such financial asset is measured at fair value through profit or loss. The Group tests all of its financial assets in order to determine whether their contractual cash flows solely represent payments of principal and interest and then assesses the classification of such financial assets into the different business models established by the Group.

As per TFRS 9, the Group's business model for financial assets is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Such business models are divided into three categories:

Business model to hold assets in order to collect contractual cash flows: This model's objective is to hold financial assets in order to collect contractual cash flows over the life of such financial assets. A financial asset that is held within the scope of this business model is measured at amortised cost when the contractual terms of such financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. "Receivables from the Central Bank," "Banks," "Money Market Placements," "investments under financial assets measured at amortised cost," loans, leasing receivables, factoring receivables and other receivables are included within this business model.

Business model to collect contractual cash flows and sell financial assets: This model's objective is achieved by both collecting contractual cash flows and selling financial assets. The change in fair value of a financial asset that is held within the scope of this business model is accounted under "other comprehensive income" when the contractual terms of such financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. "Financial Assets Measured at Fair Value through Other Comprehensive Income" are included in this business model.

Other business models: When a financial asset is not held in one of the two preceding business models, it is measured at fair value through profit or loss (*i.e.*, "Financial assets measured at fair value through profit or loss").

As per TFRS 9, financial assets are classified in three main categories as listed below (Please see Part VII of Section Three of the BRSA Financial Statements as of and for the year ended 31 December 2018 for a description of the accounting policies that were in place before the transition to TFRS 9):

Financial Assets Measured at Fair Value through Profit or Loss: As noted above, financial assets that are managed within the "other business model" described above are accounted for as "financial assets measured at fair value through profit or loss." This category thus includes financial assets where: (a) the contractual terms of such financial asset do not provide for cash flows representing solely payments of principal and interest at certain dates and (b) such financial asset is either acquired for generating a profit from short-term fluctuations in prices or is included in a portfolio aiming to make short-term profits. These financial assets are initially recognised at fair value and are thereafter measured at their fair value. All gains and losses arising from these valuations are reflected in the income statement.

Financial Assets Measured at Fair Value Through Other Comprehensive Income: Financial assets held within the business model to collect contractual cash flows and sell financial assets are classified as "financial assets measured at fair value through other comprehensive income." In addition to certain debt instruments, this includes any equity securities held by the Group. These financial assets are recognised by adding transaction costs to acquisition costs to reflect the initial fair value of the financial asset. After the initial recognition, these financial assets are measured at their fair value, which is determined as their market value. Interest income from financial assets that is calculated by using an internal rate of return that is determined at the recognition date and dividend income from equity securities are recorded to the income statement.

“Unrealised gains and losses” arising from the difference between the amortised cost and the fair value of these financial assets are not reflected in the income statement until the sale or other disposal of the applicable financial asset or the impairment of the applicable financial asset. These “unrealised gains and losses” are accounted under the “other comprehensive income/expense items to be recycled to profit/loss” under the shareholders’ equity. Equity securities that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value, with other equity securities being carried at cost less a provision for impairment.

The Group holds inflation-indexed (CPI) government bonds in both this category as well as the following category of financial assets measured at amortised cost. These securities are valued and accounted for by applying the effective interest rate method and considering their real coupon rates and reference inflation index at their issue date together with the index calculated by considering the estimated inflation rate as disclosed by the Turkish Treasury. As disclosed in the “Inflation-Indexed Bonds Manual” published by the Turkish Treasury, the reference inflation index used for payments is determined based upon the inflation rate of two months before payment. The estimated inflation rate used by the Group in its valuation of these securities is updated during the year when necessary.

A portion of the eurobond portfolio, which has been recognised as “financial assets measured at fair value through other comprehensive income,” is hedged against interest rate fluctuations via interest rate swaps and is designated as “fair value hedged items.” The effective portion of fair value differences resulting from the hedged risk of these hedged items is reclassified from “other comprehensive income” to “net trading income/(loss)” in the income statement.

In cases where fair value hedge operations cannot be effectively performed as described under TAS 39, fair value hedge accounting is ceased. The fair value differences are amortised through equity until the maturity of the related hedged securities. The fair value differences of related portfolio securities sold prior to maturity are immediately recognised in the income statement.

Financial Assets Measured at Amortised Cost: Financial assets held in order to collect contractual cash flows where those cash flows represent solely payments of principal and interest are classified as “financial assets measured at amortised cost.” These financial assets are initially recognised at their acquisition cost (including the transaction costs), which reflects the fair value of those instruments, and then subsequently recognised at amortised cost by using the effective interest rate method. Interest income obtained from these financial assets is included in the income statement.

The Group enters into swap transactions against Turkish Lira in order to hedge for possible losses that might arise due to changes in the fair value of a portion of the Group’s long-term loans, applying fair value hedge accounting as per TAS 39. The Bank accounts for the hedged portion of the loan portfolio at fair value, with the related net gain or loss on swap transactions used as hedging instruments being included in the income statement. When fair value hedge accounting cannot be effectively continued as stated in TAS 39, the fair value hedge accounting is ceased. The fair value differences of the hedged loans are amortised through the income statement until the maturity of the hedged loans.

Strategy for the use of financial instruments

The Bank’s main sources of funds are customer deposits, securities issuances and funds borrowed in the international markets. Customer deposits bear fixed interest rates and have an average maturity of one to three months. Domestic securities issuances have an average maturity of six months. International securities issuances typically have long maturities with fixed interest rates. Funds borrowed in the international markets generally bear floating interest rates and have an average maturity of three to six months. The Bank manages its liquidity structure so that it is capable of meeting its obligations (when due) by diversifying its funding sources and keeping enough cash and cash equivalents. The maturity of the Bank’s different sources of funds and their yields are analysed, to the extent possible, with the then outstanding market conditions with the aim of obtaining higher returns on long-term placements.

Aside from customer deposits, the Bank funds its long-term fixed interest rate Turkish Lira loan portfolio with long-term (up to 10 years) floating interest rate foreign currency funds obtained in the international markets. The Bank frequently converts this foreign currency liquidity into Turkish Lira liquidity with long-term swap transactions (fixed Turkish Lira interest rate and floating foreign currency interest rate swaps). As a result, the Bank generates Turkish Lira-denominated resources for funding long-term loans with fixed interest rates.

The Bank has established limitations on its securities portfolio based upon market risks. Products included in the Bank's securities portfolio are subject to position and risk limits. Position limits restrict the maximum nominal position that the Bank may take on a given product. Risk limits are expressed in terms of value-at-risk ("*VaR*") by taking the risk tolerance as a cap. The maximum VaR amounts are determined for different risk factors, which limits are revised annually.

Information on subsidiaries, associates and entities under common control

The BRSA Financial Statements are prepared in accordance with TAS 27 "Consolidated and Separate Financial Statements" and the BRSA Communiqué on Preparation of Consolidated Financial Statements of Banks published in the Official Gazette No. 26340 and dated 8 November 2006.

Subsidiaries. Subsidiaries maintain their accounting records and prepare their financial statements in accordance with regulations on accounting and reporting standards promulgated by the CMB and in the Turkish Commercial Code (No. 6102) and the Law on Financial Leasing, Factoring and Financing Companies (No. 6361) published in the Official Gazette on 13 December 2012, as applicable. Certain adjustments and reclassifications are made in the financial statements of the subsidiaries for purposes of fair presentation in accordance with the prevailing regulations and accounting standards set forth in Articles 37 and 38 of the Banking Law and other regulations, circulars, communiqués and pronouncements in respect of accounting and financial reporting issued by the BRSA. Financial subsidiaries are fully consolidated in the BRSA Financial Statements and intercompany balances and income and expenses resulting from intercompany transactions are eliminated.

Associates and entities under common control. The Bank does not consolidate any of its associates in its financial statements. Entities under common control are consolidated by the equity method.

Derivative financial instruments and hedge accounting

The Group enters into forward currency purchase/sale agreements and swap transactions to reduce its foreign currency risk and interest rate risk exposure and manage its foreign currency liquidity risk. The Group also enters into currency and interest rate options, swaption, credit default swap and futures agreements.

Aside from customer deposits, the Bank funds its long-term fixed interest rate Turkish Lira loan portfolio with long term (up to 10 years) floating interest rate foreign currency funds obtained in the international markets. As noted above, the Bank converts the foreign currency liquidity into Turkish Lira liquidity with long term swap transactions, thereby funding its long-term fixed interest rate loans in Turkish Lira and hedging itself against interest rate risk.

The Group's derivative instruments held for trading or for hedging purposes are classified, measured and accounted for in accordance with TFRS 9 and TAS 39 (Financial Instruments: Recognition and Measurement), respectively. In accordance with TFRS 9/TAS 39, derivative instruments are categorised as being "hedging purpose" or "trading purpose" transactions. All derivatives are initially recognised at cost, including the transaction costs and the liabilities and receivables arising therefrom are recorded as off-balance sheet items at their contractual values. After their initial recognition, derivative transactions are accounted for at fair value and are presented in the "assets on trading derivatives," "liabilities on trading derivatives," "assets on hedging purpose derivatives" and "liabilities on hedging purpose derivatives" items of the balance sheet depending upon the resulting positive or negative amounts of the computed value. These amounts presented on the balance sheet represent the fair value differences based upon the valuation.

The fair value differences regarding the derivative financial instruments held for the fair value hedge purposes are accounted for under "gains/(losses) from financial derivative transactions," except for any foreign currency valuation differences. These foreign currency valuation differences are accounted for under the "foreign exchange gains/(losses)" account.

To reduce risks resulting from changes in interest rates on customer deposits, which have an average term of one month, the Bank implements cash flow risk prevention accounting policies by means of interest rate swaps. The Bank implements efficiency tests at each balance sheet date for hedging purposes and, as provided by TAS 39, effective swaps are entered into the financial statements under equity "hedging funds," whereas amounts concerning ineffective swaps are reflected in the income statement.

The Bank hedges itself against changes in interest rates related to: (a) long-term government bonds with fixed coupon payments and (b) foreign currency bonds issued by the Bank by using interest rate swaps. The Bank applies fair value hedge accounting to these swaps and performs hedge effectiveness tests at each balance sheet date.

Fair values of: (a) forward foreign currency purchase and sales contracts and currency and interest swap transactions are calculated by using internal pricing models based upon market data and (b) option contracts are calculated with option pricing models. Unrealised gains and losses on such transactions are reflected in the income statement. Futures transactions are accounted for at settlement prices obtained from counterparties, and the related unrealised gains and losses are reflected in the income statement. Credit default swap transactions are accounted for at market prices, and the related unrealised gains and losses are reflected in the income statement.

Interest income and expenses

Interest income and expenses are recognised in the statement of profit or loss for all interest-bearing instruments on an accrual basis using the effective interest rate method. In accordance with the related regulation, interest accruals of non-performing loans are not recorded as interest income until collected.

Fees and commission income and expenses

Fee and commission income and expenses are recognised on an accrual basis over the period the service is provided or using the effective interest rate method, except for certain banking transactions for which income is recognised immediately. Income generated through agreements or through the sale and purchases of assets on behalf of third parties is recorded as income when collected.

Dividend income is accrued when the profit distribution of the subsidiaries, associates and any other entity under common control is approved. Dividend income from subsidiaries is eliminated in the Group's consolidated BRSA Financial Statements by an adjustment of the retained earnings.

Other provisions and contingent liabilities

Provisions (other than specific and general provisions for loans and other receivables) and contingent liabilities are accounted for in accordance with TAS 37 "provisions, contingent liabilities and contingent assets." Such provisions are accounted for immediately when obligations arise as a result of past events and a reliable estimate of the obligation is made by the Group. Whenever the amount of such obligations cannot be measured, such obligations are regarded as "contingent." If the possibility of an outflow of resources embodying economic benefits becomes probable and the amount of the obligation can reliably be measured, then a provision is made.

Such provisions made during a period are recorded under "other operating expenses" and such provisions made in prior periods but reversed in current periods are accounted for under "other operating income."

Employee Benefits Obligations

According to the related regulation and collective bargaining agreements, the Bank and consolidated companies (excluding entities residing outside of Turkey) are obligated to pay termination benefits for employees who retire, die, quit for their military service obligations, have been dismissed as defined in the related regulation or (for female employees) have voluntarily quit within one year after the date of their marriage. Within the scope of TAS 19 ("Employee Benefits"), the Bank allocates seniority pay provisions for employee benefits by estimating the present value of the probable future liabilities. As the legislations of the countries in which the Bank's non-Turkish subsidiaries operate do not require retirement pay provisions, no provision liability has been recognised for such companies. In addition, provision is also allocated for employees' unused paid vacation.

The Bank had an actuarial valuation made for its pension fund as of 31 December 2018. Based upon the resulting report, a provision for the actuarial and technical deficit was recognised in the BRSA Financial Statements as of and for the year ended 31 December 2018.

Key Performance Indicators

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

	As of (or for the year ended) December 31		
Ratios	**2016**	**2017**	**2018**
Net interest margin	6.4%	6.3%	6.5%
Cost-to-income ratio	50.0%	47.4%	39.3%
Liquidity coverage ratio	82.0%	98.3%	114.5%
Tier 1 ratio[(1)]	12.4%	11.8%	11.2%
Total regulatory capital ratio[(2)]	14.3%	14.5%	14.8%
NPL ratio	5.8%	5.1%	6.1%
Return on average total assets	1.3%	1.5%	1.6%
Return on average shareholders' equity	12.7%	15.6%	19.0%

(1) The Tier 1 ratio is: (a) the "Tier 1" capital (*i.e.*, the common equity Tier 1 capital *plus* additional Tier 1 capital *minus* regulatory adjustments to common equity) *as a percentage of* (b) the aggregate of the value at credit risk, value at market risk and value at operational risk. Capital adequacy ratios are calculated in accordance with BRSA guidelines. See "Capital Adequacy" below.

(2) The total regulatory capital ratio is: (a) the result of "Tier 1" capital *plus* "Tier 2" capital (*i.e.*, the "supplementary capital," which comprises general provisions, subordinated debt) *minus* items to be deducted from capital (the "deductions from capital," which comprises items such as unconsolidated equity interests in financial institutions and assets held for resale but held longer than five years) *as a percentage of* (b) the aggregate of the value at credit risk, value at market risk and value at operational risk. Capital adequacy ratios are calculated in accordance with BRSA guidelines. See "Capital Adequacy" below.

Results of Operations for 2016, 2017 and 2018

Overview

The following tables present, for the periods indicated, selected consolidated financial and other data of the Bank and its subsidiaries as of and for the years ended 31 December 2016, 2017 and 2018. Investors should read this selected consolidated financial information along with BRSA Financial Statements incorporated by reference into this Prospectus.

