



KUVEYTTÜRK

KT Sukuk Varlık Kiralama A.Ş.

(incorporated in the Republic of Turkey with limited liability)

U.S.\$350,000,000 Certificates due 2016

Issue Price: 100.00 per cent.

The U.S.\$350,000,000 Certificates due 2016 (the **Certificates**) of KT Sukuk Varlık Kiralama A.Ş. (in its capacity as issuer, the **Issuer** or **KT Sukuk**) will have the benefit of a declaration of agency (the **Declaration of Agency**) dated on or around 31 October 2011 (the **Closing Date**) between the Issuer, Kuveyt Türk Katılım Bankası A.Ş. (**Kuveyt Türk**) and HSBC Corporate Trustee Company (UK) Limited (as representative of the Certificateholders (as defined herein)), the **Certificateholders' Representative**). Pursuant to the Declaration of Agency, the Issuer (in its capacity as the agent in its name and on behalf of the Certificateholders, the **Certificateholders' Agent**) will declare that it will hold the Agency Assets (as defined herein) in its name and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Agency and the terms and conditions of the Certificates (the **Conditions**).

On the 30th day of April and the 31st day of October in each year commencing on 30 April 2012 (each, a **Periodic Distribution Date**), the Issuer will pay Periodic Distribution Amounts (as defined herein) to Certificateholders calculated at the rate of 5.875 per cent. per annum on the outstanding face amount of the Certificates as at the beginning of the relevant Return Accumulation Period (as defined herein) on a 30/360 day basis.

The Issuer will pay such Periodic Distribution Amounts solely from the proceeds received in respect of the Agency Assets, which include payments by Kuveyt Türk as lessee (in such capacity, the **Lessee**) and as managing agent (in such capacity, the **Managing Agent**) under the Lease Agreement and the Management Agreement, respectively, (each as defined herein). Unless previously redeemed in the circumstances described in Condition 9, the Certificates will be redeemed on 31 October 2016 (the **Scheduled Termination Date**) at the Termination Distribution Amount (as defined herein). The Issuer will pay Termination Distribution Amounts solely from the proceeds received in respect of the Agency Assets which include payments by Kuveyt Türk under the Purchase Undertaking (as defined herein).

The Certificates will be limited recourse obligations of the Issuer. An investment in the Certificates involves certain risks. For a discussion of these risks, see "Risk Factors".

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Certificates to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Certificates to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). References in this Prospectus to Certificates being **listed** (and all related references) shall mean that such Certificates have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List.

Application has been made to the Capital Markets Board of Turkey (the **CMB**) in its capacity as competent authority under Law No. 2400 of the Republic of Turkey (**Turkey**) relating to capital markets (the **Capital Markets Law**) for the registration of the Certificates with the CMB and the issue of the Certificates by the Issuer outside Turkey. The issue of the Certificates was approved by the CMB on 14 October 2011 and the registration certificate relating to the Certificates is expected to be obtained from the CMB promptly following pricing and prior to the issuance of the Certificates.

The Certificates are expected to be assigned a rating of "BBB-" by Fitch Ratings Ltd. (**Fitch**). As at 31 December 2010, Kuveyt Türk's long-term local currency rating assigned by Fitch was "BBB-". Fitch is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009 (as amended), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein), does not address the likelihood or timing of repayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Please also refer to "*Credit ratings may not reflect all risks*" in the Risk Factors section of this Prospectus.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States (as defined in Regulation S under the Securities Act (**Regulation S**)) or to, or for the account or benefit of, U.S. Persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Certificates are being offered or sold solely to persons who are not U.S. persons (as defined in Regulation S) outside the United States in reliance on Regulation S. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

Delivery of the Certificates in book-entry form will be made on the Closing Date. Certificates will be represented at all times by interests in a global certificate in registered form (the **Global Certificate**) deposited on or about the Closing Date with, and registered in the name of a nominee for, a common depository (the **Common Depository**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

Joint Lead Managers and Joint Bookrunners

HSBC

LIQUIDITY HOUSE

STANDARD CHARTERED
BANK

Joint Lead Managers

ABU DHABI ISLAMIC BANK

COMMERZBANK

Co-Managers

BANK ISLAM
BRUNEI DARUSSALAM

KUWAIT FINANCE HOUSE
MALAYSIA

KUWAIT INTERNATIONAL
BANK

QATAR ISLAMIC
BANK

The date of this Prospectus is 27 October 2011.

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC (the **Prospectus Directive**) and for the purpose of giving information with regard to the Issuer; Kuveyt Türk; Kuveyt Türk and its consolidated subsidiaries taken as a whole (the **Group**) and the Certificates which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, Kuveyt Türk, the Group and of the Certificates.

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

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, Kuveyt Türk, the Managers (as defined under “*Subscription and Sale*”), the Certificateholders’ Agent, the Certificateholders’ Representative, the Paying and Transfer Agents (each as defined herein) or any other person. Neither the delivery of this document nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of any party mentioned herein since that date.

None of the Managers, the Certificateholders’ Agent, the Certificateholders’ Representative or the Paying and Transfer Agents has verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Prospectus or any other information provided by the Issuer or Kuveyt Türk in connection with the Certificates, their distribution or their future performance.

Neither this Prospectus nor any other information supplied in connection with the Certificates is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer, Kuveyt Türk, the Managers, the Certificateholders’ Agent, the Certificateholders’ Representative or the Paying and Transfer Agents that any recipient of this Prospectus should purchase any of the Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and Kuveyt Türk. None of the Managers, the Certificateholders’ Agent, the Certificateholders’ Representative or the Paying and Transfer Agents accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer and Kuveyt Türk in connection with the Certificates.

No comment is made or advice given by the Issuer, Kuveyt Türk, the Managers, the Certificateholders’ Agent, the Certificateholders’ Representative or the Paying and Transfer Agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF THE CERTIFICATES.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of the Certificates may be restricted by law in certain jurisdictions. None of the Issuer, Kuveyt Türk, the Managers, the Certificateholders’ Agent, the Certificateholders’ Representative or the Paying and Transfer Agents represents that this Prospectus may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, Kuveyt Türk, the Managers, the Certificateholders’ Agent, the Certificateholders’ Representative or the Paying and Transfer Agents which is intended to permit a public offering of any

Certificates or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the European Economic Area (including the United Kingdom), the Republic of Turkey, the Kingdom of Bahrain (**Bahrain**), the Dubai International Financial Centre (the **DIFC**), Malaysia, Qatar, the Kingdom of Saudi Arabia (**Saudi Arabia**), Singapore and the United Arab Emirates (the **UAE**) (excluding the DIFC), see “*Subscription and Sale*”.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be “forward-looking statements”. Forward-looking statements include statements concerning Kuveyt Türk’s plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. When used in this Prospectus, the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “aims”, “seeks”, “may”, “will”, “should” and any similar expressions generally identify forward-looking statements. Kuveyt Türk has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although Kuveyt Türk believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise, including those which Kuveyt Türk has identified in this Prospectus, or if any of Kuveyt Türk’s underlying assumptions prove to be incomplete or inaccurate, Kuveyt Türk’s actual results of operation may vary from those expected, estimated or predicted.

