Loan Agreement

(Sustaining Shared Growth Development Policy Loan)

between

REPUBLIC OF TURKEY

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated August 22, 2014
LOAN AGREEMENT

Agreement dated **AUGUST 22**, 2014, entered into between REPUBLIC OF TURKEY ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an adequate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — LOAN**

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of three hundred sixty-seven million and four hundred thousand Euros (EUR 367,400,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan").

2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty (60) days after the Effective Date.

2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-
payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

2.05. The Payment Dates are February 1 and August 1 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

2.08. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 3 of Section II of the Appendix to this Agreement and relating to Cooperation and Consultation), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:
the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment, a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program or any action taken under the Program, including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower’s macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is the Undersecretary of Treasury.

6.02. The Borrower's Address is:

Baskakanlik
Hazine Mustesarligi
Inonu Bulvari No. 36
Emek – Ankara
Turkey

Facsimile:

(312) 204-7366

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI) Facsimile: 1-202-477-6391
AGREED at ANKARA, TURKEY, as of the day and year first above written.

REPUBLIC OF TURKEY

By

Authorized Representative

Name: Hakan Tolası
Title: General Director

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Authorized Representative

Name: Martin Raiser
Title: Country Director
SCHEDULE 1
Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

The actions taken by the Borrower under the Program include the following:

1. The Borrower has fully operationalized the Central Registration System ("MERSIS") by the end of 2013, by transferring data from 238 separate trade registries to the central database, which data is accessible to government institutions and the MERSIS system permits companies to complete all transactions related to company establishment (including payments) online.

2. The Borrower’s Public Oversight Authority has published in the Official Gazette the full set of 37 Turkish Standards on Auditing foreseen in the Commercial Code, which standards are in line with the international standards on auditing. The Borrower also has published the Council of Ministers Decree 2014/5973 in Official Gazette No. 28941 on March 14, 2014, which reduced the thresholds for independent audit, thereby increasing the number of companies subject to independent audit.

3. The Borrower has adopted Capital Markets Secondary Legislation to implement the Capital Markets Law, which Capital Markets Secondary Legislation will: enable the creation of a new securities exchange that will replace the existing Istanbul Stock Exchange, merge the exchange with the gold and derivatives exchanges, introduce a new prospectus review process aligned with European Union requirements, enhance investor protection (including through improved disclosure requirements and improved corporate governance principles), and introduce new corporate bonds and mutual funds regulations, as well as new capital markets instruments (including different types of sukus and asset backed securities).

4. The Borrower’s High Planning Council has approved on May 6, 2014 and has published in Official Gazette No. 29015 on May 30, 2014, the National Employment Strategy 2014-2023, which aims to put in place a policy framework to address constraints to hiring and to further promote employment, particularly for vulnerable groups.

5. The Risk Center of the Banks Association of Turkey became fully operational in June 2013, which aims to improve the depth of credit information belonging to firms and individuals, thereby providing cost effective systematic information on potential borrowers, laying the basis for orderly growth of the financial services industry and promoting management of credit risk.
6. The Borrower has published Consumer Protection Law No. 6502 in Official Gazette No. 28835 on November 28, 2013, which aims to: increase transparency and awareness about the financial services, improve disclosure requirements, promote competition in the marketplace, prevent fraud and eliminate unfair practices. The Borrower published Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions Law No. 6493 in Official Gazette No. 28690 on June 27, 2013, which sets out the principles and procedures applicable to: payment and securities settlement systems, payment services, payment institutions and electronic money institutions.

7. The Borrower has published Regulation on Principles for Establishment and Operations of Financial Leasing, Factoring and Finance Companies in Official Gazette No. 28627 on April 24, 2013, which sets out the principles and conditions for establishment and operation of leasing, factoring and financing companies. The Borrower also has published Regulation on Accounting Practices and Financial Statements for Leasing, Factoring and Financing Companies in Official Gazette No. 28861 on December 24, 2013, which sets out: the principles of accounting, financial statements to be disclosed and provisioning requirements.

8. The Borrower has published Electricity Market Law No. 6446 in Official Gazette No. 28603 on March 30, 2013, which aims to ensure the development of a financially sound, stable and transparent electricity market operating in a competitive environment and covers electricity generation, transmission, distribution, wholesale and retail sale, import, export and market operation activities; and the rights and obligations of all real persons and legal entities involved in these activities. The Borrower's energy regulator starting from May 2013 has issued Electricity Market Secondary Regulations, which are intended to provide a modern legal framework for the electricity market.