	2016	**2017**	**2018**
Income Statement Data:		*(TL thousands)*	
Interest income	9,034,828	11,404,451	17,184,574
Interest expense	(4,356,208)	(5,588,804)	(9,306,793)
Net interest income	**4,678,620**	**5,815,647**	**7,877,781**
Fees and commissions received	1,767,919	2,148,614	2,799,449
Fees and commissions paid	(323,042)	(366,026)	(547,312)
Net fees and commissions income	**1,444,877**	**1,782,588**	**2,252,137**
Net trading income	(661,533)	(1,142,488)	(1,222,167)
Other operating income	411,137	140,407	75,007
Dividend income	170	1,454	5,716
Net operating income	**5,873,271**	**6,597,608**	**8,988,474**
Other operating expenses	(2,938,079)	(3,125,770)	(3,531,026)
Provision for loan losses and other receivables	(1,390,423)	(1,268,992)	(2,231,296)
Gain/loss on equity method	(11,755)	38,531	44,789
Profit before taxes	**1,533,014**	**2,241,377**	**3,270,941**
Tax charge	(294,714)	(469,026)	(697,736)
Net profit/(loss)	**1,238,300**	**1,772,351**	**2,573,205**

	As of 31 December		
	2016	**2017**	**2018**
Balance Sheet Data:		*(TL thousands)*	
Cash and balances with the Central Bank	13,103,884	15,882,272	18,511,443
Financial assets measured at fair value through profit or loss (net)	2,847,693	2,604,110	9,632,785
Banks	312,066	1,299,772	1,242,052
Money market placements	1,667,618	241,859	509,711
Loans and receivables[(1)]	62,614,093	82,428,356	100,376,591
Investment securities (net)[(2)]	12,932,620	15,518,539	21,377,966
Investment in equity participations (net)[(3)]	116,091	145,028	186,645
Tangible assets (net)	1,838,308	1,942,793	2,869,000
Intangible assets (net)	288,218	338,761	411,200
Current tax asset	4,737	12,181	77,001
Deferred tax assets	66,967	34,894	618,081
Other assets[(4)]	8,533,539	10,746,100	7,687,759
Total assets	**104,325,834**	**131,194,665**	**163,500,234**
Bank deposits	1,972,985	2,344,879	3,677,585
Deposits from customers[(5)]	51,892,264	65,198,496	83,148,631
Money market borrowings	6,619,833	6,999,767	5,333,672
Funds borrowed	11,163,545	18,012,026	20,552,233
Other liabilities and provisions[(6)]	12,607,960	11,833,984	19,358,629
Securities issued (net)	6,331,577	10,398,025	11,850,077
Subordinated loans	3,235,793	3,510,837	4,816,098
Current tax liabilities	198,098	419,559	159,866
Deferred tax liabilities	—	48,751	—
Total liabilities	**94,022,055**	**118,766,324**	**148,896,791**
Paid-in capital	3,150,000	3,350,000	3,350,000
Share premium	714	714	714
Investment securities reserve, net of tax	(420,153)	(229,575)	(8,662)
Net gains (losses) on cash flow hedges	45,551	231,847	(99,178)
Other capital reserves	(43,654)	(68,312)	0
Profit reserves	6,329,182	7,365,587	8,781,070
Profit / (loss)	1,236,405	1,771,786	2,572,708
Total equity attributable to equityholders of the parent shareholder	**10,298,045**	**12,422,047**	**14,596,652**
Minority shares	5,734	6,294	6,791
Total shareholders' equity	**10,303,779**	**12,428,341**	**14,603,443**
Total liabilities and shareholders' equity	**104,325,834**	**131,194,665**	**163,500,234**
Off-balance sheet commitments and contingencies	**55,251,188**	**73,697,223**	**91,379,394**

(1) For 2018, this represents the total of loans, factoring receivables and lease receivables. For prior periods, factoring receivables and lease receivables were reported under other assets.

(2) Represents the total of investment securities measured at fair value through other comprehensive income (net) and investment securities measured at amortised cost (net).

(3) Represents the total of investment in associates (net), investment in subsidiaries (net) and entities under common control (joint ventures) (net).

(4) Represents the total of factoring receivables, lease receivables (net), derivative financial assets hedging purposes, property and equipment held for sale and other assets for 2016 and 2017. Factoring receivables (net) and lease receivables (net) are reported under loans and receivables in 2018.

(5) Referred to as "other deposits" in the BRSA Financial Statements.

(6) Represents the total of derivative financial liabilities for hedging purposes, derivative financial liabilities for trading, provisions and other liabilities.

The Group's net profit for 2018 was TL 2,573.2 million, a 45.2% increase compared to TL 1,772.4 million in 2017, which was a 43.1% increase compared to TL 1,238.3 million in 2016. The increase in 2018 was primarily due to a 35.5%

increase in net interest income and a 26.3% increase in net fees and commissions income, which was partly offset by a 75.8% increase in loan loss provisions due to higher NPL formation during the period and greater expected loan loss provisions booked for stage 2 loans after the implementation of TFRS 9. The results in 2018 benefitted from operating expenses increasing less than the inflation rate. The increase in 2017 was principally derived from strong growth in net interest income and net commissions income as a result of higher loan production volumes, while limited growth in operating expenses and a decrease in provision charges due to lower NPL formation, higher collections and improved portfolio quality decreased provisions on performing loans.

Return on average total assets for 2018 was 1.6%, compared to 1.5% for 2017 and 1.3% for 2016. Return on average shareholders' equity for 2018 was 19.0%, compared to 15.6% for 2017 and 12.7% for 2016.

For 2016, 2017 and 2018, the Group's net operating income was TL 5,873.3 million, TL 6,597.6 million and TL 8,988.5 million, respectively, of which net interest income represented 79.7%, 88.1% and 87.6% and net fees and commissions income represented 24.6%, 27.0% and 25.1%, respectively.

Net Interest Income

The following table shows net interest income details for the indicated periods:

	2016	2017	Change 2017 vs. 2016	2018	Change 2018 vs. 2017
Interest income	*(TL thousands)*		*(%)*	*(TL thousands)*	*(%)*
Total interest on loans	7,722,630	9,312,291	20.6%	13,405,224	44.0%
Interest on loans	7,718,688	9,310,446	20.6%	13,404,580	44.0%
Interest on financial assets measured at fair value through profit and loss	3,942	1,845	(53.2)%	644	(65.1)%
Interest received from banks	64,359	315,158	389.7%	201,643	(36.0)%
Interest received from money market placements	75,509	55,716	(26.2)%	38,928	(30.1)%
Interest received from marketable securities portfolio	843,682	1,241,311	47.1%	2,551,730	105.6%
Finance lease income	217,169	312,474	43.9%	493,419	57.9%
Other interest income[(1)]	111,479	167,501	50.3%	493,630	194.7%
Interest income	**9,034,828**	**11,404,451**	**26.2%**	**17,184,574**	**50.7%**
Interest expense					
Interest on deposits	3,284,048	4,064,811	23.8%	6,472,132	59.2%
Interest on funds borrowed	423,734	771,896	82.2%	1,339,723	73.6%
Interest on money market borrowings	293,348	186,345	(36.5)%	430,607	131.1%
Interest on securities issued	341,639	544,570	59.4%	1,047,798	92.4%
Other interest expense	13,439	21,182	57.6%	16,533	(21.9)%
Interest expense	**4,356,208**	**5,588,804**	**28.3%**	**9,306,793**	**66.5%**
Net interest income	**4,678,620**	**5,815,647**	**24.3%**	**7,877,781**	**35.5%**

(1) Includes "reserve deposits."

The Group's net interest income for 2018 amounted to TL 7,877.8 million, an increase of 35.5% compared to TL 5,815.6 million for 2017, which was an increase of 24.3% compared to TL 4,678.6 million for 2016. In 2018, the Group's interest income increased by 50.7% while interest expense increased by 66.5% compared to 2017. A higher interest expense in 2018 compared to the prior year was mostly due to the higher volume of Turkish Lira deposits and a higher level of interest rates paid thereon, which have been on an increasing trend since April 2018 as a result of increasing competition for funding sources and several rate increases and other tightening actions taken by the Central Bank.

Specifically, on 23 May 2018, following the Turkish Lira reaching its then-lowest level against the U.S. dollar (exceeding TL 4.85 against the U.S. dollar), an emergency meeting of the Central Bank's Monetary Policy Committee increased the late liquidity window lending rate by 300 basis points to 16.5% while keeping constant its one-week repo rate at 8.00%, the upper bound of its interest rate corridor at 9.25% and its overnight borrowing rate at 7.25%. On 28 May 2018, the Central Bank announced its decision to simplify its monetary policy, with the one-week repo rate to be the policy rate and the overnight borrowing and lending rates to be determined at 150 basis points below and above the one-week repo rate as of

1 June 2018. On 7 June 2018, the Monetary Policy Committee increased the one-week repo rate (policy rate) by 125 basis points to 17.75% and, as of 8 June 2018, the overnight borrowing rate, the overnight lending rate and the late liquidity window lending rate increased to 16.25%, 19.25% and 20.75%, respectively. Following the significant decline in the value of the Turkish Lira in the second half of 2018, which fell to a record low (exceeding TL 7.2 per U.S. Dollar in the week ended on 12 August 2018), the Central Bank (on 13 September 2018) increased its benchmark lending rate by 6.25%, which increased the one week repo rate from 17.75% to 24.00%. On 25 October 2018, the Monetary Policy Committee decided to keep the policy rate constant at 24.00%.

The percentage increase in interest expense in 2018 was greater than the percentage increase in interest income due largely to the trend of higher interest rates, which repriced for deposits more quickly than for loans and securities. In 2018, the increase in interest income was attributable primarily to an increase in average balances and partially to higher average interest rates on interest-earning assets, whereas the increase in interest expense was attributable primarily to both an increase in average deposit balances and average deposit rates. See "Selected Statistical and Other Information – Net Changes in Interest Income and Expense – Volume and Rate Analysis" for further information about the increase/decrease in interest income/expense.

In 2017, the Group's increase in interest income and interest expense resulted primarily from an increase in average loan balances and average interest rates on deposits, respectively.

The Group's net interest income as a percentage of average interest-earning assets was 6.4% for 2016, 6.3% for 2017 and 6.5% for 2018.

Interest Income

The Group's interest income increased by 50.7% to TL 17,184.6 million in 2018 from TL 11,404.5 million in 2017, which increase was principally due to an increase in interest on loans. Total interest on loans increased by 44.0% to TL 13,405.2 million in 2018 compared to TL 9,312.3 million in 2017, which increase was largely attributable to an increase in the volume of loans and receivables outstanding and to an increase in interest rates as well. The growth in loan volume during 2018 was principally derived from the retail segment, especially general purpose loans and credit card loans, as (excluding the impact of changes in exchange rates) there was little growth in the volume of business loans.

The Group's interest income in 2017 increased by 26.2% from TL 9,034.8 million in 2016. This increase was mainly attributable to a 20.6% increase in interest income earned on loans (excluding factoring and leasing), supported by a 23.1% increase in average performing loans and receivables compared to 2016 and higher TL interest rates as a result of increasing yields in the market. The increase in average performing loans and receivables was due to the continued growth in the Group's lending portfolio, particularly to SME and corporate and commercial customers due to the Credit Guarantee Fund programme, although such SME and corporate and commercial loan products generally have lower yields compared to retail loan products.

Interest earned on the marketable securities portfolio also grew in 2017 and 2018, increasing by 105.6% in 2018 compared to 2017 and 47.1% in 2017 compared to 2016. The increase in interest earned from the marketable securities portfolio was principally due to increases in interest earned on CPI-linked securities as a result of higher inflation in 2017 and 2018 and purchases of Turkish Lira-denominated floating rate government bonds and foreign currency-denominated government eurobonds. While the Group holds CPI-linked bonds, inflation in 2016 had limited effect in the revenues; *however*, starting in October 2016, inflation increased due to the depreciation of the Turkish Lira, leading to higher inflation in 2017 and 2018.

The table below sets forth the percentage of interest income and portfolio yield from loans for each of the Group's business and retail banking segments for each of the indicated years:

	2016	2017	2018
Interest income			
Business (including SME)	54.5%	60.1%	61.2%
Retail	45.5%	39.9%	38.8%
Portfolio yield			
Business (including SME)	11.9%	11.8%	13.0%
Retail	15.3%	15.1%	16.7%

Interest Expense

The Group's interest expense increased by 66.5% to TL 9,306.8 million in 2018 from TL 5,588.8 million in 2017. This increase was primarily due to the higher volume of Turkish Lira deposits and the increase in the interest rates paid thereon and on other Turkish Lira funding instruments, which has been on an increasing trend since April 2018 as a result of increasing competition for funding sources and several rate increases and other tightening actions taken by the Central Bank. The interest expense on deposits increased by 59.2% in 2018 compared to 2017 as a result of higher volumes of Turkish Lira deposits and higher levels of related interest rates, whereas interest on funds borrowed increased by 73.6%, which was due to increases in market interest rates and the volume of funds borrowed.

The Group's interest expense in 2017 increased by 28.3% from TL 4,356.2 million in 2016. This increase was primarily due to a 23.8% increase in interest expense on customer deposits in 2017 compared to 2016, which in turn was largely due to a 22.3% increase in average deposits. The increase in average deposit balances was primarily due to the Group's continuing effort to increase its deposit base, particularly in relation to demand deposits, which increased by 36.0% in 2017 compared to 2016, and time deposits, which increased by 23.2% over the same period. Total deposits increased by 25.4% in 2017 from year-end 2016.

The table below sets forth the Group's cost of funding by source of funding for the indicated years:

	2016	2017	2018
Cost of funding			
Turkish Lira deposits	11.0%	12.1%	16.7%
Foreign currency deposits	2.1%	2.5%	3.3%
Total deposits	7.7%	8.0%	10.0%
Other borrowed funds (Turkish Lira)	8.4%	11.7%	17.1%
Other borrowed funds (foreign currency)	3.3%	3.7%	4.2%
Other borrowed funds (total)	4.2%	4.3%	5.5%

Net Fee and Commission Income

The table below sets forth the components of the Group's net fee and commission income for each of the indicated years.

	2016	2017	Change 2017 vs. 2016	2018	Change 2018 vs. 2017
	(TL thousands)		*(%)*	*(TL thousands)*	*(%)*
Fees and commissions received					
Non-cash loans	69,602	84,629	21.6%	114,751	35.6%
Other	1,698,317	2,063,985	21.5%	2,684,698	30.1%
Total	**1,767,919**	**2,148,614**	**21.5%**	**2,799,449**	**30.3%**
Fees and commissions paid					
Non-cash Loans	1,702	1,481	(13.0)%	1,602	8.2%
Other	321,340	364,545	13.4%	545,710	49.7%
Total	**323,042**	**366,026**	**13.3%**	**547,312**	**49.5%**
Net fees and commissions income	**1,444,877**	**1,782,588**	**23.4%**	**2,252,136**	**26.3%**

Net fees and commissions income for 2018 amounted to TL 2,252.1 million, an increase of 26.3% compared to TL 1,782.6 million in 2017, itself an increase of 23.4% compared to TL 1,444.9 million in 2016. These increases were primarily due to an increase in payment services commissions (card and POS commissions), loan-related fees and banking services commissions. The share of other banking services commissions in total commissions increased to 11.0% in 2018 from 6.4% in 2017 mainly due to contribution of "all-in fees," a new product in which the Bank receives from a customer an up-front fee for all banking services provided to that customer during a one-year period.

The table below sets forth a breakdown by source of net fees and commissions for the indicated years:

	2016	2017	2018
Card/POS commissions	58.0%	52.1%	56.5%
Loan commissions	22.3%	24.3%	19.0%
Deposit account maintenance fees	4.6%	4.5%	3.7%
Insurance commissions	10.1%	12.7%	9.9%
Other banking services commissions	5.0%	6.4%	11.0%

Net Trading Income/(Loss)

The table below sets forth a breakdown of the Group's net trading income/(loss) (net) for each of the indicated years:

	2016	2017	Change 2017 vs. 2016	2018	Change 2018 vs. 2017
	(TL thousands)		*(%)*	*(TL thousands)*	*(%)*
Securities trading gains / (losses)	17,121	9,307	(45.6)%	17,224	85.1%
Gains / (losses) from financial derivatives transactions	(713,295)	(1,178,370)	65.2%	702,547	(159.6)%
Foreign exchange gains / (losses)	34,641	26,575	(23.3)%	(1,941,938)	(7,407.4)%
Net trading income / (loss)	**(661,533)**	**(1,142,488)**	**72.7%**	**(1,222,167)**	**6.97%**

The net trading income/(loss) line includes net interest income/(expense) from swaps, which covers the large majority of the movement through periods. The net interest income from swaps, consisting of TL 2,017.5 million of losses in 2018, TL 1,375.1 million of losses in 2017 and TL 718.0 million of losses in 2016, represented the majority of this amount and should be analysed together with net interest income. The increase in swap expenses in 2018 from 2017 was largely due to an increase in the Group's swap volume, which increased due to the higher level of foreign currency wholesale borrowings converted into Turkish Lira-denominated funding in order to fund the growth in Turkish Lira-denominated loan volume. In addition, the increase in Turkish Lira interest rates increased swap costs as swap typically require the Group to make payments in Turkish Lira and receive foreign currency. The increase in swap expenses in 2017 from 2016 was largely due to an increase in the volume of transaction due to the Group's increase in foreign currency-denominated funding and the differential in Turkish Lira/foreign currency (mainly U.S. dollars and euro) interest rates.