These forward-looking statements speak only as at the date of this Prospectus. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Risk Factors*”. Without prejudice to any requirements under applicable laws and regulations, Kuveyt Türk expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any forward-looking statement is based.

CERTAIN PUBLICLY AVAILABLE INFORMATION

Certain statistical data and other information appearing in this Prospectus under “*Selected Financial Overview*”, “*Business Description of Kuveyt Türk*” and “*Overview of the Turkish Banking Sector and Regulations*” has been extracted from public sources identified herein. Neither the Issuer nor Kuveyt Türk accepts responsibility for the factual correctness of any such statistics or information but the Issuer and Kuveyt Türk confirm that such statistics and information have been accurately reproduced and that, so far as the Issuer and Kuveyt Türk are aware and have been able to ascertain from statistics and information published by those public sources, no facts have been omitted which would render the reproduced statistics and information inaccurate or misleading.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Kuveyt Türk maintains its books of accounts and prepares statutory financial statements (the **Statutory Financial Statements**) in Turkish lira in accordance with the Regulation on Accounting Applications for Banks and Safeguarding of Documents published in the Turkish Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Turkish Accounting Standards Board and additional explanations and notes related to them and other decrees, notes, and explanations related to accounting and financial reporting principles published by

the Banking Regulation and Supervision Agency of Turkey (the **BRSA**) (collectively, **Turkish GAAP**). The Turkish subsidiaries of Kuveyt Türk maintain their books of accounts in accordance with the relevant regulations on accounting, reporting framework and accounting standards as promulgated by the Turkish Commercial Code, and relevant tax legislation, and prepare their statutory financial statements in accordance with the Uniform Chart of Accounts issued by the Turkish Ministry of Finance. Kuveyt Türk's annual Statutory Financial Statements are prepared on an unconsolidated basis and used for determinations of Kuveyt Türk's compliance with Turkish regulatory requirements established by the BRSA, including for the calculation of capital adequacy ratios.

Though Kuveyt Türk is not legally required to prepare financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (**IASB**) and interpretations issued by the International Financial Reporting Standards Interpretations Committee of the IASB (collectively, **IFRS**), its audited consolidated annual financial statements for the two financial years ended 31 December 2009 and 31 December 2010 (the **Audited IFRS Accounts**) and unaudited consolidated interim financial statements for the six months ended 30 June 2010 and 30 June 2011 (the **Interim IFRS Accounts** and, together with the Audited IFRS Accounts, the **IFRS Accounts**), which are incorporated by reference in this Prospectus, have been prepared and presented in accordance with IFRS. The Audited IFRS Accounts have been audited and the Interim IFRS Accounts have been reviewed by Güney Bağımsiz Denetim ve SMMM. A.Ş., İstanbul, Turkey (a member firm of Ernst & Young Global Limited) (**Ernst & Young**).

Reference is made in relation to certain financial data included in this Prospectus to such data having been prepared in accordance with Turkish GAAP. Financial data prepared in accordance with Turkish GAAP is included in this Prospectus when similar information has not been prepared or made available in accordance with IFRS or for the purposes of comparison with similar data made publicly available by the BRSA regarding Kuveyt Türk's competitors. Unless otherwise indicated, the financial data included in this Prospectus is extracted from the IFRS Accounts.

Turkish GAAP differ from IFRS. As an example, the provisioning policy used in the preparation of Kuveyt Türk's IFRS Accounts differs from that used under Turkish GAAP. For example, under Turkish GAAP, provisioning is based on the length of the period of default, whereas under IFRS, provisioning is based on an evaluation made by management. For a discussion of the differences between Turkish GAAP and IFRS, see "*Annex 1 – Summary of Differences Between IFRS and Turkish GAAP*".

All references in this Prospectus to **U.S. dollars**, **U.S.\$** and **\$** are to the lawful currency of the United States of America and all references to Turkish lira (in Turkish: *Türk lirası*) and **TL** are to the lawful currency of the Republic of Turkey. Translations of amounts from U.S. dollars to Turkish lira and *vice versa* in this Prospectus are solely for the convenience of the reader.

All references in this Prospectus to **Turkey** are to the Republic of Turkey.

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

IN CONNECTION WITH THE ISSUE OF THE CERTIFICATES, HSBC BANK PLC, IN ITS CAPACITY AS STABILISING MANAGER (THE STABILISING MANAGER) (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE OF THE RELEVANT SERIES AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE CERTIFICATES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CERTIFICATES. ANY

STABILISATION ACTION SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

ENFORCEMENT OF FOREIGN JUDGMENTS AND SERVICE OF PROCESS

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

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

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

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

- (a) the defendant was not duly summoned or represented or the defendant's fundamental procedural rights were not observed;
- (b) the judgment in question was rendered with respect to a matter within the exclusive jurisdiction of the courts of Turkey;
- (c) the judgment is incompatible with a judgment of a court in Turkey between the same parties and relating to the same issues or, as the case may be, with an earlier foreign judgment on the same issue and enforceable in Turkey;
- (d) the judgment is not of a civil nature;
- (e) the judgment is clearly against public policy rules of Turkey;
- (f) the judgment is not final and binding with no further recourse for appeal under the laws of the country where the judgment has been rendered; or
- (g) the judgment was rendered by a foreign court that has deemed itself competent even though it has no actual relationship with the parties or the subject matter at hand.

If any action or proceeding is instituted in Turkey arising out of or relating to a Transaction Document (as defined below), it may be necessary for a foreign plaintiff or plaintiffs under Law of Charges No. 492 (as amended) to pay, among other amounts (including amounts in relation to security for court costs), court fees in the amount of 5.94 per cent. of the Turkish lira equivalent of the amount claimed plus a fixed application fee to the relevant courts.

In connection with the issuance of the Certificates, service of process may be made upon Kuveyt Türk at the registered office of Maples and Calder at 7 Princes Street, London, EC2R 8AQ with respect to any proceedings in England.