9. The Borrower has initiated the establishment of an independent energy market operation corporation (EIPIAS) with the approval of the articles of association of EIPIAS by EMRA's Board in September 2013 and by the Borrower's High Planning Council in March 2014 (with Türkiye Elektrik İletim A.Ş. as a shareholder of EIPIAS).

10. The Borrower has published Liberalization of Turkish Railway Transportation Law No. 6461 in Official Gazette No. 28634 on May 1, 2013, which permits qualified train operators to be licensed to operate in Turkey and to have non-discriminatory access to use the railway infrastructure in Turkey, and has conducted consultations on secondary legislation for implementation of said law.
Section II. Availability of Loan Proceeds

A. General

The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section.

B. Allocation of Loan Amounts

The Loan is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Loan Allocated (expressed in Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>367,400,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>367,400,000</td>
</tr>
</tbody>
</table>

C. Payment of Front-end Fee

No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.

D. Withdrawal Tranche Release Conditions

No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the adequacy of the Borrower's macroeconomic policy framework.

E. Deposits of Loan Amounts

Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and

2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.
F. Excluded Expenditures

The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

G. Closing Date. The Closing Date is June 30, 2015.
SCHEDULE 2

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 1 and August 1</td>
<td></td>
</tr>
<tr>
<td>Beginning February 1, 2023</td>
<td>7.14%</td>
</tr>
<tr>
<td>through February 1, 2029</td>
<td></td>
</tr>
<tr>
<td>On August 1, 2029</td>
<td>7.18%</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any
amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.
APPENDIX

Section I. Definitions


2. "Capital Markets Secondary Legislation" means, collectively:
   (b) Communique on Prospectus and Issuing Certificate published in the Official Gazette No. 28685 dated June 22, 2013;
   (c) Communique on Debt Instruments published in the Official Gazette No. 28670 dated June 7, 2013;
   (d) Communique on the Principles Regarding the Mutual Funds published in the Official Gazette No. 28702 and dated July 9, 2013;
   (e) Communique on Sukuk (Lease Certificates) published in the Official Gazette No. 28670 dated June 7, 2013;
   (f) Communique on Asset Backed Securities published in the Official Gazette No. 28889 dated January 21, 2014;
   (g) Communique on Corporate Governance published in the Official Gazette No. 28871 dated January 3, 2014; and


4. "Electricity Market Supporting Regulations" means, collectively:
   (a) Regulation on the Technical Evaluation of the Solar Energy License Applications published in Official Gazette No. 28664 on June 1, 2013;
   (b) Regulation on the Certification and the Support of Renewable Energy Resources published in Official Gazette No. 28782 on October 1, 2013;
(c) Electricity Market License Regulation published in Official Gazette No. 28809 on November 2, 2013;

(d) Regulation on the Precautions for the Electricity Distribution and Supply Licenses published in Official Gazette No. 28726 on August 2, 2013;

(e) Regulation on Unlicensed Production of Electricity on the Electricity Market published in Official Gazette No. 28783 on October 2, 2013;

(f) Regulation on the Competition on the Pre-License Applications for Energy Production Facilities from Wind and Solar Energy published in Official Gazette No. 28843 on December 6, 2013;

(g) Regulation on Connections and System Use in the Electricity Market published in Official Gazette No. 28896 on January 28, 2014;

(h) Regulation on Activities of the Organized Industrial Zones published in Official Gazette No. 28941 on March 14, 2014;

(i) Regulation on the Electricity Market Consumer Services published in Official Gazette No. 28994 on May 8, 2014; and

(j) A number of revisions in regulations relating to demand estimations, market balancing, system supply security, distribution, audits, electricity system.


6. “EPIAS” means Enerji Piyasalari Isletme Anonim Sirketi, the new energy exchange being established by the Borrower.

7. “Excluded Expenditure” means any expenditure:

(a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;

(b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:
<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) under a contract with respect to which the Bank determines that an event has occurred under Section 7.03(c) of the General Conditions.

8. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012 with the modifications set forth in Section II of this Appendix.

9. “Program” means the program of actions, objectives and policies designed to (a) improve business climate and enhance transparency; (b) boost labor force participation and widen access to finance; and (c) deepen Turkey’s infrastructure reforms and set forth or referred to in the letter dated June 23, 2014, from the Borrower to the Bank declaring the Borrower’s commitment to the execution of
the Program, and requesting assistance from the Bank in support of the Program during its execution.

10. "Single Withdrawal Tranche" means the amount of the Loan allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 5.01 (Project Execution Generally), and 5.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.

4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   "Section 5.06. Plans; Documents; Records

   ... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   Section 5.07. Program Monitoring and Evaluation

   ... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan
Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

(b) The term “Financial Statements” and its definition are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”