When excluding the net interest income from swaps, net trading income / (loss) was TL 795.3 million in 2018, TL 232.6 million in 2017 and TL 56.5 million in 2016. Net trading gains remain not very significant for the Group since its proprietary trading activity is limited, with net gains essentially all resulting from customer business; *however*, the trading results in 2017 and 2018 benefited from interest rate and exchange rate volatility.

Other Operating Income

The table below sets forth other operating income of the Group for each of the indicated years:

	2016	**2017**	**Change 2017 vs. 2016**	**2018**	**Change 2018 vs. 2017**
	(TL thousands)		*(%)*	*(TL thousands)*	*(%)*
Other operating income	411,137	140,407	(65.8)%	75,007	(46.6)%

In 2017, other operating income decreased by 65.8% from 2016, reflecting the impact on 2016's income from the sale of the Visa Europe Ltd. shares and lower gains of TL 69 million from NPL sales in 2017. In 2018, other operating income decreased by 46.6%, reflecting the impact of gains on NPL sales in 2017 while there were no such sales in 2018.

Other Operating Expenses

The table below sets forth the components of the Group's other operating expenses for each of the indicated years:

	2016	**2017**	**Change 2017 vs. 2016**	**2018**	**Change 2018 vs. 2017**
	(TL thousands)		*(%)*	*(TL thousands)*	*(%)*
Personnel costs	1,218,027	1,340,693	10.1%	1,502,533	12.1%
Reserve for employee termination benefits	16,880	4,695	(72.2)%	18,693	298.1%
Impairment losses of tangible assets	—	—	—	402	100.0%
Depreciation charge of tangible assets	140,670	141,206	0.4%	136,498	(3.3)%
Amortisation charge of intangible assets	108,526	114,509	5.5%	121,436	6.0%
Depreciation on assets to be disposed	6,164	—	(100.0)%	—	—
Other operating expenses (general and administrative expenses)	968,028	1,105,799	14.2%	1,210,634	9.5%
Operational lease related expenses	224,233	221,551	(1.2)%	237,759	7.3%
Repair and maintenance expenses	127,133	150,123	18.1%	186,095	24.0%
Advertisement expenses	81,290	94,197	15.9%	94,868	0.7%
Other expenses(1)	535,372	639,928	19.5%	691,912	8.1%
Losses on sales of assets	2,726	376	(86.2)%	138	(63.3)%
Other(2)	477,058	418,492	(12.3)%	540,692	29.2%
Other operating expenses	**2,938,079**	**3,125,770**	**6.4%**	**3,531,026**	**13.0%**

(1) Includes credit card and banking services promotion expenses, communication expenses and other operating expenses.
(2) Includes taxes and duties, audit and consultancy expenses and saving deposits insurance fund premium expenses paid to regulatory authorities.

Other operating expenses in 2016 were significantly impacted by commission refunds to retail clients (which are included under "other" in the table above) amounting to TL 93.9 million (including related court expenses) (see "Risk Factors – Risks Related to the Group's Business - Pressure on Profitability" in the Base Prospectus for further details). In 2017, other operating expenses amounted to TL 3,125.8 million, an increase of 6.4% compared to TL 2,938.1 million in 2016. Commission refunds decreased to TL 28.1 million in 2017. When excluding commission refunds, operating expenses increased by 8.9% in 2017 from 2016, which was essentially below inflation due to cost containment measures. In 2018, other operating expenses amounted to TL 3,531.0 million, an increase of 13.0% compared to 2017, including a 12.1% increase in personnel costs. The remaining categories of other operating expenses also increased, mainly due to increases in the following expense items: rent, repair and maintenance, promotion, tax and duties, audit and consultancy expenses, and provisions for legal proceedings.

Provision for Loan Losses and Other Receivables

The table below sets forth the Group's provision for loan losses and other receivables for each of the indicated years:

	2016	2017	Change 2017 vs. 2016	2018	Change 2018 vs. 2017
	(TL thousands)			*(TL thousands)*	
Specific provisions for loans and other receivables (stage 3)	1,452,743	1,094,464	(24.7)%	1,430,601	30.7%
General provisions (stages 1 and 2)	98,009	108,870	11.1%	728,205	568.9%
Provisions for free reserves on possible losses	(100,000)	—	(100.0)%	—	—
Provisions for closely monitored loan losses	(66,340)	68,549	(203.3)%	—	(100.0)%
Impairment losses on securities	—	—	—	8,369	100.0%
Financial assets measured at fair value through profit or loss	—	—	—	—	—
Financial assets measured at fair value through other comprehensive income	—	—	—	8,369	100.0%
Other	6,011	(2,891)	(148.1)%	64,121	(2,318.0)%
Provision for loan losses and other receivables	**1,390,423**	**1,268,992**	**(8.7)%**	**2,231,296**	**75.8%**

The increase in 2018 was primarily driven by the Group's transition to a new impairment standard (*i.e.*, TFRS 9). Starting from 1 January 2018, the Bank adopted TFRS 9 principles and, as per the requirements of TFRS 9, the expected credit losses are measured as an allowance equal to either 12-month ECLs, assets for stage 1 assets or lifetime ECL assets for stage 2 or stage 3 (credit-impaired) assets; *however*, prior to 1 January 2018, the Bank calculated and allocated general and specific provisions in accordance with the minimum provision rates required by the BRSA Accounting and Reporting Principles. TFRS 9 standards require more allowances for stage 2 loans due to lifetime ECL calculations, while they require less allowances for stage 3 (credit-impaired) loans since the Bank started to consider collaterals and expected cash flows in ECL calculations as per TFRS 9. Therefore, in 2018, general provisions increased mainly due to the implementation of TFRS 9 models and partially due to the Group's decision to set aside additional provisions in anticipation of a possible increase in NPLs during the upcoming periods. The level of specific provisions also increased due to higher net NPL additions in 2018 compared to 2017.

For 2019, the Bank's management anticipates a similar level of NPL additions and provision expenses as were seen in 2018; *however*, considering the current economic environment and uncertainties, NPL additions and restructurings of problematic loans might increase in 2019, which might lead to materially higher NPL additions and provision expenses.

The decrease in 2017 was principally a result of improving asset quality due to loan growth, particularly in lower risk segments (*e.g.*, SME, commercial and corporate), including as a result of the Credit Guarantee Fund programme. Consequently, specific provisions decreased by 24.7% in 2017 from 2016, which was partly offset by increasing general provisions and provisions for closely monitored loan losses. The overall provision charge in 2017 grew at a rate lower than the average loan growth due to the lower NPL inflow and higher collections. Specific provision coverage decreased from 84% at the end of 2016 to 82% at the end of 2017.

The Group monitors market conditions and selectively sells NPLs when doing so is viewed as maximising recovery rates and returns. The Group sold NPL portfolios amounting to TL 745.7 million in 2017 and TL 1,195 million in 2016 (there were no such sales in 2018). The Group's NPL ratio was 6.1% as of 31 December 2018, as compared to 5.1% as of 31 December 2017 and 5.8% as of 31 December 2016.

Tax Charge

The Group's tax charge in 2016, 2017 and 2018 was TL 294.7 million, TL 469.0 million and TL 697.7 million, respectively. The Group's effective tax rate in 2016, 2017 and 2018 was 19.2%, 20.9% and 21.3%, respectively, which were close to the statutory 20% tax rate in 2016 and 2017 and 22% in 2018. In 2016, the effective tax rate benefited from a partially tax exempt gain from the sale of Visa Europe Ltd. shares to Visa Inc.

The standard tax rate of 20% was increased to 22% for 2018, 2019 and 2020. In case of deferred tax for an item that is expected to be realised later than 2020, the tax rate is to be considered to be 20%. As a result, the effective tax rate is expected to be between 20% and 22% during 2019 and 2020.

Segmental Information

The tables below present the Group's profit before tax by operating segment for the indicated years:

	2016			
	Retail Banking	**Corporate and Commercial Banking[(4)]**	**Treasury and Head Office**	**Total Operations of the Group**
		(TL thousands)		
Net interest income	1,636,457	1,697,404	1,344,759	4,678,620
Net fees and commissions income	950,210	448,156	46,511	1,444,877
Other operating income and net trading income	177,031	60,179	(487,606)	(250,396)
Dividend income	—	—	170	170
Operating income[(1)]	**2,763,698**	**2,205,739**	**903,834**	**5,873,271**
Other operating expenses	(1,585,963)	(1,033,439)	(318,677)	(2,938,079)
Provision for loan losses and other receivables	(656,335)	(893,291)	159,203	(1,390,423)
Gain/loss on equity method	—	—	(11,755)	(11,755)
Profit before taxes[(2)]	**521,400**	**279,009**	**732,605**	**1,533,014**
Tax charge[(3)]	—	—	—	(294,714)
Net profit/ (loss)	—	—	—	**1,238,300**

	2017			
	Retail Banking	**Corporate and Commercial Banking[(4)]**	**Treasury and Head Office**	**Total Operations of the Group**
		(TL thousands)		
Net interest income	1,834,670	1,937,668	2,043,309	5,815,647
Net fees and commissions income	1,137,582	619,957	25,049	1,782,588
Other operating income and net trading income	88,035	131,618	(1,221,734)	(1,002,081)
Dividend income	—	—	1,454	1,454
Operating income[(1)]	**3,060,287**	**2,689,243**	**848,078**	**6,597,608**
Other operating expenses	(1,625,224)	(1,195,497)	(305,049)	(3,125,770)
Provision for loan losses and other receivables	(551,721)	(679,289)	(37,982)	(1,268,992)
Gain/loss on equity method	—	—	38,531	38,531
Profit before taxes[(2)]	**883,342**	**814,457**	**543,578**	**2,241,377**
Tax charge[(3)]				(469,026)
Net profit/ (loss)				**1,772,351**

	2018			
	Retail Banking	Corporate and Commercial Banking[4]	Treasury and Head Office	Total Operations of the Group
		(TL thousands)		
Net interest income	2,078,539	2,901,813	2,897,429	7,877,781
Net fees and commissions income	1,570,507	647,526	34,104	2,252,137
Other operating income and net trading income	46,021	176,264	(1,369,445)	(1,147,160)
Personnel expenses[5]	(325,944)	(501,701)	(693,581)	(1,521,226)
Dividend income	—	—	5,716	5,716
Operating income[1]	**3,369,123**	**3,223,902**	**874,223**	**7,467,248**
Other operating expenses	(1,497,974)	(870,800)	358,974	(2,009,800)
Provision for loan losses and other receivables	(574,009)	(1,496,184)	(161,103)	(2,231,296)
Gain/(loss) on equity method	—	—	44,789	44,789
Profit before taxes[2]	**1,297,140**	**856,918**	**1,116,883**	**3,270,941**
Tax charge[3]				(697,736)
Net profit/ (loss)				**2,573,205**

(1) Operating income stated in the segmental information corresponds to the Net Operating Income in the financial statements incorporated by reference herein.

(2) Profit before taxes stated in the segmental information corresponds to the Net Operating Income / (Loss) in the financial statements incorporated by reference herein.

(3) Tax charge stated in the segmental information corresponds to the Tax Charge for Continued Operations in the financial statements incorporated by reference herein.

(4) The Corporate and Commercial Banking also includes SME banking.

(5) Starting from 1 January 2018, due to a change in the BRSA Accounting and Reporting Principles, personnel expenses are reported under operating income instead of "other operating expenses" as in previous periods.

Segment Analysis

The Group has identified operating segments in a manner consistent with the internal reporting provided to the Board of Directors and manages its business through three main business segments: (a) retail banking, (b) corporate and commercial banking and (c) treasury and head office. The main function of the Treasury Segment is managing the liquidity of the Bank and interest and foreign currency risks resulting from market conditions. This segment works closely with the corporate, commercial, retail and private banking units in order to increase the number of customers and the volume of transactions in the Bank's treasury products.

The increase in profit before taxes in the Group's retail banking segment for 2018 was due primarily to higher net interest income on higher volumes, higher net fees and commissions income and lower expenses. In 2018, other operating income decreased by 46.6%, reflecting the impact of gains on NPL sales in 2017 while there were no such sales in 2018. The increase in profit before taxes in the Group's retail banking segment for 2017 was due primarily to higher net interest income on higher volumes, higher net fees and commissions income and lower expenses benefiting from lower commission refunds to retail clients. Decreases in other operating income in 2017 from 2016 was principally due to lower gains from NPL sales.

Profit before taxes of the corporate and commercial banking segment increased for 2018 compared to 2017, primarily as a result of higher net interest income exceeding higher provision expenses. The increase in profit before taxes in the Group's corporate and commercial banking segment for 2017 was due largely to higher net interest income on higher volumes, higher net fees and commissions income and lower provision expenses.

With respect to the treasury and head office segment, profit before taxes also increased in 2018 compared to 2017 primarily due to a higher net interest income and lower expenses. Profit before taxes decreased in 2017 compared to 2016 because of more highly subsidising (by way of transfer pricing that favours the business lines in order to support their growth) the business lines compared to 2016 and having a higher base in 2016 due to the reversal of provisions, partly offset by higher interest income (especially form CPI-linked securities).

Financial Condition as of 31 December 2016, 2017 and 2018

Total Assets

As of 31 December 2016, 2017 and 2018, the Group's total assets were TL 104,325.8 million, TL 131,194.7 million and TL 163,500.2 million, respectively.

The main driver behind the Group's increase of total assets was the growth of performing loans, which increased by 24.3% to TL 101,470.2 million as of 31 December 2018 from TL 81,635.3 million as of 31 December 2017, itself a 31.6% increase from TL 62,014.7 million as of 31 December 2016. As of 31 December 2018, 68% of the Group's loans were to SME and corporate customers, compared to 68% and 64% as of 31 December 2017 and 2016, respectively.

Total loans and receivables increased by 21.8% to TL 100,376.6 million as of 31 December 2018 from TL 82,438.9 million as of 31 December 2017; *however*, the 31 December 2018 figure includes factoring receivables, leasing receivables and expected credit losses due to the transition to TFRS 9 as of 1 January 2018 and, if such items were excluded, the total loan increase would have been 15.7%. The total as of 31 December 2017 was an increase of 31.6% from TL 62,637.1 million as of 31 December 2016. The Group's business banking business remained stable during 2018, with its loan portfolio reflecting an increasing share of business banking loans, including due to loans guaranteed by the Credit Guarantee Fund and the increased Turkish Lira equivalence of foreign currency-denominated business loans that benefited from the significant depreciation of the Turkish Lira (especially in August 2018). As of 31 December 2018, the portfolio of performing loans was distributed as follows: (a) 34.1% to corporate and commercial loans, 33.5% to SME loans, 11.7% to credit card loans and 20.6% to consumer loans and (b) 67.1% of the volume of the loan portfolio was denominated in Turkish Lira and the remainder was denominated in foreign currencies. For an analysis of the loans and receivables to customers type of loan and the borrower's principal economic activity, see "Selected Statistical and Other Information – Assets – Loans and Receivables to Customers and Finance Lease Receivables."

Total Liabilities

As of 31 December 2016, 2017 and 2018, the Group's total liabilities were TL 94,022.1 million, TL 118,766.3 million and TL 148,896.8 million, respectively.