See “*Risk Factors—Risk factors relating to enforcement*”.

NOTICE TO RESIDENTS OF TURKEY

The offering of the Certificates will be registered with the CMB only for the purpose of the sale of the Certificates outside of Turkey in accordance with Article 15(b) of Decree 32 on the Protection of the Value of the Turkish Currency (**Decree 32**) and accordingly the Certificates (or beneficial interests therein) may only be offered or sold to real persons and legal entities domiciled outside of Turkey in accordance with the BRSA decision dated 6 May 2010 No.3665 (as notified by the BRSA in its letter to the Participation Banks Association of Turkey dated 10 May 2010 and numbered B.02.1.BDK.0.11.00.00.31.2-9394). The CMB has authorised the offering of the Certificates provided that, following the primary sale of the Certificates, no party may engage in any transaction that may be deemed a sale of the Certificates (or beneficial interests therein) in Turkey by way of private placement, public offering or otherwise. However, pursuant to Article 15(d)(ii) of Decree 32, there is no restriction on the purchase or sale of the Certificates (or beneficial interests therein) in secondary markets by residents of Turkey, provided that they purchase or sell such Certificates (or beneficial interests) in financial markets outside of Turkey and such sale and purchase is made through banks and/or licensed brokerage institutions authorised pursuant to CMB regulations. The registration certificate relating to the Certificates is expected to be obtained from the CMB on or about 25 October 2011.

NOTICE TO BAHRAIN RESIDENTS

Any offer of Certificates in the Kingdom of Bahrain will be undertaken by way of private placement. Such offers are subject to the regulations of the Central Bank of Bahrain that apply to private offerings of securities and the disclosure requirements and other protections that these regulations contain. This Prospectus is therefore intended only for “accredited investors” (as defined below, see “*Subscription and Sale—Kingdom of Bahrain*”).

NOTICE TO RESIDENTS OF MALAYSIA

The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia directly or indirectly for the purpose of any sale of the Certificates in Malaysia other than to persons falling within the categories specified under (i) Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b)) and (ii) Schedule 8 (or Section 257(3)) of the Capital Markets and Services Act 2007 of Malaysia (the **CMSA**). The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Issuer or Kuveyt Türk and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus.

KINGDOM OF SAUDI ARABIA NOTICE

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the **Capital Market Authority**).

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If a prospective purchaser does not understand the contents of this Prospectus he or she should consult an authorised financial adviser.

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DOCUMENTS INCORPORATED BY REFERENCE

The IFRS Accounts (together, as applicable, with the auditors report and limited review report thereon) which have previously been published and have been filed with the Financial Services Authority shall be incorporated in, and form part of, this Prospectus.

Copies of documents incorporated by reference in this Prospectus will be available from the offices of the Issuer and the Principal Paying Agent in London and the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

RISK FACTORS

The purchase of Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of Certificates should consider carefully, in the light of their own financial circumstances and investment objectives, all of the information in this Prospectus.

Each of the Issuer and Kuveyt Türk believes that the factors described below represent the principal risks inherent in investing in the Certificates, but the inability of the Issuer to pay any amounts on or in connection with any Certificate may occur for other reasons and none of the Issuer or Kuveyt Türk represents that the statements below regarding the risks of holding any Certificate are exhaustive. There may also be other considerations, including some which may not be presently known to the Issuer or Kuveyt Türk or which the Issuer or Kuveyt Türk currently deems immaterial, that may impact any investment in the Certificates.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in “Terms and Conditions of the Certificates” shall have the same meanings in this section.

Risk factors relating to the Issuer

The Issuer is a newly formed entity and has no operating history. The Issuer will not engage in any business activity other than the issuance of the Certificates, the acquisition of the Agency Assets as described herein, in its capacity as Certificateholders’ Agent, and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Issuer’s only material assets, which it will hold in its name and on behalf of Certificateholders in its capacity as Certificateholders’ Agent, will be the Agency Assets, including its right to receive payments under the Lease Agreement, the Management Agreement and the Purchase Undertaking. Therefore the Issuer is subject to all the risks to which Kuveyt Türk is subject to the extent that such risks could limit Kuveyt Türk’s ability to satisfy in full and on a timely basis its obligations under the Transaction Documents. See “*Risk factors relating to Kuveyt Türk*” below for a further description of these risks.

The ability of the Issuer to pay amounts due on the Certificates will primarily be dependent upon receipt by the Issuer from the Lessee and the Managing Agent of all amounts due under the Lease Agreement and the Management Agreement, respectively, and from Kuveyt Türk under the Purchase Undertaking which, in the aggregate, may not be sufficient to meet all claims under the Certificates and the Transaction Documents.

Risk factors relating to Kuveyt Türk

Risks Relating to Kuveyt Türk’s Business

Kuveyt Türk’s cash credit portfolio has increased rapidly in recent years and will require it to continue to develop more sophisticated monitoring systems to manage Kuveyt Türk’s credit exposure

Kuveyt Türk’s net cash credit portfolio (which comprises loans and other cash advances) has increased rapidly in recent years, growing to TL6,956 million (including finance lease receivables) as at 31 December 2010 from TL4,640 million as at 31 December 2009 and TL3,993 million as at 31 December 2008. The growth in Kuveyt Türk’s net cash credit portfolio is attributable to an overall increase in the growth of Kuveyt Türk’s lending activity, particularly to SMEs, which Kuveyt Türk intends to continue to target as part of its growth strategy. See “*Description of Kuveyt Türk—Strategy*” for further details.

As at 31 December 2010, Kuveyt Türk’s ratio of credits in arrears to total cash credits was 3.64 per cent., compared to 6.40 per cent. as at 31 December 2009. While, as a participation bank, the monthly principal repayment structure of Kuveyt Türk’s cash credits (which always require a portion of principal to be repaid) helps to reduce its credit risks as compared to conventional banks which provide loans with principal repayable at maturity only, the significant increase in the size of its cash credit portfolio has increased its credit exposure and will require continued analysis and monitoring of Kuveyt Türk’s credit quality and the

adequacy of provisioning levels, as well as continued credit risk management. In common with all other Turkish banks, the growth rates recently experienced have required Kuveyt Türk to seek to attract and retain a significant number of qualified personnel to monitor asset quality. Insofar as the growth in Kuveyt Türk's credit portfolio that is attributable to SMEs is concerned, SMEs typically have less financial strength than larger commercial customers, and any negative macro-economic developments could have a more significant impact on SME customers compared to more traditional corporate customers. See "*Description of Kuveyt Türk—Risk Management*" for further details. Kuveyt Türk's increased levels of lending may require Kuveyt Türk to make higher levels of provisioning for credit losses. Although Kuveyt Türk constantly seeks to revise and improve its lending procedures and credit quality analysis there can be no assurances that Kuveyt Türk will not experience lapses as a result of the growth and changing quality of its credit portfolio, which accordingly may have a material adverse effect on Kuveyt Türk's business, financial condition and results of operations. See— "*Risks relating to Kuveyt Türk's Business—Credit Risk*" for further details.

Credit risks

Kuveyt Türk's business, financial condition, results of operations and prospectus have been affected by credit risks and will likely continue to be affected by credits risks, particularly if economic conditions in Turkey deteriorate. Kuveyt Türk may experience credit default arising from adverse changes in credit and recoverability that are inherent in Kuveyt Türk's banking businesses

Kuveyt Türk's core banking businesses have historically been, and are expected to continue to be, loans to corporate and SME clients. As at 31 December 2010, such loans constituted 57.2 per cent. of Kuveyt Türk's total assets with corporate loans contributing 47.8 per cent. and SME loans contributing 9.4 per cent. Many factors affect customers' ability to repay their loans or meet their other obligations to Kuveyt Türk. Some of these factors, including adverse changes in consumer confidence levels due to local, national and global factors, consumer spending, banking rates, and increased market volatility, may be difficult to anticipate and outside of Kuveyt Türk's control. Other factors are dependent upon Kuveyt Türk's strategy for loan growth (including sector focus) and the viability of Kuveyt Türk's internal credit application and monitoring systems, see— "*Kuveyt Türk's risk management strategies and internal control capabilities may leave it exposed to unidentified or unanticipated risks*". All of the aforementioned risks could have an adverse impact on Kuveyt Türk's business, financial condition, results of operations and prospects.

Kuveyt Türk's SME customer base is particularly sensitive to adverse developments in the Turkish economy, which renders such lending activities riskier than lending to larger corporate customers

As at 31 December 2010, 13 per cent. of Kuveyt Türk's loan portfolio consisted of loans to SMEs compared to 10.4 per cent. as at 31 December 2009. Although SMEs typically have less financial strength than larger companies, they are a key component of Kuveyt Türk's current business and growth strategy. See "*Description of Kuveyt Türk—Strategy—Strategies of each business segment*" for further details. The availability of accurate and comprehensive financial information and general credit information on which to base credit decisions is more limited for SMEs than is the case for larger corporate clients. Therefore, notwithstanding the credit risk determination procedures that Kuveyt Türk has in place, Kuveyt Türk may be unable to evaluate correctly the current financial condition of each prospective SME borrower and to determine their long-term financial viability.

It is generally accepted that lending to SMEs represents a relatively higher degree of risk than comparable lending to other groups, and there can be no guarantee that Kuveyt Türk's non performing loans (NPL) for SMEs, or any of its other customers, will not materially increase in the near to medium term, particularly if there is a further deterioration in the macroeconomic conditions in Turkey or if Kuveyt Türk is unable to accurately model the risk associated with the SME or other borrowers to which it extends credit. See— "*Kuveyt Türk's Risk management strategies and internal control capabilities may leave it exposed to unidentified or unanticipated risks*". Furthermore, the growth in Kuveyt Türk's loan portfolio is primarily attributable to increasing loan demand, which may lead to deterioration in Kuveyt Türk's overall asset quality and an increase in loan to deposit ratio, due to relatively slower growth in deposits.

Security interests, collateral or loan guarantees provided in favour of Kuveyt Türk may be limited to cover losses in the event of defaults by debtors and may entail long and costly enforcement proceedings

Kuveyt Türk may have difficulty foreclosing on collateral or enforcing guarantees or other third party credit support arrangements when debtors default on their loans. In addition, the time and costs associated with enforcing security interests in Turkey may make it uneconomical for Kuveyt Türk to pursue such proceedings, adversely affecting Kuveyt Türk's ability to recover its loan losses.

Any decline in the value or liquidity of such collateral may prevent Kuveyt Türk from foreclosing on such collateral for its full value, or at all, in the event that a borrower becomes insolvent and enters bankruptcy and could thereby adversely affect Kuveyt Türk's ability to recover any loan losses, which would have a material adverse effect on Kuveyt Türk's financial condition and results of operations.

Concentration risk

Kuveyt Türk has a high concentration of loans and deposits in both geographic and customer segments. Geographically, Kuveyt Türk's loans are highly concentrated in Turkey (99 per cent. of cash credits as at 30 June 2011) and Kuveyt Türk's deposits are highly concentrated in Turkish lira accounts (61 per cent. of total deposits as at 30 June 2011). Accordingly, Kuveyt Türk is particularly exposed to any future downturn in the economy of Turkey.

Kuveyt Türk, like other Turkish banks, has a large portion of its total credits comprised of cash and non-cash credits to the construction industry sector, which has experienced an upturn in economic conditions in recent years. As at 31 December 2010, 28.96 per cent. of Kuveyt Türk's total credit risk exposure were cash and non-cash credits to the construction industry sector (compared to 22.80 per cent. as at 31 December 2009). A downturn in the construction industry sector may result in Kuveyt Türk's customers in the sector being unable make their payments. This would also have a significant negative impact on the Turkish economy and the Turkish banking system generally, which would have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects, which would significantly negatively affect Kuveyt Türk's financial condition and results of operations.

Kuveyt Türk has all its operations and assets predominantly in Turkey and accordingly its business may be affected by the financial, political and general economic conditions prevailing from time to time in Turkey and/or the European Union (the EU) generally.

Operational risks

Operational risks and losses can result from fraud, error by employees, failure to document transactions properly, failure to obtain proper internal authorisations, failure to comply with regulatory requirements and conduct of business rules, the failure of internal systems, equipment and external systems (for example, those of Kuveyt Türk's counterparties or vendors) or the occurrence of natural disasters including earthquakes. İstanbul, the location of Kuveyt Türk's head office and most of Kuveyt Türk's branches, is an earthquake zone. See "*Description of Kuveyt Türk—Risk Management*" for a description of Kuveyt Türk's exposure to operational risks.