The main drivers behind the Group's increase in total liabilities between 31 December 2016 and 31 December 2018 were increases in deposits from customers, funds borrowed and securities issued (net). Deposits from customers amounted to TL 83,148.6 million as of 31 December 2018, an increase of 27.5% from TL 65,198.5 million as of 31 December 2017, itself an increase of 25.6% from TL 51,892.3 as of 31 December 2016. Deposits from customers increased significantly during this period as a result of the continuing growth of the Bank's business. In 2018, the increase in Turkish Lira customer deposits reflected an increase in market share and a customer shift from foreign exchange deposits, whereas foreign exchange deposits declined due to this customer shift to Turkish Lira deposits; *however*, both Turkish Lira and foreign currency demand deposits increased in 2018 as a result of the Bank's gaining market share.

Funds borrowed and securities issued (net) totaled TL 32,402.3 million as of 31 December 2018, an increase of 14.1% compared to TL 28,410.1 million as of 31 December 2017, itself an increase of 62.4% from TL 17,495.1 million as of 31 December 2016. The increase in funds borrowed and securities issued (net) between 31 December 2016 and 31 December 2018 was principally a result of increased funding to support the continuing growth of the Bank's business and depreciation of the Turkish Lira. As of 31 December 2018, 84% of funds borrowed and securities issued (net) were foreign currency-denominated transactions.

Total Shareholders' Equity

As of 31 December 2016, 2017 and 2018, total shareholders' equity of the Group was TL 10,303.8 million, TL 12,428.3 million and TL 14,603.4 million, respectively.

The changes in the total shareholders' equity were due primarily to the addition of net profit into equity and changes in the unrealised gain on available-for-sale investments. In each of 2016 and 2017, the paid-in capital of the Bank increased as a result of capitalising internal reserves. In 2018, the Bank distributed a cash dividend of TL 100 million to its shareholders.

On 21 February 2019, the Board of Directors resolved to submit a proposal for the allocation of 2018 net profits for the approval of the General Assembly at the ordinary general assembly meeting scheduled to be held on 28 March 2019. From the Bank's net profit of TL 2,409,826,453.75 calculated based upon the Bank's BRSA Financial Statements as of and for the year ended 31 December 2018: (a) TL 2,324,696,918.38 is proposed to be added to the Bank's general reserve and (b) TL 85,129,535.37 is proposed to be added to the Bank's general statutory reserve (as a result, no dividends are being proposed).

Off-Balance Sheet Arrangements

In the normal course of business, the Group enters into various contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These contractual commitments consist of commitments to extend credit, commercial letters of credit and standby letters of credit and guarantees. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the conditions established in the contract. Commercial letters of credit ensure payment by a bank to a third party for a customer's foreign or domestic trade transactions, generally to finance a commercial contract for the shipment of goods. Standby letters of credit and financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. All of these arrangements are related to the normal lending activities of the Group.

The Group's exposure to credit loss in the events of non-performance by the other party to the financial instrument for commitments to extend credit and commercial and standby letters of credit is represented by the contractual notional amount of those instruments.

The following tables summarise the Group's off-balance sheet financial instruments, which represent credit risk, as of each of the indicated dates:

	As of 31 December					
	2016	**(%)**	**2017**	**(%)**	**2018**	**(%)**
	(TL thousands, except percentages)					
Letters of guarantee...........	10,806,715	82.0%	14,518,866	75.2%	17,485,186	73.8%
Bank loans.........................	1,255,477	9.5%	3,012,892	15.6%	4,476,254	18.9%
Letters of credit	1,121,818	8.5%	1,783,291	9.2%	1,727,806	7.3%
Other guarantees................	—	—	—	—	—	—
Total non-cash loans....	**13,184,010**	**100.0%**	**19,315,049**	**100.0%**	**23,689,246**	**100.0%**
Other commitments...........	24,434,728		34,430,217		45,297,890	
Credit card limits..............	16,415,910		17,161,713		22,392,258	
Total commitments......	**54,034,648**		**70,906,979**		**91,379,394**	

Capital Adequacy

Each of the Bank and the Group is required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures. In accordance with these guidelines, each of the Bank and the Group must maintain a total capital ratio in excess of 8% calculated in accordance with BRSA regulations. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4% higher than the legal capital ratio (see "Turkish Regulatory Environment – Capital Adequacy" in the Base Prospectus for further details).

In order to implement the rules of the report entitled "A Global Regulatory Framework for More Resilient Banks and Banking Systems" published by the Basel Committee on Banking Supervision (the "*Basel Committee*") in December 2010 and revised in June 2011 (*i.e.*, Basel III) into Turkish law, the Regulation on Equities of Banks (the "*Equity Regulation*") and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks (the "*2012 Capital Adequacy Regulation*") each entered into force on 1 January 2014. Subsequently, the BRSA replaced the 2012 Capital Adequacy Regulation with a new "Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks" (the "*2015 Capital Adequacy Regulation*"), which entered into force on 31 March 2016. The Equity Regulation defines capital of a bank as the sum of: (a) principal capital (*i.e.*, Tier 1 capital), which is composed of core capital (*i.e.*, Common Equity Tier 1 capital) and additional principal capital (*i.e*., additional Tier 1 capital), and (b) supplementary capital (*i.e*., Tier 2 capital) *minus* capital deductions. Pursuant to the 2015 Capital Adequacy Regulation: (i) both the unconsolidated and consolidated minimum Common Equity Tier 1 capital adequacy ratio are 4.5% and (ii) both unconsolidated and consolidated minimum Tier 1 capital adequacy ratio are 6.0%.

In calculating its capital adequacy ratios, the 2015 Capital Adequacy Regulation allows the Bank to use ratings of eligible external credit assessment institutions (namely Fitch, S&P, Moody's, Japan Credit Rating Agency, Ltd., DBRS Ratings Ltd. and, as of 12 January 2017, International Islamic Rating Agency) while calculating the risk-weighted assets for capital adequacy purposes. On 27 January 2017, Fitch (whose ratings the Bank has been using to calculate its risk-weighted assets) downgraded Turkey's sovereign credit rating to "BB+" (with a stable outlook) from "BBB-" (with a negative outlook). According to guidance published by the BRSA on 24 February 2017, foreign exchange-required reserves held with the Central Bank are subject to a 0% risk weight, which amendment offset the negative impact on capital adequacy that otherwise would have resulted from the Fitch downgrade. The capital adequacy ratio of the Group increased from 14.5% as of 31 December 2017 to 14.8% as of 31 December 2018, which increase reflected internal capital generation as well as the conversion of US$325 million of Basel II-compliant subordinated loans into a Basel III-compliant format, which was partially offset by the negative impact of the increase in risk-weighted assets resulting from the significant depreciation of the Turkish Lira. If the remaining US$325 million of Basel II-compliant subordinated loans are so converted, which is being discussed with the investor, then this would result in an increase of 1.2% in the Group's capital adequacy ratio; *however*, there is no commitment for such a conversion, which thus might not occur.

The Group maintains regulatory capital adequacy ratios on both a Bank-only and consolidated basis in excess of the regulatory minimums required and recommended levels. The Group's total capital adequacy ratio (calculated pursuant to the BRSA Financial Statements) was 14.8% as of 31 December 2018 compared to 14.5% as of 31 December 2017 and 14.3% as of 31 December 2016. The Group's Tier 1 capital adequacy ratio (calculated pursuant to the BRSA Financial Statements) was 11.2% as of 31 December 2018, 11.8% as of 31 December 2017 and 12.4% as of 31 December 2016.

The following table sets forth the calculation of the Group's capital adequacy ratios as of each of the indicated dates:

	As of 31 December		
	2016	**2017**	**2018**
	(TL thousands, except percentages)		
Paid-in capital	3,150,000	3,350,000	3,350,000
Reserves	6,329,182	7,365,587	8,781,070
Profit	1,236,405	1,771,786	2,572,708
Tier 1 Capital (I)	9,922,078	11,820,880	14,320,995
Tier 2 Capital (II)	1,582,608	2,675,956	4,756,934
Deductions (III)	63,682	31,347	83,538
Own Funds (I+II-III)	11,441,004	14,465,489	18,994,391
Risk Weighted Assets (including market and operational risk)	80,174,960	99,844,574	127,985,545
Capital Ratios:			
Tier 1 Ratio	12.4%	11.8%	11.2%
Own Funds/Risk Weighted Assets	14.3%	14.5%	14.8%

The increases in the Group's capital in each of these periods represented the growth in the Group's retained earnings.

Liquidity and Funding

Overview

The Group's primary funding sources are customer deposits, securities issued and funds borrowed from international lenders.

Deposits constituted 51.6%, 51.5% and 51.6% of total liabilities as of 31 December 2016, 2017 and 2018, respectively. As of 31 December 2018, demand deposits constituted 18.1% of the total deposits of the Group. As of the same date, time deposits represented 81.9% of total deposits, with Turkish Lira-denominated time deposits constituting 87.9% of the total Turkish Lira-denominated deposits. The Bank's management believes that deposits provide a stable funding base.

Funds borrowed and marketable securities issued constituted 16.8%, 21.7% and 19.8% of total liabilities as of 31 December 2016, 2017 and 2018, respectively. See also "– Source of Financing" below.

The following table sets forth the allocation of the Group's funding as of the indicated dates:

	As of 31 December		
	2016	**2017**	**2018**
Customer time deposits	**40.9%**	**40.1%**	**41.6%**
Turkish Lira-denominated	25.3%	21.9%	24.0%
Foreign currency-denominated	15.6%	18.2%	17.6%
Customer's demand deposits	**8.8%**	**9.6%**	**9.2%**
Turkish Lira-denominated	4.6%	4.3%	3.3%
Foreign currency-denominated	4.3%	5.3%	5.9%
Borrowings	**13.8%**	**16.4%**	**15.5%**
Subordinated notes	3.1%	2.7%	2.9%
Secured loans	1.2%	0.9%	0.7%
Other	9.5%	12.8%	11.9%
Due to other banks	**1.9%**	**1.8%**	**2.2%**
Money market transactions	**6.3%**	**5.3%**	**3.3%**
Marketable securities issued	**6.1%**	**7.9%**	**7.2%**
Others (excluding equity)	**12.3%**	**9.4%**	**11.9%**
Equity	**9.9%**	**9.5%**	**8.9%**
Total	**100.0%**	**100.0%**	**100.0%**

Source of Financing

In addition to its equity, which equaled about 8.9% of the Group's total assets as of 31 December 2018, the Bank uses customer deposits as the main source of funding, funding 41.6% of the Group's total assets as of such date. Even though the average maturity of the Bank's deposits are around typical for Turkish banks (around three months), the majority of deposits are considered to be core deposits with a typical renewal rate of between 80% and 90%.

The Group funds the remainder of its assets using various wholesale funding options, including marketable securities issued (equal to 7.2% of the Group's total assets as of 31 December 2018), loans from developmental institutions and export credit agencies (0.7% of such assets), "future flow" transactions (0.7% of such assets) and subordinated loans (2.9% of such assets). The remainder of the Group's assets were funded by other borrowings, of which the majority result from trade financing activity (33.0% of such assets) (which business has recently increased as the Bank utilises QNB's broad coverage in countries with which Turkey has trade links), and short-term money-market and bank borrowings (5.5% of such assets).

Following Fitch's downgrade of the Bank's long-term local-currency issuer default rating (IDR) to "BB" from "BB+" on 1 October 2018, Fitch downgraded the credit rating of Bosphorus Financial Services Ltd. (the special purpose vehicle that is the issuer of the notes under the Bank's diversified payment rights future flow programme) to "BB+" from "BBB-." As of the date of this Prospectus, the Bank is unable to raise additional funding under such programme unless certain amendments are made to the relevant documents or waivers are obtained from the existing investors under the programme.

See also "Capitalisation of the Group" in the Base Prospectus.

Capital Expenditure

The Group's capital expenditure requirements have been principally related to substantial investments in expanding its operations, primarily the expansion of its branch network and IT infrastructure. In the short to medium term, the Bank intends to maintain its current number of branches at about the current level and focus on increasing the productivity of its existing branch network in terms of customer deposits, total loans and profit per branch. In order to support its growth, the Bank places continuous emphasis on the improvement of its IT infrastructure and architecture. Investments are made to develop and maintain a service-oriented scalable and user-friendly technology base and to further improve the Bank's internally developed core banking system.

The table below sets out the Group's principal items of capital expenditure for the periods indicated. Capital expenditures for land and buildings increased in 2018 due primarily to the purchase of a warehouse for archiving purposes, whereas fixed assets under financial lease increased in 2018 mainly due to the purchase of company cars via financial leasing.

	2016	2017	2018
		(TL thousands)	
Type of capital expenditure			
Land and buildings................................	6,590	7,034	24,615
Fixed assets under finance lease............	64	7,330	20,583
Vehicles...	699	—	545
Other fixed assets	151,373	130,522	162,400
Rights	127,071	165,057	98,704
Capital expenditure	**285,797**	**309,943**	**306,848**

Contractual Obligations

The contractual obligations of the Group as of 31 December 2018 are set forth in the following table:

	Payment due by period						
	Demand	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
				(TL thousands)			
Bank deposits	555,546	2,408,606	665,320	56,127	-	-	3,685,599
Other deposits.......................................	15,120,544	45,800,136	16,421,335	6,839,246	179,722	243	84,361,226
Money market borrowings	-	2,641,026	1,030,945	712,458	893,988	1,112,929	6,391,346
Funds provided by other financial institutions	-	3,296,014	1,811,435	8,192,542	8,310,726	7,580,284	29,191,002
Securities issued...................................	-	1,622,538	2,215,468	3,644,350	5,279,491	34,711	12,796,557
Non-cash loans.....................................	8,516,098	1,246,671	2,179,701	8,419,216	2,914,717	412,843	23,689,246
Total contractual obligations........	**24,192,188**	**57,014,992**	**24,324,204**	**27,863,938**	**17,578,645**	**9,141,010**	**160,114,976**

As a result of the relatively short maturity of deposits in Turkey generally, the Group uses the financings described above to extend the maturity of its funding sources.

SELECTED STATISTICAL AND OTHER INFORMATION

The following tables present certain selected statistical and other information for the Group (or, when information about the Group is not readily available or relevant, the Bank) as of the indicated dates and for the periods indicated. Except as specifically noted herein, the selected statistical and other information should be read in conjunction with the BRSA Financial Statements and the information included in "Management's Discussion and Analysis of Financial Condition and Results of Operations." All foreign currency amounts in this section have been notionally converted into Turkish Lira in the manner described in Section Two of the consolidated BRSA Financial Statements as of and for the year ended 31 December 2018.

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

A. Average Balance Sheet and Interest Data

The following table sets forth information on the Group's average balances of assets and liabilities and related interest rates for the indicated years. For the purpose of the table below and otherwise throughout this "Selected Statistical and Other Information" section, and unless otherwise stated, the term "average" means the average of the quarterly end of period balances of the applicable item, as presented in the BRSA Financial Statements. If such information had been calculated on a weighted average or daily basis, then material differences might have resulted.