Although Kuveyt Türk has implemented risk controls and loss mitigation strategies and substantial resources are devoted to developing efficient procedures, it is not possible to be certain that such procedures and controls will be effective in controlling each of the operational risks of Kuveyt Türk. Any failure to effectively control such risks would have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

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

Liquidity risks

Liquidity risks could arise from Kuveyt Türk's inability to anticipate and provide for unforeseen decreases or changes in funding sources which could have adverse consequences on Kuveyt Türk's ability to meet its obligations when they fall due. As is the normal practice in the banking industry, Kuveyt Türk accepts deposits from its customers which are short-term in nature (according to financial statements prepared in

accordance with Turkish GAAP of its TL7,381 million in customer deposits at 31 December 2010, 83.7 per cent. had contractual maturities of less than three months). However, it is also normal in the banking industry for these short-term deposits to be rolled over on their maturity such that, in practice, a significant portion of them have actual maturities of rather longer duration. However, Kuveyt Türk cannot be certain that its customer will continue to roll over or maintain their deposits with Kuveyt Türk. By contrast, Kuveyt Türk's loans have more diversified maturities (according to financial statements prepared in accordance with Turkish GAAP of its TL6,985 million in customer loans at 31 December 2010, only 28.3 per cent. had contractual maturities of less than three months). See "*Description of Kuveyt Türk—Risk Management*" for a description of Kuveyt Türk's exposure to liquidity risks. Accordingly, there is a risk that if a significant number of Kuveyt Türk's customers do not choose to roll over their deposits at any time Kuveyt Türk could experience difficulties in repaying those deposits. In addition, Kuveyt Türk only has limited *Sharia* compliant products that could be used for short-term liquidity management. To address these risks, Kuveyt Türk monitors its liquidity position on a daily basis and is proactive in confirming with its large depositors their intentions in relation to maturing deposits. It also holds liquid assets at prudent levels to maintain liquidity, even under adverse conditions. However, assets held for sale may not be able to be sold due to adverse market conditions. Accordingly, there is no assurance that Kuveyt Türk will not experience significant liquidity constraints in the future and any such constraints could have an adverse effect on Kuveyt Türk's financial position and it may be required to seek funding from more expensive sources, which in turn could have a material adverse effect on its business, financial condition, results of operations, cash flows and prospects.

Market risks

The most significant market risks to which Kuveyt Türk is exposed are currency exchange rate risk, interest rate risk and fluctuations in the prices of financial products. Kuveyt Türk is also exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. Although Kuveyt Türk sets limits and performs certain other measures aimed at reducing these risks, such as hedging against these risks and use of derivative instruments, no assurance can be given that these measures will be effectively implemented or that they will allow the Bank to minimise the impact of currency exchange rate and interest rate volatility. See "*Description of Kuveyt Türk—Risk Management*" for further details. If Kuveyt Türk's risk management procedures and limits do not minimise the impact of market risks on Kuveyt Türk, its business, financial condition and results of operations may be adversely affected. Kuveyt Türk maintains an investment policy for any funds it holds. Significant reductions in the value of the assets in which it invests could give rise to a loss and materially adversely affect Kuveyt Türk's business, financial position and results of operations.

Kuveyt Türk is controlled by certain principal shareholders whose interests may not be aligned with Kuveyt Türk's interests or those of other holders of Kuveyt Türk's shares or those of Certificateholders

Currently, Kuwait Finance House KSC (KFH) directly and indirectly holds 62.23 per cent. of Kuveyt Türk's shares, see "*Description of Kuveyt Türk—Shareholders*" for further details.

By virtue of its shareholding, KFH has the ability to significantly influence Kuveyt Türk's business through its ability to control actions that require shareholder approval. If circumstances were to arise where the interests of the major shareholders conflict with the interests of the Certificateholders, the Certificateholders may be disadvantaged by any such conflict.

The growth of Kuveyt Türk's business is dependent upon the continued development of the participation banking industry in Turkey and in countries where it operates

Although the participation banking industry is well established with a loyal customer base in Turkey, participation banking is a relatively new and growing area in the Turkish banking sector. As at the date of this Prospectus, participation banks have a market share of approximately 5 per cent. of the Turkish banking sector in terms of asset size and Kuveyt Türk has a major market share of approximately 1.5 per cent. among all participation banks. There can be no assurances that customer perception in relation to participation banking will not change as a result of events and factors affecting the socio-political environment in Turkey

and in countries where Kuveyt Türk operates or considers operating in the future or that the market share of participation banks will continue to grow.

The Central Bank of the Republic of Turkey's (the CBT) policy on reserve requirements and interest rates could negatively affect Kuveyt Türk's business, financial condition, results of operations and prospects

In December 2010, the CBT announced a policy of reducing interest rates while increasing Turkish lira reserve requirements in order to tackle Turkey's current account deficit.

Since that time, the CBT has announced significant increases in reserve requirements for Turkish lira deposits as part of its strategy to lengthen the maturities of assets flowing into the country and to address concerns that maturities of liabilities in the Turkish banking sector are shorter than those of assets, which in turn exposes the sector to liquidity and interest rate risk.

The Turkish lira reserve requirement for deposits, which was formerly a blanket 6 per cent., has been increased on a tiered basis to range from 5 per cent. for deposits with maturities of more than a year to 16 per cent. for deposits of immediately available funds. The increase in reserve requirements has been combined with reductions in interest rates. The CBT stipulated that interest rates on demand deposits may not exceed 0.25 per cent. annually. Between 16 December 2010 and 20 January 2011, the CBT's key rate (1 week repo rate) was reduced from 7.00 per cent. to 6.25 per cent. Over the same period, the overnight borrowing rate was reduced from 5.75 per cent. to 1.50 per cent. In addition, the overnight lending rate was increased from 8.75 per cent. to 9 per cent. on 12 December 2010.

As a consequence of these changes, Kuveyt Türk was required to increase its capital reserves and may need to access more expensive sources of financing to meet its funding requirements. No assurances can be given that Kuveyt Türk will be able to obtain additional funding on commercially reasonable terms as and when required, or at all, which could in turn adversely affect Kuveyt Türk's business, financial condition, results of operations and prospects. Reflecting its participation banking model by which returns paid on participation accounts reflect returns made on underlying loans in previous periods, reductions in interest rates tend to adversely affect Kuveyt Türk's results of operations.

Kuveyt Türk's customer deposits constituted 89.91 per cent. of its liabilities as at 31 December 2010, almost all of which were located in Turkey. A significant portion of these deposits are short term. If Kuveyt Türk is not able to increase the term of its deposits or attract foreign currency deposits, its Turkish lira reserve requirements and associated costs will increase, which could adversely affect Kuveyt Türk's business, financial condition, results of operations and prospects.

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

There can be no assurance that Kuveyt Türk's risk management and internal control policies and procedures will adequately control or protect Kuveyt Türk against all credit, liquidity, market and other risks. In addition, certain risks could be greater than Kuveyt Türk's empirical data would otherwise indicate. Kuveyt Türk continues to maintain and develop its risk management systems, both to meet Kuveyt Türk's ongoing internal risk management needs and to comply with all legal and regulatory requirements in the banking sector, including the Basel II criteria and the BRSA regulations.

The internal rating model which Kuveyt Türk uses has recently been extended by adding a collateral rating model which uses an analytical hierarchical method. This enables Kuveyt Türk to consider both the credit customer's internal rating and the collateral rating.

Other risk management practices, including "know your client" practices, depend upon evaluation of information regarding the markets in which Kuveyt Türk operates, its clients, other matters that are publicly available or information otherwise accessible to Kuveyt Türk. As such practices are less developed in Turkey than they are in other, non-emerging markets, and may not have been consistently and thoroughly implemented in the past, this information may not be accurate, complete, up to date or properly evaluated in all cases.

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

Any material deficiency in Kuveyt Türk’s risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn adversely affect Kuveyt Türk’s business, financial condition, results of operations and prospects.

Kuveyt Türk faces significant competition in the Turkish banking sector, which may result in reduced margins and volume growth

Although Kuveyt Türk is a participation bank dealing in financial products that differ in many ways from the products of conventional banks, it faces significant competition from not only other participation banks, but also from conventional banks in the Turkish banking sector. As at 30 June 2011, there were a total of 48 banks (excluding the CBT) licensed to operate in Turkey, 16 of which were banks with foreign ownership (including the subsidiaries of foreign banks and joint ventures between Turkish and foreign shareholders) and four of which were participation banks. Furthermore, as at 30 June 2011, there were a total of seven branches of foreign banks in Turkey. A small number of banks in the Turkish banking sector dominate the market. According to the BRSA, as at 31 December 2010, the top five banks in Turkey (in terms of asset size), two of which were state controlled, held approximately 61 per cent. of the banking sector’s total credit portfolio, approximately 65 per cent. of total bank assets in Turkey and approximately 66 per cent. of total depositors in Turkey.

Although Kuveyt Türk has been adapting to the changing conditions based on competition to limit effects on its operations, this increased competition may have a negative impact on the margins Kuveyt Türk can charge for its products. There can be no assurances that further competition pressures will not result in margin compression, which could have a material adverse effect on Kuveyt Türk’s business, financial condition and results of operations.

Currency translation risks may have a negative impact on Kuveyt Türk’s capital adequacy ratios and its business

A portion of Kuveyt Türk’s assets and liabilities are denominated in foreign currencies, and in particular the U.S. dollar and the Euro. In preparing its financial statements, Kuveyt Türk translates such assets and liabilities, as well as the mark-up earned or paid on such assets and liabilities and gains or losses realised upon the sale of such assets, to Turkish lira. As a result, and in common with all banks dealing with foreign currencies, Kuveyt Türk’s capital adequacy ratios, its reported income and its assets and liabilities are affected by changes in the value of the Turkish lira with respect to foreign currencies. Accordingly, the overall effect of exchange rate movements on Kuveyt Türk’s results of operations depends on the rate of depreciation or appreciation of the Turkish lira against the foreign currencies in which any of its assets and liabilities are denominated. Significant fluctuations in the value of the Turkish lira against foreign currencies, in particular the U.S. dollar and the Euro, could have a material adverse effect on Kuveyt Türk’s business, financial condition and results of operations.

The implementation of Kuveyt Türk’s growth strategy could adversely affect its asset quality, profitability and capital ratios

Kuveyt Türk is currently engaged in a programme of expansion through the organic growth of its branch network as well as strategic international expansion while also continuing to focus on its financial strength and performance. See “*Description of Kuveyt Türk—Strategy*” for further details.

Kuveyt Türk intends to open a number of additional branches throughout Turkey, and some internationally where growth opportunities exist, in order to attract more retail and SME customers as well as increase Kuveyt Türk’s retail deposit base. There are risks associated with such expansion, including greater-than-

anticipated costs of opening new branches, being unable to profitably deploy assets acquired or developed through expansion and being unable to integrate such assets into Kuveyt Türk's risk management systems. Kuveyt Türk may also experience pressure on its margins as it implements its growth strategy because of the delay between the increased operating costs incurred in connection with such expansion and any increase in revenues generated from such expansion. The management of Kuveyt Türk's growth will require, among other things, continued development of Kuveyt Türk's financial and information management control systems, the ability to integrate new products and services, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistent levels of customer service. Any failure to manage this growth while at the same time ensuring that Kuveyt Türk continues focus on its existing operations, including risk management systems and internal control processes, could have a material adverse effect on its asset quality (with a consequent increase in NPLs) profitability and capital ratios, and in turn, on its business, financial condition, results of operations, cash flows and prospects.

Volatility in interest rates may adversely affect Kuveyt Türk's net income attributable to mark-ups and have other adverse consequences

As a participation bank, Kuveyt Türk is an interest-free financial institution and its customers' participation and accounts are paid a return or suffer losses based on the performance of its credit portfolio rather than being paid a rate of interest. For such participation accounts, however, the maximum loss Kuveyt Türk's customers can suffer is limited to the nominal amount of their initial investment. Accordingly, interest rate related risk has no direct effect on Kuveyt Türk's business. However, changes in market interest rates still affect Kuveyt Türk indirectly because many of the same economic factors which have an effect on interest rates may also have a similar effect on the determination of Kuveyt Türk's mark-ups.

If interest rates rise and the demand for Kuveyt Türk's financings or its ability to generate new financings are reduced, Kuveyt Türk's business may be negatively affected. If interest rates fall, causing an increase in prepayments on Kuveyt Türk's credits or competition for deposits, Kuveyt Türk's income from these sources may decrease. Interest rates are highly sensitive to many factors beyond Kuveyt Türk's control, including monetary policies and domestic and international economic and political conditions. However, a rise or fall in interest rates could have a material adverse effect on Kuveyt Türk's business, financial condition and results of operations.

Kuveyt Türk's business and growth prospects may be disrupted if it loses the services of certain key personnel or if it is not able to identify and employ expert personnel

Kuveyt Türk's success will depend, in part, on the continued service of its key executives and employees and its ability to continue to attract, retain and motivate qualified personnel.

If one or more of Kuveyt Türk's key personnel are unable or unwilling to continue in their present positions, or if they join a competitor, Kuveyt Türk may not be able to replace them easily or quickly and Kuveyt Türk's business may, in consequence, be significantly disrupted with adverse effects on its financial condition and results of operations.