	2016			2017			2018		
	Average balance	**Interest**	**Average rate**	**Average balance**	**Interest**	**Average rate**	**Average balance**	**Interest**	**Average rate**
				(*TL thousands, except percentages*)					
Interest-earning assets									
Total banks	391,359	64,359	16.4%	1,017,437	315,158	31.0%	1,119,128	402,327	36.0%
Total securities(1)	10,866,990	843,682	7.8%	14,127,381	1,241,311	8.8%	20,685,480	2,551,730	12.3%
Total money market Placements	410,057	75,509	18.4%	581,137	55,716	9.6%	508,096	38,928	7.7%
Total performing loans	59,043,051	7,722,630	13.1%	72,671,223	9,312,291	12.8%	91,634,656	13,405,224	14.6%
Total leasing receivables(2)	2,212,684	217,169	9.8%	3,462,493	312,474	9.0%	5,220,347	493,419	9.5%
Others	653,059	111,479	17.1%	959,630	167,501	17.5%	1,256,739	292,946	23.3%
Total interest-earning assets	**73,577,200**	**9,034,828**	**12.3%**	**92,819,302**	**11,404,451**	**12.3%**	**120,424,447**	**17,184,574**	**14.3%**
Non-interest-earning assets	21,114,602			25,630,977			35,557,734		
Total assets	**94,691,802**			**118,450,279**			**155,982,181**		
Interest-bearing liabilities									
Total deposits	42,834,009	3,284,048	7.7%	51,121,934	4,064,811	8.0%	63,662,469	6,472,132	10.2%
Funds borrowed(3)	10,741,654	423,734	3.9%	17,342,616	771,896	4.5%	26,304,833	1,339,723	5.1%
Money market borrowings	5,802,185	293,348	5.1%	5,767,937	186,345	3.2%	6,984,651	430,607	6.2%
Marketable securities issued	5,760,657	341,639	5.9%	8,126,711	544,570	6.7%	11,502,743	1,047,798	9.1%
Others	3,192,391	13,439	0.4%	3,982,955	21,182	0.5%	6,338,696	16,533	0.3%
Total interest-bearing liabilities	**68,330,895**	**4,356,208**	**6.4%**	**86,342,153**	**5,588,804**	6.5%	**114,793,391**	**9,306,793**	**8.1%**
Non-interest-bearing liabilities	26,360,907			32,108,126			41,118,790		
Total liabilities	**94,691,802**			**118,450,279**			**155,982,181**		

(1) Includes "Financial assets held for trading," "assets held for sale" and "held-to-maturity securities," including equity securities and mutual funds.
(2) Includes gross balances.
(3) Includes subordinated loans.

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

The following table sets forth the change in interest income and interest expense (net interest income) attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective interest rates for the periods presented from the Group's operations. Amounts due to changes in volume have been calculated by multiplying the change in average outstanding balances during the year by the average interest rate for the preceding year. Amounts due to changes in rates have been calculated by multiplying the change in the current year's average interest rate by the average outstanding balance of the current year. The net change attributable to changes in both volume and rate has been allocated proportionately to the change due to average volume and the change due to average rate. The changes are calculated on the basis of the average yearly balance sheets set forth in the preceding table. For further information on changes to net interest income, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for 2016, 2017 and 2018."

	2017 vs. 2016			2018 vs. 2017		
	Total change in interest	**Due to change in volume**	**Due to change in rate**	**Total change in interest**	**Due to change in volume**	**Due to change in rate**
	(TL thousands)					
Interest-earning assets						
Total Banks	250,799	193,932	56,867	87,169	36,558	50,611
Total Securities	397,629	286,476	111,153	1,310,419	808,997	501,422
Total Money Market Placements	(19,793)	16,402	(36,195)	(16,788)	(5,596)	(11,192)
Total Performing Loans	1,589,661	1,746,352	(156,691)	4,092,933	2,774,159	1,318,774
Total Leasing Receivables	95,305	112,789	(17,484)	180,945	166,150	14,795
Others	56,022	53,511	2,511	125,445	69,256	56,189
Total	**2,369,623**	**2,409,463**	**(39,840)**	**5,780,123**	**3,849,524**	**1,930,599**
Interest-bearing liabilities						
Total Deposits	780,763	658,990	121,773	2,407,321	1,274,911	1,132,410
Funds Borrowed	348,162	293,800	54,362	567,827	456,452	111,375
Money Market Borrowings	(107,003)	(1,106)	(105,897)	244,262	75,011	169,251
Marketable securities issued	202,931	158,549	44,382	503,228	307,527	195,701
Others	7,743	4,204	3,539	(4,649)	6,144	(10,793)
Total	**1,232,596**	**1,114,437**	**118,159**	**3,717,989**	**2,120,045**	**1,597,944**

Interest-Earning Assets – Net Interest Margin

The following table sets forth the levels of average interest-earning assets and interest income and net interest income of the Group and the net interest margin for each of the periods indicated. These data are extracted from the table of average balances and interest rates above and are based upon information in the BRSA Consolidated Financial Statements. For further information on changes to net interest income, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations for 2016, 2017 and 2018."

	2016	**2017**	**2018**
	(TL thousands, except percentages)		
Average interest-earning assets	73,577,200	92,819,302	120,424,447
Interest income	9,034,828	11,404,451	17,184,574
Average interest-bearing liabilities	68,330,895	86,342,153	114,793,391
Interest expense	4,356,208	5,588,804	9,306,793
Net interest income	4,678,620	5,815,647	7,877,781
Net interest margin	6.4%	6.3%	6.5%

Interest-bearing bank deposits and due to other banks

The following table sets forth certain information relating to interest-bearing bank deposits and amounts due to other banks as of the indicated dates:

	As of 31 December		
	2016	**2017**	**2018**
		(TL thousands)	
Turkish Lira	**294,321**	**89,730**	**101,675**
Foreign currency			
U.S. dollar	1,002,098	1,776,124	1,852,460
Euro	323,152	249,830	1,086,263
Other	219,772	97,290	76,761
Total foreign currency	**1,545,022**	**2,123,243**	**3,015,484**
Total	**1,839,343**	**2,212,973**	**3,117,159**

The large transition in 2017 from Turkish Lira-denominated deposits to foreign currency-denominated deposits was in part due to the Central Bank's policies, enabling banks to lend and receive money in different currencies at the same time (like a swap transaction) to provide an efficient operation of Turkish Lira and foreign exchange markets and to support banks' liquidity management. Foreign currency bank deposits continued to increase in 2018, which increase was principally due to the depreciation of the Turkish Lira and an increase in "fiduciary deposit amounts," which are arrangements under which a depositor instructs its bank to deposit such depositor's liquid assets with another bank.

Return on Equity and Interest-earning Assets

The following table sets forth certain selected financial information and ratios related to equity and interest-earning assets for the years indicated:

	2016	**2017**	**2018**
		(TL thousands, except percentages)	
Net interest income	4,678,620	5,815,647	7,877,781
Profit for the year attributable to equityholders of the Bank	1,236,405	1,771,786	2,572,708
Average interest-earning assets	73,577,200	92,819,302	120,424,447
Average equity attributable to equityholders of the Bank[(1)]	9,745,717	10,889,886	13,570,544
Net interest income as a percent of:			
Average interest-earning assets	6.4%	6.3%	6.5%
Average equity attributable to the equityholders of the Bank[(1)]	48.0%	53.4%	58.1%
Profit for the year attributable to equityholders of the Bank as a percent of:			
Average interest-earning assets	1.7%	1.9%	2.1%
Average equity attributable to equityholders of the Bank[(1)]	12.7%	16.3%	19.0%
Average equity attributable to equityholders of the Bank to average interest-earning assets	13.2%	11.7%	11.3%

(1) Average equity attributable to equityholders of the Bank is calculated as the arithmetical average of equity attributable to equityholders of the Bank by taking the average of the quarterly balances during the relevant reporting periods.

II. Securities Portfolio

The Group's securities portfolio comprises a trading securities portfolio (*i.e.*, debt and equity securities that the Group principally holds for the purpose of short-term profit taking, which are reflected on the balance sheet as "financial assets measured at fair value through profit or loss") and investment securities portfolio (*i.e.*, both held-to-maturity securities and available-for-sale securities). The Group also enters into purchases (or sales) of securities under agreements to resell (or repurchase) substantially identical investments at a certain date in the future at a fixed price (*i.e.*, "repos"). Securities sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for the related security portfolio as appropriate. The Group's portfolio of marketable securities consists primarily of Turkish government securities (including bonds, treasury bills and eurobonds) denominated in Turkish Lira, U.S. dollars and euro.

Debt Securities Portfolio

As of 31 December 2018, the Group's portfolio of debt securities (excluding mutual funds and stock shares) had a carrying value of TL 12,280.5 million, representing 13.0% of total assets. Sovereign securities (Turkish government bonds and treasury bills) amounted to TL 20,220.0 million, or 95.0% of the Group's debt securities portfolio as of such date. Such investments are held in the financial assets measured at fair value through other comprehensive income, financial assets measured at amortised cost and fair value through profit or loss portfolio, therefore the carrying value also represents the fair value as of each date.

The following table sets forth the carrying value of the Group's debt securities portfolio as of each of the indicated dates:

	As of 31 December		
	2016	**2017**	**2018**
		(TL thousands)	
Turkish government bonds and Treasury bills......	12,277,092	14,451,143	20,220,098
Corporate bonds..	600,676	1,042,329	1,060,408
Total..	**12,877,768**	**15,493,472**	**21,280,506**

Investment Securities Portfolio

As noted above, the investment securities portfolio comprises held-to-maturity securities and available-for-sale securities. Held-to-maturity securities are financial assets with fixed or determinable payments and fixed maturities that the Group intends and has the ability to hold to maturity. Available-for-sale securities are financial assets that are not held for trading purposes or held-to-maturity. Available-for-sale instruments include certain debt and equity investments. The Group classifies investment securities depending upon the intention of management at the time of the purchase thereof, though such can be re-classified if the intention of management later changes.

Trading Securities Portfolio

As noted above, trading securities are debt and equity securities that the Group principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated as effective hedging instruments under Turkish law. All trading derivatives in a net receivable position (positive fair value) are reported as trading assets, whereas all trading derivatives in a net payable position (negative fair value) are reported as trading liabilities. The Group's trading securities portfolio principally comprises Turkish government debt, investment participation bills and equity. The Group acts as a primary dealer and market-maker for Turkish government debt securities.

After initial recognition, securities that are classified as held-for-trading are measured at estimated fair value. Changes in the estimated fair value are included in the Group's BRSA Financial Statements of income included elsewhere in this Prospectus within gains less losses from securities. In determining estimated fair value, trading securities are valued at the last trade price (if quoted on an exchange (*e.g.*, the Borsa İstanbul)). When market prices are not available, fair value is determined by the internal rate of return method.

Equity Securities and Mutual Funds Portfolio

The Group's equity securities portfolio is comprised of both listed and non-listed equity securities. The following table sets forth the fair value of the Group's listed equity securities and mutual funds portfolio and the cost of the non-listed equity securities as of each of the indicated dates:

	As of 31 December		
	2016	2017	2018
		(TL thousands)	
Listed equity securities	16,933	57,159	122,510
Non-listed equity securities	49,187	4,912	12,611
Mutual fund units	39,543	52,386	14,060
Total	**105,663**	**114,456**	**149,181**

As of 31 December 2018, the carrying amount of the Group's debt securities by repricing date was as follows:

	Within one year or less	After one year through five years	After five years	Total
		(TL thousands)		
Financial assets measured at fair value through profit or loss(1)	1,709	12,842	7,876	22,428
Financial assets measured at fair value through other comprehensive income(2)	486,468	4,259,076	3,574,359	8,319,903
Financial assets measured at amortised costs	811,747	5,729,451	6,390,995	12,932,193
Total	**1,299,924**	**10,001,370**	**9,973,231**	**21,274,524**

(1) Financial assets measured at fair value through profit or loss do not include equity securities and mutual funds.
(2) Financial assets measured at fair value through other comprehensive income do not include equity securities and mutual funds.

III. Loan Portfolio

A. Types of Loans

Loans and receivables represent the largest component of the Group's assets. The Group offers a wide range of credit instruments to entities and individuals, including letters of credit and short-term and long-term loans. The following table provides details of the loans and receivables to customers made by the Group, classified by type of loan and the borrower's principal economic activity, as of each of the indicated dates:

	As of 31 December					
	2016		2017		2018	
	Amounts	(%)	Amounts	(%)	Amounts	(%)
	(TL thousands, except percentages)					
Agricultural	**1,880,523**	**3.0%**	**2,556,845**	**3.1%**	**2,538,528**	**2.7%**
Farming and Raising Livestock	1,777,853	2.9%	2,413,925	3.0%	2,337,407	2.4%
Forestry	2,742	0.0%	6,145	0.0%	5,629	0.0%
Fishing	99,928	0.2%	136,775	0.2%	195,492	0.2%
Manufacturing	**9,919,395**	**16.0%**	**13,655,657**	**16.7%**	**16,371,069**	**17.2%**
Mining	210,487	0.3%	274,415	0.3%	283,274	0.3%
Production	7,630,448	12.3%	10,584,536	13.0%	12,360,435	13.0%
Electric, Gas and Water	2,078,460	3.4%	2,796,706	3.4%	3,727,360	3.9%
Construction	**4,173,284**	**6.7%**	**7,484,389**	**9.2%**	**5,853,595**	**6.1%**
Services	**23,030,796**	**37.1%**	**29,843,379**	**36.6%**	**38,883,648**	**40.8%**
Wholesale and Retail Trade	11,150,757	18.0%	14,308,792	17.5%	14,396,553	15.1%
Hotel, Food and Beverage Services	2,135,018	3.4%	2,632,932	3.2%	3,434,383	3.6%
Transportation and Telecommunication	3,605,133	5.8%	5,162,942	6.3%	9,215,542	9.7%
Financial Institutions	3,082,435	5.0%	3,964,670	4.9%	6,935,904	7.3%
Real Estate and Renting Services	381,882	0.6%	350,288	0.4%	350,168	0.4%
Self-employment Services	819,582	1.3%	1,285,693	1.6%	1,535,335	1.6%
Education Services	339,226	0.5%	358,867	0.4%	375,746	0.4%
Health and Social Services	1,516,763	2.4%	1,779,195	2.2%	2,640,017	2.8%
Other(1)	**23,010,681**	**37.1%**	**28,095,210**	**34.4%**	**31,762,213**	**33.3%**
Total loans and receivables	**62,014,679**	**100.0%**	**81,635,480**	**100.0%**	**95,409,053**	**100.0%**

(1) Includes consumer loans, instalment loans and credit cards.

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

The following tables provide details of loans and receivables made by the Group by maturity as well as the breakdown of domestic and foreign loans as of each of the indicated dates:

	As of 31 December 2016			
	Within one year or less	After one year through five years	After five years	Total
	(TL thousands)			
Domestic loans	40,856,447	18,324,065	6,426,046	65,606,558
Foreign loans	282,269	—	—	282,269
Total gross	**41,138,716**	**18,324,065**	**6,426,046**	**65,888,827**
Less: allowance for specific provisions for loans and receivables	(3,251,763)	—	—	(3,251,763)
Total loans and receivables	**37,886,953**	**18,324,065**	**6,426,046**	**62,637,064**

	As of 31 December 2017			
	Within one year or less	After one year through five years	After five years	Total
	(TL thousands)			
Domestic loans	48,280,702	28,576,360	8,605,511	85,462,573
Foreign loans	517,077	—	—	517,077
Total gross	**48,797,779**	**28,576,360**	**8,605,511**	85,979,650
Less: allowance for specific provisions for loans and receivables	(3,540,714)	—	—	(3,540,714)
Total loans and receivables	**45,257,065**	**28,576,360**	**8,605,511**	**82,438,936**

	As of 31 December 2018			
	Within one year or less	After one year through five years	After five years	Total
	(TL thousands)			
Domestic loans	61,387,784	34,014,767	12,151,610	107,554,161
Foreign loans	530,258	—	—	530,258
Total gross	**61,918,042**	**34,014,767**	**12,151,610**	**108,084,419**
Less: provisions for loans	(6,641,151)	(967,453)	(99,224)	(7,707,828)
Total loans and receivables	**55,276,891**	**33,047,314**	**12,052,386**	**100,376,591**

The following table sets forth the allocation of the Group's loans and receivables, non-cash loans, finance lease receivables, factoring receivables and various securities as of the indicated dates:

	As of 31 December		
	2016	2017	2018
Loans and receivables	66.5%	66.1%	64.1%
Turkish Lira-denominated	53.0%	50.8%	44.3%
Foreign currency denominated	13.6%	15.4%	19.9%
Non-cash loans(1)	14.0%	15.5%	16.1%
Turkish Lira-denominated	7.6%	7.1%	5.9%
Foreign currency denominated	6.4%	8.4%	10.2%
Finance lease receivables	2.9%	3.6%	3.5%
Factoring receivables	0.8%	1.1%	0.7%
Due from banks	0.3%	1.0%	0.8%
Money market placements	1.8%	0.2%	0.3%
Turkish government securities	12.6%	11.6%	13.7%
Corporate securities	0.1%	0.1%	0.1%
Other securities	1.1%	0.8%	0.7%
Total	**100.0%**	**100.0%**	**100.0%**

(1) Non-cash loans include letters of guarantee, acceptance credits, letters of credits and other guarantees.