Kuveyt Türk is not insured against the detrimental effects to its business that may result from the loss or dismissal of its key personnel and Kuveyt Türk provides no assurance that it will be able to attract and retain the key personnel that it anticipates it will need to achieve its business objectives. If it is unable to: (i) retain key personnel or (ii) attract new qualified personnel to support the growth of its business, or if it is required to offer significantly higher compensation to attract and retain key personnel, this may have a material adverse effect on its business, financial condition, results of operations and prospects.

Labour disputes or work stoppages could disrupt operations or make them more costly to run. Kuveyt Türk is exposed to the risk of labour disputes and work stoppages. There are no members of labour unions amongst Kuveyt Türk's employees and Kuveyt Türk has not experienced any work stoppages or labour disputes in the past. However, there can be no assurance that work stoppages or labour disputes will not occur in the future. Any such action could disrupt operations, possibly for a significant period of time, result in

increased wages and benefits or otherwise have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

A failure or interruption in or breach of Kuveyt Türk's information systems, and any failure to update such systems, may result in loss of business and other losses

Kuveyt Türk is increasingly dependent on information technology systems to conduct its business. Any failure or interruption or breach in security of these systems could result in failures or interruptions in Kuveyt Türk's risk management, general ledger, account servicing or credit organisation systems. Although Kuveyt Türk has developed back-up systems and may continue some of its operations through branches in case of emergency, if Kuveyt Türk's information systems fail, Kuveyt Türk could be unable to serve some customers' needs on a timely basis and could thus lose their business or experience negative publicity. Likewise, a temporary shutdown of Kuveyt Türk's information technology systems could result in significant costs being incurred in connection with information retrieval and verification.

Kuveyt Türk has established a disaster recovery centre (the **Disaster Recovery Centre**) at Türk Telekom Data Centre in Ankara. This site is located in a first degree earthquake risk zone. Kuveyt Türk has established a separate online back-up system which is used to transfer critical data to the Disaster Recovery Centre. Notwithstanding these precautions, should a natural disaster or other event affecting the Ankara area occur, or should Kuveyt Türk not be able to use its online link to the back-up system at the Disaster Recovery Centre, it may be impossible for Kuveyt Türk to recover data in the event that its main information systems located in İstanbul fail. Therefore, there can be no assurances that such failures or interruptions will not occur or that Kuveyt Türk will be able to address them in a timely manner if they do occur. Accordingly, the occurrence of any failure, interruption or breach of Kuveyt Türk's information systems could have a material adverse effect on its business, financial condition and results of operations.

Kuveyt Türk has incurred, and continues to incur, a risk of counterparty default that arises, for example, from entering into swaps or other derivative contracts under which counterparties have financial obligations to make payments to Kuveyt Türk

Kuveyt Türk routinely executes transactions with counterparties in the financial services industry, including commercial banks, investment banks and other institutional clients, resulting in a significant credit concentration. Kuveyt Türk is exposed to counterparty risks which were increased as a result of financial institution failures and nationalisations during the global financial crisis and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. In addition, Kuveyt Türk's credit risk would be exacerbated if the collateral it holds cannot be realised or is liquidated at prices that are not sufficient to recover the full amount of the loan or derivative exposure it is intended to secure. In addition, a default by, or even concerns about the financial resilience of, one or more financial services institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material and adverse effect on Kuveyt Türk's results of operations, financial condition and prospects.

Future events may be different than those reflected in the management assumptions and estimates used in the preparation of Kuveyt Türk's financial statements, which may cause unexpected reductions in profitability or losses in the future

Pursuant to IFRS rules and interpretations in effect as at the date of this Prospectus, Kuveyt Türk is required to use certain estimates in preparing its financial statements, including accounting estimates to determine loan loss reserves and the fair value of certain assets and liabilities, among other items. Should the estimated values for such items prove substantially inaccurate, particularly because of significant and unexpected market movements, or if the methods by which such values were determined are revised in future IFRS rules or interpretations, Kuveyt Türk may experience unexpected reductions in profitability or losses.

Kuveyt Türk's strategy to grow its non-cash credit portfolio may cause its capital adequacy ratios to decline

During the past years, Kuveyt Türk's non-cash credit portfolio has increased significantly, however there was a slight decrease in its liabilities relating to non-cash credits to TL5,015 million as at 31 December 2010 compared to TL5,255 million as at 31 December 2009. Kuveyt Türk intends to continue to expand and develop its non-cash credit product offerings, which comprise letters of guarantee, letters of credit and other commitments and guarantees. The volume of its off-balance sheet commitments, together with balance sheet assets and market and other risk positions, are compared against Kuveyt Türk's eligible capital to determine its capital adequacy ratios. Although historically Kuveyt Türk's capital ratios have been well above the required minimum ratio of 12 per cent. (for example, 17.05 per cent. as at 31 December 2010 and 14.56 per cent. as at 31 December 2009), as Kuveyt Türk continues to grow its off-balance sheet liabilities its capital adequacy ratio may decline, which could have a material adverse effect on its business, financial condition and results of operations.

The occurrence of a risk faced by Kuveyt Türk could exacerbate other risks that the Bank faces

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

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

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

Kuveyt Türk maintains a reputation as a pre-eminent participation bank, and any failure to adhere to the principles of participation may result in loss of reputation. Investors' perceptions in relation to the participation banking model may also change

As Kuveyt Türk and all its subsidiaries operate and conduct their business pursuant to the principles of a participation bank, and in line with the principles of *Sharia*, Kuveyt Türk maintains a supervisory board to ensure that the respective entities adhere to the principles of *Sharia* at all times. However, any failure to comply with the principles of a participation bank or *Sharia* may adversely affect Kuveyt Türk's reputation which may in turn damage its ability to attract and retain customers and consequently have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

Any adverse change in investor perception in relation to the participation banking model (whereby depositors participate in pools of financings made by Kuveyt Türk to customers and their deposits are subject to the credit risks of financings included in such pools) may also have an adverse effect on Kuveyt Türk's business, financial condition, results of operations, cash flows and prospects.