C. Risk Elements

Risk Management – Loan Approval Process

The Bank's Board of Directors has the right to grant loans within the limits set by the Banking Law and may assign its credit granting authority to the Credit Committee and the Head Office for up to 10% and 1% of capital, respectively. The Head Office may use this credit granting authority in its units, regional offices and branches. The Head Office and regions are currently authorised to approve exposures up to TL 125.0 million.

Loans in excess of TL 125.0 million to TL 1,250.0 million are approved by the Credit Committee, which consists of the General Manager and three other permanent and two reserve members of the Bank's Board of Directors.

Extensions of credit in excess of TL 1,250.0 million are approved by the Board of Directors.

Risk Management – Credit Review Policies

Retail and Small Business Banking

The Bank's retail loan and Small Business Banking loan credit approval process requires a customer loan to be reviewed and approved by at least two authorised officers, in each case with requisite credit approval authority. Overall policies are set by the Board of Directors, as recommended by the Credit Committee. See also "Management – Board Committees" in the Base Prospectus. The following tables set forth the various authorities to allocate credit based upon the size of credit for retail and credit cards (in the first table) and SME and Business Banking loans (in the second table):

Retail and Credit Cards - Credit approval required, based upon the size of credit – Retail loans and Credit Cards	**Lending limit TL**
Executive Vice President	Up to 20,000,000
Director of Retail Credits Allocation	Up to 6,000,000
Division Manager of Retail Credits Allocation and Intelligence	Up to 3,000,000
Manager of Consumer Loans and Credit Card Allocation	Up to 1,500,000
Assistant Manager of Consumer Loans and Credit Card Allocation	Up to 750,000
Supervisor/Assistant Supervisor of Retail Credits	Up to 200,000

SME and Small Business Banking - Credit approval required, based upon the size of credit	**Lending limit TL**
Regional Manager	Up to 12,000,000
Credit Region Allocation Manager	Up to 6,000,000
Credit Region Allocation Assistant Vice President	Up to 3,000,000
Credit Region Allocation Supervisor with authority	Up to 400,000

In addition, each branch manager has a limited level of authorisation based upon his or her level of experience and past performance, the branch's categorisation, the branch's type, the level of collateral, the obligor's rating and the product type.

Before extending credit, each loan application is assessed initially at the branch level. The analysis takes into consideration a number of criteria, including three years of financial statements of the potential SME borrower, standard credit ratios, levels of existing indebtedness, the prior relationship of the potential borrower with the Bank, past credit history, various documentation relating to the operation of the potential borrower's business (*e.g.*, commercial registration certificates, specimen signatures and principal business contracts of the firm), quality of the proposed collateral, if any, and evidence of income, good health and personal statistics in the case of individual loans. In each case, the loan application form is then forwarded to the person(s) or committee with the appropriate approval authority. Loan authorities may revise the terms of the proposed credit or may request additional collateral before deciding whether to grant the credit. Decisions are also based, in the case of corporate borrowers, upon industry sector reports and economic analysis prepared by the Bank's Credit Information and Financial Analysis department.

All the applications for consumer loans and credit cards extended to real persons are scored with a model created on the basis of information provided by the applicant and information obtained from external resources (*e.g.*, credit bureaus and identity sharing systems) with the purpose of evaluating the customer's creditworthiness. The applications that are satisfactory according to the policy rules created for credit bureau records and a customer's payment performance under existing products in the Bank, such customer's bad check records, income and other personal information and internal scorecard are automatically approved by the system and applications that are not approved by the system can be approved by allocation units. The performance of the portfolio is monitored through behaviour scores and actions are determined according to the early warning signals.

The Bank's management regularly monitors the overall quality of its retail credit portfolio through its branches and the Loans Department. Credit follow-up procedures include monitoring maturity and the status of collateral received as well as any defaults on liabilities and commitments (*e.g.*, unpaid principal or interest, unpaid checks, protested drafts or bonds and unpaid commissions). In addition, the Loans Department reviews relevant governmental regulations and internal bank policies and reports to the relevant loan authorities or branches on a periodic basis. The relevant loan authority and/or branches are then responsible for monitoring the credit to prevent borrower default. The Bank supplements its monitoring process for corporate borrowers by conducting research by the Loans department, which prepares company- and industry-specific reports. Loan officers also periodically visit their customers and the Internal Audit Division (the "*IAD*") periodically visits the branches to prepare reports about credit portfolios. If the Loans Department identifies a potential problem, then it makes information available, and gives instructions, to the relevant branch(es).

The Bank seeks to minimise its credit risk by requiring customers to pledge collateral to secure payment. For less liquid collateral, such as real estate, a higher excess over principal value is required. For real estate mortgages, for example, the Bank generally requires collateral in an amount equal to at least 200% of the value of principal and interest due over the term of the credit. If the extension of a mortgage or a new mortgage is requested, the property securing the mortgage is independently appraised and revalued in view of fluctuations in the exchange rate between the Turkish Lira and certain foreign currencies, including the U.S. dollar and the euro. If such real estate collateral must be liquidated, then it is typically liquidated through legal proceedings, which might take up to two years. The Bank typically seeks collateral that, as far as possible, matches the type of credit extended in terms of liquidity, maturity and the creditworthiness of the customer. Collateral is classified according to a "collateral value table," which is an annex to the corporate credit policy. For each item of collateral, the loan-to-value ("*LTV*") ratio is determined. The LTV ratio may be taken as a reference value for the purpose of calculating the Bank's secured and unsecured concentration ratios. The requested collateral should be in line with the credibility of the customer and tenor of the loan.

Corporate and Commercial Banking

Similar to the Bank's retail loan and Small Business Banking loan approval process, the corporate and commercial loan credit approval process requires a customer loan to be reviewed and approved by at least two authorised officers, in each case with requisite credit approval authority.

The following table sets forth the various authorities to approve credit based upon the size of credit:

Credit approval required, based upon the size of credit(1)	**Lending limit TL**
Board of Directors	Above 1,250,000,000 up to legal outstanding limits
Credit Committee	Up to 1,250,000,000
Vice Chairman/General Manager/Director of Corporate and Commercial Credits	Up to 125,000,000
Executive Vice President of Corporate and Commercial Credits	Up to 50,000,000
Director of Corporate and Commercial Credits Allocation Group	Up to 40,000,000
Senior Vice President of Corporate and Commercial Credits Allocation Group	Up to 25,000,000
Manager of Corporate and Commercial Credits Allocation Group	Up to 12,500,000
Assistant Vice President of Corporate and Commercial Credits Allocation Group	Up to 3,750,000

(1) Cash collateral and letter of reference limits can be allocated in addition to credit limits.

In addition, the commercial and corporate branches of the Bank have been given the authority to extend credit within the limits set out by the Head Office in order to better serve the Bank's customers in an increasingly competitive market. The credit committee of a branch is composed of at least two members: the Branch Manager, as permanent member (whose participation is obligatory), and the Marketing Assistant Vice President/Supervisor. In the absence of either one of these members, alternative members can also be assigned.

Each credit application is assessed initially at the branch level before extending credit. The analysis takes into consideration a number of criteria, including three years of financial statements of potential borrowers, market intelligence, standard credit ratios, levels of existing indebtedness, the relationship of a potential borrower with the Bank, if any, credit history, various operational documentation (*e.g.*, commercial registration certificates, specimen signatures and principal business contracts of the firm), the quality of the proposed collateral, if any, and evidence of income. After this stage, the credit application form is then forwarded to the person(s) or committee with the authority to approve the credit. Credit authorities may revise the terms of the proposed loan or may request additional collateral before deciding whether to grant the loan. Decisions are also based, in the case of corporate borrowers, upon industry sector reports and economic analyses.

The Bank uses different credit risk rating systems for its portfolios. Credit risk rating systems are implemented to ensure reliable borrower rating and therefore optimum decision-making on credit policy-related matters.

The Bank uses a Probability of Default ("*PoD*") rating scale that contains 22 grades, nineteen of which correspond to borrowers who have not been in default and three to borrowers who are or have been in default in the past. This PoD rating scale is in conformity with the Group's rating scale.

Different applications for credit, from the same customer, will be examined based upon overall customer credit rating regardless of the form of credit.

This procedure is carried out on a regular basis, at least on a yearly basis, and whenever new information or financial data on the customer is available.

The Bank's management regularly monitors the overall quality of its corporate and commercial loan portfolio through its branches and the Credit Department. Credit follow-up procedures include monitoring the tenor and the collateral status as well as any defaults on liabilities and commitments (*e.g.*, unpaid principal or interest, unpaid checks, protested drafts or bonds and unpaid commissions).

To secure a healthy corporate and commercial loan portfolio, the Credit Department conducts research, prepares company- and industry-specific reports; loan officers periodically visit their customers, the Internal Audit Department periodically visits the branches to prepare reports on loan portfolios and the Credit Information and Financial Analysis Department prepares financial analyses on an annual basis and reviews the credit exposure of customers at other Turkish financial institutions and such customers' payment history every month, based upon information supplied to the Risk Centre by these financial institutions. If the Credit Department identifies a potential problem, then it informs the relevant branch(es) accordingly and takes the necessary actions.

The Bank aims to minimise its credit risk by requiring customers to pledge collateral to secure the payment of credits. Collateral is classified according to a "collateral value table," which is an annex to the corporate credit policy. For each item of collateral, the LTV ratio is determined. The LTV ratio may be taken as a reference value for the purpose of calculating the Bank's secured and unsecured concentration ratios. The requested collateral should be in line with the credibility of the customer and tenor of the loan.

IV. Summary of Loan Loss Experience

The Bank classifies those loans and receivables that are potentially uncollectible (generally those past due 90 days or more) as non-performing loans and sets aside specific provisions in accordance with the Regulation on Provisions and Classification of Loans and Receivables. The Bank also makes specific provisions for loans classified under follow-up regarding credit risk and other factors and general provisions in accordance with the aforementioned regulation.

The Bank classifies as "closely monitored" loans and receivables from the Corporate, Commercial, SME and Micro segments that are more than 30 days delinquent and, in such circumstances, the Bank makes specific provisions as a result of its risk assessment. These provisions are recorded as liabilities under "other provisions" as "free reserves for possible loan losses." Except for specific provisions and free reserves for possible loan losses, the Bank makes general loan loss provisions and records them under liabilities as "general provisions." As of 1 January 2018, the new provisioning standard TFRS 9 was implemented by the Bank and allowances were set aside for expected credit losses in line with such standards. Provisions made for loans are recorded under "provision for loan losses and other receivables" in the statement of income.

Collections for provisioned loans made during a period and collections for provisioned loans made in prior periods are offset against "provision for loans and other receivables" in the income statement. Collections on principal made on written-off loans are recorded under "other operating income" and collections on interest of write-off loans are recorded under "interest on loans." Write-offs are made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness.

Such loans are written-off after all necessary collection procedures have been completed and the amount of the loss has been determined. Write-offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts previously written-off decrease the amount of the provision for impairment losses on loans and receivables, finance lease receivables and factoring receivables in the income statement.

The following table illustrates the movement in the allowance for specific provisions for loans and receivables for the periods detailed below.

	2016	2017	2018
		(TL thousands)	
Balances at beginning of the period	3,061,779	3,251,763	3,540,714
IFRS 9 opening effect	—	—	(132,504)
Provision for period	1,794,561	1,493,110	2,031,749
Provision reversals	(400,979)	(449,574)	(354,211)
Write-offs[(1)]	(1,203,598)	(754,585)	(148,576)
Balances at the end of the period	**3,251,763**	**3,540,714**	**4,937,172**

(1) Includes loans written off and NPLs sold.

The table below shows to the Group's general provisions for losses on cash and non-cash credit exposure as of each of the indicated dates:

	As of 31 December		
	2016	2017	2018
		(TL thousands)	
Cash	1,188,727	1,305,422	2,847,328
Non-cash commitments and contingencies	99,685	91,845	90,853
Total	**1,288,412**	**1,397,267**	**2,938,181**

Key ratios related to the activity in the Group's allowance for specific provisions for loans and receivables to customers for the indicated years to which the Group's loan impairment methodology was applied are as follows:

	2016	2017	2018
NPLs to total gross cash loans	5.8%	5.1%	6.1%
NPLs to loans and receivables to customers and non-cash loans	4.9%	4.1%	4.1%
Specific provisions for loan losses to NPLs	83.9%	81.5%	74.6%
Specific provisions for loan losses to total loans	4.9%	4.1%	4.9%
NPLs to total shareholders' equity	37.6%	35.0%	34.8%

Quality of Loans and Receivables, Non-Performing Loans, Allowance for Impairment on Loans and Receivables, and Loan Loss Experience

The table below shows the Bank's NPLs by loan type as of each of the indicated dates:

	As of 31 December		
	2016	2017	2018
		(TL thousands)	
Corporate	1,821,584	2,378,921	4,165,591
Consumer	682,190	590,403	741,798
Credit Card	1,077,579	1,061,909	1,327,407
Overdraft	270,242	298,873	379,466
Other/Miscellaneous Receivables	22,553	14,064	—
Total	**3,874,148**	**4,344,169**	**6,614,263**

The table below shows Bank's NPLs and related provisions as of each of the indicated dates:

	As of 31 December								
	2016			2017			2018		
	NPLs(1)	Total Provision	% Reserved	NPLs(1)	Total Provision	% Reserved	Total Balance(1)	Total Provision	% Reserved
Risk Category				*(TL thousands, except percentages)*					
Doubtful	367,839	73,566	20.0%	568,626	113,746	20.0%	1,453,936	760,596	52.3%
Substantial	656,225	328,113	50.0%	697,150	348,575	50.0%	1,018,301	625,240	61.4%
Loss	2,850,084	2,850,084	100.0%	3,078,393	3,078,393	100.0%	4,142,026	3,551,336	85.7%
Non-performing loans	**3,874,148**	**3,251,763**	**83.9%**	**4,344,169**	**3,540,714**	**81.5%**	**6,614,263**	**4,937,172**	**74.6%**
Performing loans							**101,470,156**	**2,770,656**	2.7%
Gross loans	65,888,827			85,979,649			108,084,419		
Cash loans, net	62,637,064			82,438,935			100,376,591		

(1) Excludes NPLs sold, which were TL 1,195,218 thousand in 2016 and TL 745,739 thousand for 2017. There were no such sales in 2018.

Treatment of NPLs

The Bank classifies loans as non-performing if they are in arrears (principal and/or interest) for more than 90 days. Loans may be classified as non-performing earlier if deemed in default. The Bank charges penalties on overdue interest in accordance with the terms of the relevant loan agreement.

Remedial management procedures are employed for loans falling under the non-performing loan category. Under these remedial procedures, the first action is to try to receive the amount from the customers by using alternative solutions and the second action is to recover the amounts due and to enforce or execute the collateral (if secured) through court orders. See "– Loan Portfolio – Risk Analysis – Risk Management – Credit Review Policies."

When a company is assessed to have only temporary financial problems but has the potential to successfully operate in the near future, the Bank reschedules or restructures its non-performing loans in accordance with the Regulation on Provisions and Classification of Loans and Receivables. A restructuring depends upon the assessment of the potential of the customer for the regular payment of loans in the future and the existing or additional collateral that the customer is ready to offer. Rescheduled loans remain classified in the same risk category (and thus they remain in the NPL portfolio) for a period of approximately one year after rescheduling. After that period, the rescheduled loans can be gradually upgraded to a higher category only if the customer consistently meets its obligations.

Historically, the Group has, in accordance with its risk management policy, focused on recovering amounts due under non-performing loans through its own collection efforts and has sold only limited amounts of its non-performing loans to third parties. The Group may, however, consider selling non-performing loans or non-performing loan portfolios in the future if it determines that the benefits of any such sale outweigh the benefits achieved through internal collection efforts.

V. Deposits

The following table shows details of the Group's average deposits and average interest rates thereon, for each of the indicated years:

	2016		2017		2018	
	Average balance[1]	**Average Rate**	**Average balance[1]**	**Average Rate**	**Average balance[1]**	**Average Rate**
Group Deposits			(*TL thousands, except percentages*)			
Savings deposits[2]	3,030,945	0.0%	2,695,947	0.0%	2,569,125	0.0%
Time deposits	40,921,164	7.9%	47,158,426	8.4%	60,410,089	10.5%
Sight, current and other	5,498,479	0.0%	8,981,739	0.0%	12,788,348	0.0%
Due to other banks..........................	1,912,845	2.5%	3,963,508	2.7%	3,252,380	3.5%
Money market transactions............	5,705,972	5.1%	5,767,937	5.1%	6,984,651	6.2%
Total deposits	**57,069,406**	**6.3%**	**68,567,558**	**6.4%**	**86,004,592**	**8.0%**

(1) Calculated as the average of the account balances as of the end of each quarterly reporting period.
(2) Relates to non-interest-bearing individual current and saving deposits.

TERMS AND CONDITIONS OF THE NOTES

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

MiFID II Product Governance / Eligible Counterparties and Professional Clients Only Target Market

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (a) the target market for the Notes (and beneficial interests therein) is eligible counterparties and professional clients only, each as defined in MiFID II), and (b) all channels for distribution of the Notes (and beneficial interests therein) to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (or beneficial interests therein) (a "*distributor*") should take into consideration the manufacturers' target market assessment; *however*, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (or beneficial interests therein) (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

ISSUE TERMS

5 March 2019

QNB FİNANSBANK A.Ş.

Legal Entity Identifier (LEI): 789000Q21SW842S9IJ58

Issue of US$500,000,000 6.875% Notes due 2024 (the "*Notes*")
under the US$5,000,000,000
Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "*Conditions*") set forth in the Base Prospectus dated 26 April 2018 and the supplements to it dated 29 May 2018, 11 September 2018, 26 November 2018 and 26 February 2019, which together constitute a base prospectus (the "*Base Prospectus*"), and the Prospectus (the "*Prospectus*") dated 5 March 2019, which Prospectus constitutes a prospectus for the purposes of the Prospectus Directive. This document constitutes the issue-specific terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these issue-specific terms and the Prospectus. The Prospectus has been published on the Issuer's website (www.qnbfinansbank.com/en/investor-relations/financial-information/Default.aspx).

1.	Issuer:		QNB Finansbank A.Ş.
2.	(a)	Series Number:	2019-3
	(b)	Tranche Number:	1
	(c)	Date on which the Notes will be consolidated and form a single Series:	Not Applicable
3.	Specified Currency:		U.S. dollars or US$

4.	Aggregate Nominal Amount:		
	(a)	Series:	US$500,000,000
	(b)	Tranche:	US$500,000,000
5.	Issue Price:		99.662 *per cent*. of the Aggregate Nominal Amount of the Tranche
6.	(a)	Specified Denomination(s):	US$200,000 and integral multiples of US$1,000 in excess thereof
	(b)	Calculation Amount:	US$1,000 (the "*Calculation Amount*")
7.	(a)	Issue Date:	7 March 2019
	(b)	Interest Commencement Date:	Issue Date
8.	Maturity Date:		7 September 2024
9.	Interest Basis:		6.875 *per cent. per annum* Fixed Rate (*see further particulars in paragraph 14 below)*
10.	Redemption Basis:		Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100 *per cent*. of their nominal amount
11.	Change of Interest Basis:		Not Applicable
12.	Put/Call Options:		Not Applicable
13.	(a)	Status of the Notes:	Senior
	(b)	Date Board approval for issuance of Notes obtained:	Not Applicable

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Note Provisions:		Applicable
	(a)	Rate(s) of Interest:	6.875 *per cent. per annum* payable in arrear on each Interest Payment Date
	(b)	Interest Payment Date(s):	7 March and 7 September in each year up to and including the Maturity Date
	(c)	Fixed Coupon Amount(s):	Not Applicable
	(d)	Broken Amount(s):	Not Applicable
	(e)	Day Count Fraction:	30/360

	(f) Determination Date(s):	Not Applicable
	(g) Modified Fixed Rate Notes:	Not Applicable
15.	Floating Rate Note Provisions:	Not Applicable
16.	Zero Coupon Note Provisions:	Not Applicable

PROVISIONS RELATING TO REDEMPTION

17.	Notice periods for Condition 8.2:	Minimum period: 30 days Maximum period: 60 days
18.	Issuer Call:	Not Applicable
19.	Investor Put:	Not Applicable
20.	Final Redemption Amount:	US$1,000 per Calculation Amount
21.	Early Redemption Amount payable on redemption for taxation reasons or on event of default:	US$1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22.	Form of Notes:	
	(a) Form:	Registered Notes: Regulation S Registered Global Note registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg exchangeable for Definitive Registered Notes upon an Exchange Event Rule 144A Global Note(s) registered in the name of a nominee for DTC exchangeable for Definitive Registered Notes upon an Exchange Event
	(b) New Global Note:	No
23.	Specified Financial Centre(s):	Not Applicable
24.	Talons for future Coupons to be attached to Definitive Notes:	No

PROVISIONS APPLICABLE TO TURKISH LIRA NOTES

25.	USD Payment Election:	Not Applicable

PROVISIONS APPLICABLE TO RMB NOTES

26.	RMB Currency Event:	Not Applicable

Signed on behalf of **QNB FİNANSBANK A.Ş.**

By:	By: ....
Duly authorised	*Duly authorised*

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(a)	Listing and Admission to trading:	Application has been made by the Issuer (or on its behalf) for the Notes to be listed on the Official List and admitted to trading on the Regulated Market of the Irish Stock Exchange plc trading as Euronext Dublin with effect from 7 March 2019; *however*, no assurance can be given that such application will be accepted.
(b)	Estimate of total expenses related to admission to trading:	€2,040

2. RATINGS

Ratings:	The Notes to be issued are expected to be rated: "BB-" (negative outlook) by Fitch Ratings Limited ("*Fitch*") and "Ba3" (negative outlook) by Moody's Investors Service Ltd. ("*Moody's*"). Each of Fitch and Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended).

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

Save for any fees payable to the Joint Bookrunners of the Notes (the "*Managers*"), so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer of the Notes. The Managers and/or their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. It should be noted that Qatar National Bank, an affiliate of QNB Capital LLC, one of the Managers, is the controlling shareholder of the Issuer.

4. YIELD

Indication of yield:	6.950 *per cent. per annum* The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

5. OPERATIONAL INFORMATION

(a)	ISIN:	US31772DAD49 for Rule 144A Global Note(s) XS1959391019 for Regulation S Registered Global Note
(b)	Common Code:	195946582 for Rule 144A Global Note(s) 195939101 for Regulation S Registered Global Note
(c)	CUSIP:	31772DAD4 for Rule 144A Global Note(s)
(d)	CINS:	Not Applicable
(e)	CFI:	Not Applicable for Rule 144A Global Note(s) DTFXFR for Regulation S Registered Global Note

(f)	FISN:	Not Applicable for Rule 144A Global Note(s) QNB FINANSBANK/1EMTN 20240312 for Regulation S Registered Global Note
(g)	Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	Not Applicable
(h)	Delivery:	Delivery against payment
(i)	Names and addresses of additional Paying Agent(s) (if any):	Not Applicable
(j)	Deemed delivery of clearing system notices for the purposes of Condition 15:	Any notice delivered to Noteholders of Notes held through a clearing system will be deemed to have been given on the first business day after the day on which it was given to the relevant clearing system.
(k)	Intended to be held in a manner that would allow Eurosystem eligibility:	No. Whilst the designation is specified as "no" at the date of these issue-specific terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them, the Notes may then be deposited with one of the ICSDs as common safekeeper and registered in the name of a nominee of one of the ICSDs acting as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.

6. DISTRIBUTION

(a)	Method of distribution:	Syndicated
(b)	If syndicated, names of Managers:	Citigroup Global Markets Limited J.P. Morgan Securities plc Mizuho International plc QNB Capital LLC Société Générale Standard Chartered Bank
(c)	Stabilising Manager(s) (if any):	Standard Chartered Bank
(d)	If non-syndicated, name of relevant Dealer:	Not Applicable
(e)	U.S. Selling Restrictions:	Reg. S Compliance Category 2 and Rule 144A
(f)	Prohibition of Sales to EEA Retail Investors:	Not Applicable
(g)	Prohibition of Sales to Belgian Consumers:	Applicable

7.	**REASONS FOR THE OFFER**	The net proceeds from the issue of the Notes will be applied by the Issuer for its general corporate purposes.

U.S. TAXATION

This is a general summary of certain U.S. federal tax considerations in connection with an investment in the Notes. This summary does not address all aspects of U.S. federal tax law or the laws of other jurisdictions (including the United Kingdom or any state or local tax law). While this summary is considered to be a correct interpretation of existing laws in force on the date of this Prospectus, there can be no assurance that those laws or the interpretation of those laws will not change. This summary does not discuss all of the tax consequences that might be relevant to an investor in light of such investor's particular circumstances or to investors subject to special rules, such as regulated investment companies, certain financial institutions or insurance companies. **Prospective investors in the Notes are advised to consult their tax advisers with respect to the tax consequences of the purchase, ownership or disposition of the Notes (or the purchase, ownership or disposition by an owner of beneficial interests therein) as well as any tax consequences that might arise under the laws of any state, municipality or other taxing jurisdiction (including of their respective citizenship, residence or domicile).**

Certain U.S. Federal Income Tax Consequences

The following summary describes certain U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note by a U.S. Holder (as defined below) whose functional currency is the U.S. dollar and acquires the Note in this offering from the Joint Bookrunners at the price set forth in this Prospectus and holds it as a capital asset. This summary does not address all aspects of U.S. federal income taxation that might be applicable to particular U.S. Holders subject to special U.S. federal income tax rules, including, among others, tax-exempt organisations, financial institutions, dealers and traders in securities or currencies, U.S. Holders that will hold a Note as part of a "straddle," hedging transaction, "conversion transaction" or other integrated transaction for U.S. federal income tax purposes, U.S. Holders that enter into "constructive sale" transactions with respect to the Notes, U.S. Holders liable for alternative minimum tax and certain U.S. expatriates. In addition, this summary does not address consequences to U.S. Holders of the acquisition, ownership and disposition of a Note under any other U.S. federal tax laws (*e.g.*, estate or gift tax laws) or the tax laws of any state, locality or other political subdivision of the United States or other countries or jurisdictions.

As used herein, the term "*U.S. Holder*" means an owner of a Note that is for U.S. federal income tax purposes: (a) an individual who is a citizen or resident of the U.S., (b) an entity taxable as a corporation created or organised in or under the laws of the U.S., any state thereof or the District of Columbia, (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (d) a trust whose administration is subject to the primary supervision of a United States court and that has one or more United States person(s) (as defined under the Code) who have the authority to control all substantial decisions of the trust or a valid election for such persons to be treated as United States person(s) (as defined under the Code) is in effect with respect to such trust. References herein to a U.S. Holder holding a Note shall also refer to the holding of a beneficial interest in a Global Note.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds a Note, then the U.S. federal income tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Therefore, a partnership holding a Note and its partners should consult their own tax advisers regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note.

The discussion below is based upon the Code, U.S. Treasury regulations promulgated thereunder and judicial and administrative interpretations thereof, all as in effect as of the date of this Prospectus and any of which may at any time be repealed, revoked or modified or subject to differing interpretations, potentially retroactively, so as to result in U.S. federal income tax consequences different from those discussed below.

The summary of the U.S. federal income tax consequences set out below is for general information only. Investors in the Notes should consult their tax advisers as to the particular tax consequences to them of owning investments in the Notes, including the applicability and effect of state, local, foreign and other tax laws and possible changes in tax law.

Payments of Interest

Payments of interest on the Notes, including additional amounts, if any, generally will be taxable to a U.S. Holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. Holder's usual method of accounting for U.S. federal income tax purposes. Interest paid on a Note generally will constitute foreign source income for U.S. federal income tax purposes and generally will be considered "passive" income, which is treated separately from other types of income in computing the foreign tax credit that may be allowable to U.S. Holders under U.S. federal income tax laws. Subject to applicable restrictions and limitations, a U.S. Holder may be entitled to claim a U.S. foreign tax credit in respect of any Turkish withholding taxes imposed upon interest received on the Notes. A U.S. Holder who does not elect to claim a credit for foreign tax may instead claim a deduction in respect of the Turkish withholding taxes provided the U.S. Holder elects to deduct rather than claim a credit for all foreign taxes for such taxable year. U.S. Holders that are eligible for benefits under the double tax treaty between the United States and Turkey (the "*Double Tax Treaty*") or are otherwise entitled to a refund for the taxes withheld under Turkish tax law generally will not be entitled to a foreign tax credit or deduction for the amount of any Turkish taxes withheld in excess of the maximum rate under the Double Tax Treaty or for those taxes that have been otherwise refunded to them under Turkish tax law. The rules relating to foreign tax credits or deducting foreign taxes are extremely complex and U.S. Holders are urged to consult their own tax advisers regarding the availability and advisability of claiming a foreign tax credit or a deduction with respect to any Turkish taxes withheld from payment.

Sale, Exchange and Redemption of Notes

Upon the sale, exchange, redemption, retirement at maturity or other taxable disposition of a Note, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised (*i.e.*, the amount of cash and the fair market value of any property received on the disposition (except to the extent the cash or property received is attributable to accrued and unpaid interest not previously included in income, which is treated like a payment of interest)) and the U.S. Holder's tax basis in the Note. A U.S. Holder's tax basis in a Note generally will equal the amount paid for the Note. Gain or loss recognised by a U.S. Holder on the sale, exchange or other disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. As such, if the disposition of a Note by a U.S. Holder is subject to Turkish tax, then the U.S. Holder generally will not be able to use the corresponding foreign tax credit against the income from such gain. U.S. Holders should consult their advisors with respect to the application of foreign tax credits to their particular circumstances.

Potential Acceleration of Income

Accrual method taxpayers that prepare an "applicable financial statement" (as defined in Section 451 of the Code, which includes any General Accepted Accounting Principles (GAAP) financial statement, Form 10-K annual statement, audited financial statement or a financial statement filed with any federal agency for non-tax purposes) generally would be required to include certain items of income such as original issue discount ("*OID*") and possibly *de minimis* OID and market discount in gross income no later than the time such amounts are reflected on such a financial statement. This could result in an acceleration of income recognition for income items differing from the above description, although the precise application of this rule is unclear as of the date of this Prospectus.

Information Reporting and Backup Withholding

Information returns may be filed with the U.S. Internal Revenue Service (the "*IRS*") (unless the U.S. Holder establishes, if requested to do so, that it is an exempt recipient) in connection with payments on the Notes and the proceeds from the sale, exchange or other disposition of Notes. If information reports are required to be made, then a U.S. Holder may be subject to U.S. backup withholding if it fails to provide its taxpayer identification number or to establish that it is exempt from backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding imposed upon a payment will be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS.

U.S. Holders should consult their own tax advisers regarding any filing and reporting obligations they might have as a result of their acquisition, ownership or disposition of Notes.

Medicare Tax

Certain U.S. Holders who are individuals, estates or non-exempt trusts must pay an additional 3.8% tax on, among other things, interest on and capital gains from the sale, retirement or other taxable disposition of Notes. U.S. Holders should consult their tax advisers regarding the effect, if any, of this tax on their investment in the Notes.

Additional Information

The sixth sentence of the section titled "Taxation – FATCA" beginning on page 192 of the Original Base Prospectus shall, with respect to these Notes, be deemed to have been replaced by the following:

> Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining Foreign Passthru Payments are published in the U.S. Federal Register, and Notes characterised as debt (or that are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining Foreign Passthru Payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date; *however*, if additional Notes (see Condition 17) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents might treat all Notes, including Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

PLAN OF DISTRIBUTION

The Bank intends to offer the Notes through the Joint Bookrunners. Subject to the terms and conditions stated in a subscription agreement in respect of the Notes expected to be entered into on 5 March 2019 among the Joint Bookrunners and the Bank (the "*Subscription Agreement*"), each of the Joint Bookrunners has severally (and not jointly nor jointly and severally) agreed to purchase, and the Bank has agreed to sell to each of the Joint Bookrunners, the principal amount of the Notes set forth opposite each Joint Bookrunner's name below at the issue price set forth on the cover of this Prospectus.

Joint Bookrunners	*Principal Amount of Notes*
Citigroup Global Markets Limited	US$83,333,333
J.P. Morgan Securities plc	US$83,333,333
Mizuho International plc	US$83,333,333
QNB Capital LLC	US$83,333,333
Société Générale	US$83,333,334
Standard Chartered Bank	US$83,333,334
Total	**US$500,000,000**

The Subscription Agreement provides that the obligations of the Joint Bookrunners to purchase the Notes are subject to the approval of legal matters by counsel and to other conditions. The offering of the Notes by the Joint Bookrunners is subject to receipt and acceptance and subject to the Joint Bookrunners' right to reject any order in whole or in part.

The Bank has been informed that the Joint Bookrunners propose to resell beneficial interests in the Notes at the issue price set forth on the cover page of this Prospectus to persons reasonably believed to be QIBs in reliance upon Rule 144A and to non-U.S. persons in offshore transactions in reliance upon Regulation S (see "Transfer and Selling Restrictions" in the Base Prospectus). The prices at which beneficial interests in the Notes are offered may be changed at any time without notice.

Offers and sales of the Notes in the United States will be made by those Joint Bookrunners or their respective affiliates that are registered broker-dealers under the Exchange Act or in accordance with Rule 15a-6 thereunder.

The Notes have not been registered under the Securities Act or the securities laws of any State or other jurisdiction of the United States and the Notes (and beneficial interests therein) may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act (see "Transfer and Selling Restrictions" in the Base Prospectus). Accordingly, until the expiration of a 40 day period after the later of the commencement of the offering to persons other than distributors and the Issue Date (the "*Distribution Compliance Period*"), an offer or sale of Notes (or beneficial interests therein) other than in an offshore transaction to, or for the account or benefit of, persons who are not U.S. persons might violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with an available exemption from the registration requirements of the Securities Act.

Each Joint Bookrunner will agree in the Subscription Agreement that it will send to each dealer to which it sells the Regulation S Registered Global Note (or beneficial interests therein) during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes (or beneficial interests therein) within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

> "The Notes covered hereby have not been registered under the Securities Act of 1933, as amended (the "*Securities Act*"), of the United States of America and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons: (a) as part of their distribution at any time or (b) otherwise until the expiration of a 40 day period after the later of the commencement of the offering to persons other that distributors and the Issue Date, except, in either case, in accordance with Rule 144A under the Securities Act or in an offshore transaction. Terms used above have the meanings given to them by Regulation S under the Securities Act."

While application has been made by the Bank to Euronext Dublin for the Notes to be admitted to the Official List and to trading on the Regulated Market, the Notes constitute a new class of securities with a limited trading market. The Bank cannot provide any assurances to investors that the prices at which the Notes (or beneficial interests therein) will sell in the market will not be lower than the initial offering price or that an active trading market for the Notes will develop. The Joint Bookrunners have advised the Bank that they currently intend to make a market in the Notes; *however*, they are not obligated to do so, and they may discontinue any market-making activities with respect to the Notes at any time without notice. No assurance can be given that the application to Euronext Dublin to admit the Notes to listing on the Official List and trading on the Regulated Market will be accepted.

In connection with the offering, one or more Joint Bookrunner(s) might purchase and sell Notes (or beneficial interests therein) in the secondary market. These transactions might include overallotment, syndicate covering transactions and stabilisation transactions. Overallotment involves the sale of Notes (or beneficial interests therein) in excess of the principal amount of Notes to be purchased by the Joint Bookrunners in their initial offering, which creates a short position for the Joint Bookrunners. Covering transactions involve the purchase of the Notes (or beneficial interests therein) in the open market after the distribution has been completed in order to cover short positions. Stabilisation transactions consist of certain bids or purchases of Notes (or beneficial interests therein) made for the purpose of preventing or retarding a decline in the market price of an investment in the Notes (or beneficial interests therein) while the offering is in progress. Any of these activities might have the effect of preventing or retarding a decline in the market price of the Notes (or beneficial interests therein). They might also cause the price of the Notes (or beneficial interests therein) to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Joint Bookrunners might conduct these transactions in the over-the-counter market or otherwise. If a Joint Bookrunner commences any of these transactions, then it might discontinue them at any time. Under English law, stabilisation activities may only be carried on by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) and only for a limited period following the Issue Date.

The Bank expects that delivery of interests in the Notes will be made against payment therefor on the Issue Date. Under Rule 15c6-l of the Exchange Act, trades in the secondary market through a broker or dealer in the United States generally are required to settle in two New York City business days unless the parties to any such trade expressly agree otherwise. Accordingly, investors who wish to trade interests in the Notes through a broker or dealer in the United States on the date of this Prospectus or the next New York City business days will be required, by virtue of the fact that the Notes initially will settle on the Issue Date, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Investors in the Notes who wish to trade interests in the Notes through a broker or dealer in the United States on the date of this Prospectus or the next New York City business days should consult their own adviser.

QNB, the parent of QNB Capital LLC, one of the Joint Bookrunners, is the controlling shareholder of the Bank as described in the Base Prospectus. The Joint Bookrunners and their respective affiliates are full service financial institutions engaged in various activities, which might include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Bookrunners or their respective affiliates might have performed investment banking and advisory services for the Bank and its affiliates from time to time for which they might have received fees, expenses, reimbursements and/or other compensation. The Joint Bookrunners or their respective affiliates might, from time to time, engage in transactions with and perform advisory and other services for the Bank and its affiliates in the ordinary course of their business. Certain of the Joint Bookrunners and/or their respective affiliates have acted and expect in the future to act as a lender to the Bank and/or other members of the Group and/or otherwise participate in transactions with the Group.

In the ordinary course of their various business activities, the Joint Bookrunners and their respective affiliates might make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and might at any time hold long and short positions in such securities and instruments. Such investment and securities activities might involve securities and instruments of the Bank and/or other members of the Group. In addition, certain of the Joint Bookrunners and/or their respective affiliates hedge their credit exposure to the Bank and/or other members of the Group pursuant to their customary risk management policies. These hedging activities might have an adverse effect on the future trading prices of the Notes (or beneficial interests therein).

The Joint Bookrunners and their respective affiliates might also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and might hold, or recommend to clients that they acquire, long and/or short positions in such securities or instruments.

The Bank will agree in the Subscription Agreement, in connection with the issue and offering of the Notes, to indemnify each Joint Bookrunner against certain liabilities or to contribute to payments that the Joint Bookrunners are required to make because of those liabilities.

LEGAL MATTERS

Certain matters relating to the issuance of the Notes will be passed upon for the Bank by Mayer Brown LLP as to matters of United States law and by YazıcıLegal as to matters of Turkish law (other than with respect to tax-related matters). Certain matters of English and United States law will be passed upon for the Joint Bookrunners by Herbert Smith Freehills LLP and certain matters of Turkish law will be passed upon for the Joint Bookrunners by Paksoy Ortak Avukat Bürosu (which will also pass upon matters of Turkish tax law).

OTHER GENERAL INFORMATION

Authorisation

The most recent update of the Programme and the issue of the Notes thereunder have been duly authorised pursuant to the authority of the officers of the Bank under the resolutions of the Board of Directors of the Bank dated 19 October 2017 and 28 March 2018.

Listing of Notes

An application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on the Regulated Market; *however*, no assurance can be given that such application will be accepted. It is expected that admission of the Notes to listing on the Official List and to trading on the Regulated Market will be granted on or before the Issue Date, subject only to the issue of the Notes. The Regulated Market is a regulated market for the purposes of MiFID II. The expenses in connection with the admission of the Notes to the Official List and to trading on the Regulated Market are expected to amount to approximately €2,040.

Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as Irish listing agent for the Bank in connection with the Notes and is not itself seeking admission of the Notes to the Official List or to trading on the Regulated Market for the purposes of the Prospectus Directive.

Clearing Systems

The Rule 144A Global Note(s) has/have been accepted into DTC's book-entry settlement system and the Regulation S Registered Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg (CUSIP: 31772DAD4, ISIN: US31772DAD49 and Common Code: 195946582 with respect to the Rule 144A Global Note(s) and ISIN: XS1959391019 and Common Code: 195939101 with respect to the Regulation S Registered Global Note).

Interest on each Note will be paid only to the person in whose name such Note was registered in the Register at the close of business on the Record Date. Notwithstanding the Record Date established in the Conditions for the Notes, the Issuer has been advised by DTC that through DTC's accounting and payment procedures, DTC will, in accordance with its customary procedures, credit interest payments received by DTC on any Interest Payment Date based upon DTC's Participants' holdings of the Notes on the close of business on the New York Business Day immediately preceding each such Interest Payment Date. A "*New York Business Day*" for these purposes is a day other than a Saturday, a Sunday or any other day on which banking institutions in New York, New York are authorised or required by law or executive order to close.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

No Significant or Material Adverse Change

There has been: (a) no significant change in the financial or trading position of either the Bank or the Group since 31 December 2018 and (b) no material adverse change in the financial position or prospects of the Bank since 31 December 2018.

Litigation

Neither the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Bank is aware) in the 12 months preceding the date of this Prospectus that might have or in such period had a significant effect on the financial position or profitability of the Bank or the Group.

Interests of Natural and Legal Persons Involved in the Issue

Except with respect to the fees to be paid to the Joint Bookrunners, so far as the Bank is aware, no natural or legal person involved in the issue of the Notes has an interest, including a conflicting interest, that is material to the issue of the Notes; *provided* that one or more of such persons might own Notes (or beneficial interests therein). It should be noted that one of the Joint Bookrunners (*i.e.*, QNB Capital LLC) is a subsidiary of QNB and thus an affiliate of the Bank.

Independent Auditors

The BRSA Financial Statements have been audited by Ernst & Young, all in accordance with the BRSA Accounting and Reporting Principles. The audit reports on the BRSA Financial Statements emphasise that: (a) the effect of the differences between the accounting principles summarised in Section Three thereof and the accounting principles generally accepted in countries in which the financial statements are to be distributed and IFRS have not been quantified and reflected in the financial statements, (b) the accounting principles used in the preparation of the financial statements differ materially from IFRS and (c) accordingly, the financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

Ernst & Young is located at Maslak Mah. Eski Büyükdere Cad. No.27 Orjin Maslak Daire 54-57-59 Kat: 2-3-4, Sarıyer, İstanbul, 34398. Ernst & Young, an independent certified public accountant in Turkey, is an audit firm authorised by the BRSA to conduct independent audits of banks in Turkey.

Documents

For as long as any of the Notes are outstanding, copies of the following documents will (as applicable, when published) be available in physical form for inspection at the registered office of the Issuer and from the specified office of the Fiscal Agent for the time being in London:

(a) the articles of association (with a certified English translation thereof) of the Issuer,

(b) the BRSA Financial Statements,

(c) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements of the Issuer, in each case in English, prepared in accordance with BRSA Accounting and Reporting Principles and together with any audit or review reports prepared in connection therewith,

(d) the Agency Agreement, the Deed of Covenant and the Deed Poll and the forms of the Global Notes and the Notes in definitive form, and

(e) a copy of this Prospectus and the Base Prospectus.

With respect to the BRSA Financial Statements, please see “Independent Auditors” below.

In addition, copies of this Prospectus and the documents (or portions thereof) incorporated by reference herein will also be available in electronic format on the Issuer’s website. See “Documents Incorporated by Reference” above. Such website does not, and should not be deemed to, constitute a part of, or be incorporated into, this Prospectus.

Material Contracts

The Bank has not entered into any material contract outside the ordinary course of its business that could result in the Bank being under an obligation or entitlement that is material to its ability to meet its obligations in respect of the Notes.

Joint Bookrunners transacting with the Issuer

Certain of the Joint Bookrunners and their respective affiliates have engaged, and might in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and/or its affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Joint Bookrunners and their respective affiliates might make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities might involve securities and/or instruments of the Issuer or its affiliates. The Joint Bookrunners and their respective affiliates that have a credit relationship with the Issuer might from time to time hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Joint Bookrunners or their respective affiliates would hedge such exposure by entering into transactions that consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions might adversely affect future trading prices of an investment in the Notes. The Joint Bookrunners and their respective affiliates might also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and might hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

THE ISSUER

QNB Finansbank A.Ş.
Esentepe Mahallesi, Büyükdere Cad.
Kristal Kule Binası, No:215, Şişli
İstanbul
Turkey

JOINT BOOKRUNNERS

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Mizuho International plc
Mizuho House
30 Old Bailey
London EC4M 7AU
United Kingdom

QNB Capital LLC
14th Floor, Al Mathaf Tower
P.O. Box 1000
Doha
Qatar

Société Générale
29, boulevard Haussmann
75009 Paris
France

Standard Chartered Bank
1 Basinghall Avenue
London EC2V 5DD
United Kingdom

FISCAL AGENT AND PRINCIPAL PAYING AGENT

The Bank of New York Mellon, London Branch
One Canada Square
London E14 5AL
United Kingdom

REGISTRAR, TRANSFER AGENT AND PAYING AGENT

The Bank of New York Mellon SA/NV, Luxembourg Branch
2-4 rue Eugene Ruppert
2453 Luxembourg

UNITED STATES PAYING AGENT AND TRANSFER AGENT

The Bank of New York Mellon, New York Branch
101 Barclay Street
New York, New York
USA

LEGAL ADVISERS

To the Issuer as to English and United States law

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United Kingdom

Mayer Brown LLP
71 South Wacker Drive
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USA

To the Issuer as to Turkish law

YazıcıLegal
Levent Mah. Yasemin Sok. No.13
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To the Joint Bookrunners as to English and United States law

Herbert Smith Freehills LLP
Exchange House
Primrose Street
London EC2A 2EG
United Kingdom

To the Joint Bookrunners as to Turkish law

Paksoy Ortak Avukat Bürosu
Orjin Maslak, Eski Büyükdere Cad. No:27 K:11
Maslak, 34398 İstanbul
Turkey

LISTING AGENT

Arthur Cox Listing Services Limited
Ten Earlsfort Terrace
Dublin 2
Ireland

AUDITORS TO THE BANK

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
Maslak Mahallesi Eski Büyükdere Caddesi No: 27
Orjin Maslak Daire 54-57-59 Kat: 2-3-4
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