Kuveyt Türk's credit ratings may not reflect all risks, and changes to Turkey's credit ratings may affect the Bank's ability to obtain funding

Credit ratings affect the cost and other terms upon which the Bank is able to obtain funding. Rating agencies regularly evaluate Kuveyt Türk and their ratings of its long-term debt are based on a number of factors, including its financial strength as well as conditions affecting the financial services industry generally. As at 31 December 2010, Kuveyt Türk's long-term local currency ratings was BBB- from Fitch Ratings. One or more independent credit rating agencies may also assign credit ratings to the Certificates. Any ratings of either Kuveyt Türk or the Certificates may not reflect the potential impact of all risks related to the Certificates, the global financial market and the Turkish banking sector. In light of the difficulties in the financial markets, there can also be no assurance that the rating agencies will maintain Kuveyt Türk's current ratings or outlooks. A downgrade or potential downgrade of the Turkish sovereign rating could negatively affect the perception these agencies have of Kuveyt Türk's rating. Investors should be aware that a credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

Risk factors relating to Turkey

Any claims against Kuveyt Türk under the Certificates and the Transaction Documents will be unsecured claims payable from, among other sources, Kuveyt Türk's funds in Turkey. The ability of Kuveyt Türk to make any such payments from Turkey will depend, among other factors, upon the Turkish government not having imposed any prohibitive foreign exchange controls, Kuveyt Türk's ability to obtain U.S. dollars in Turkey and Kuveyt Türk's ability to secure any applicable necessary approval from the relevant authorities, which could be affected by the circumstances described below. Any such restrictions or failure to obtain the necessary approval could affect the Bank's ability to make payment of interest and principal under the Certificates.

Kuveyt Türk is predominantly engaged in business in Turkey and its results of operations and financial condition are to a large extent dependent upon the overall level of economic activity and political stability in Turkey. Even though in recent years Turkey has undergone significant political and economic transformation which has resulted in increased stability and economic growth, Turkey has been affected by the global financial crisis and is still generally considered by international investors to be an emerging market.

In general, investing in the securities of issuers that have operations primarily in emerging markets like Turkey involves a higher degree of risk than investing in the securities of issuers with substantial operations in the United States, the countries of the EU or other similar jurisdictions. Summarised below are a number of risks relating to operating in Turkey and other emerging markets.

The level of inflation and the state of the current account deficit in Turkey could adversely affect Kuveyt Türk's business, financial condition, results of operations and prospects

In the past, Turkey has experienced high rates of inflation. As a result of the financial crises in November 2000 and February 2001, the Wholesale Price Index (WPI) increased to 88.6 per cent. at the end of 2001 from 32.7 per cent. at the end of 2000 and the Consumer Price Index (CPI) increased to 68.5 per cent. from 39.0 per cent. Since 2001, pursuant to stand-by agreements with the International Monetary Fund (the IMF), the Turkish government has implemented measures to significantly reduce inflation. WPI decreased to 13.8 per cent. at the end of 2004. CPI decreased to 9.3 per cent. at the end of 2004 and 7.7 per cent. at the end of 2005. In January 2005, the WPI was replaced by the Producer Price Index (PPI) which was approximately 2.7 per cent. at the end of 2005. Turkey's PPI and CPI for the December 2005 to December 2006 period was 11.58 per cent. and 9.65 per cent., respectively, for the December 2006 to December 2007 period, 5.94 per cent. and 8.39 per cent., respectively, for the December 2007 to December 2008 period, 8.11 per cent. and 10.06 per cent., respectively and for the December 2008 to December 2009 period, 5.93 per cent. and 6.53 per cent., respectively. The CPI rate was 6.4 per cent. at the end of 2010, below the CBT's target of 6.5 per cent. The CBT expects the CPI rate to have fallen to 5.9 per cent. by the end of 2011. Rising commodity prices are expected to constitute the main threat to price stability. This increase is believed to be temporary and due to base year effect, whereby previous periods of low inflation make even a modest increase in CPI

appear significant. Though the CBT has stated that current core inflation indicators remain in line with medium-term targets, and the rate of inflation has generally decreased since 2000, there can be no assurance that this trend will not reverse, particularly if the government fails to adhere strictly to current fiscal policies or due to other macroeconomic factors.

Prior to the economic downturn, the current account deficit (**CAD**) widened considerably mainly due to the widening trade deficit. CAD increased from US\$32.2 billion (6.1 per cent. of GDP) in 2006 to US\$38.3 billion (5.9 per cent. of GDP) in 2007 and US\$41.9 billion (5.7 per cent. of GDP) in 2008 and decreased to US\$14.0 billion (2.3 per cent. of GDP) in 2009. The current account deficit was US\$41.6 billion in the first 11 months of 2010, largely due to a deterioration in the foreign trade deficit which rose to US\$71.6 billion in 2010. Robust domestic demand saw imports grow at almost 37 per cent. while exports rose only 18 per cent. partly due to ongoing economic problems in the EU, Turkey's main trading partner. By cutting interest rates while simultaneously raising reserve requirements for the banking sector, the CBT states that it was taking precautionary measures to limit the widening of the current account deficit.

There can be no assurance that inflation will not increase further in Turkey in the near future. In particular, recent increases in prices, such as food prices, could cause an increase in inflation. The CBT has recently reduced interest rates, which could in turn lead to inflationary pressures in the Turkish economy. Furthermore, certain actions taken by the Turkish government to combat inflation could have negative effects on the Turkish economy. This could in turn limit Kuveyt Türk's access to credit markets and foreign financial markets and negatively impact its ability to comply with its obligations. There can be no assurance that inflation as well as government intervention that is harmful to Kuveyt Türk's interests will not occur in the future.

Risks relating to emerging markets

In recent years Turkey has undergone significant political and economic transformation which has resulted in increased stability and economic growth. However, Turkey is still considered by international investors to be an emerging market. In general, investing in the securities of issuers that have operations primarily in emerging markets, such as Turkey, involves a higher degree of risk than investing in the securities of issuers with substantial operations in more developed markets/economies.

Adverse political, economic and related considerations in Turkey and abroad could adversely affect Kuveyt Türk's business

Turkey may be subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate.

Turkey has seen significant economic growth and relative political stability. There can be no assurance that such growth or stability will continue. Moreover, while the government of Turkey's recent policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained. Kuveyt Türk may also be adversely affected generally by political and economic developments in or affecting Turkey.

No assurance can be given that the government of Turkey will not implement regulations or fiscal or monetary policies, including policies or new regulations or new legal interpretations of existing regulations or exchange controls, or otherwise take actions which could have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations or prospects or which could adversely affect the market price and liquidity of the Certificates.

Since December 2010, political instability has increased markedly in a number of countries in the Middle East and North Africa, such as Tunisia, Egypt, Jordan, Yemen, Syria and Libya. Unrest in those countries may also have implications for the wider global economy and may negatively affect market sentiment towards other countries in the region, including Turkey. The situation may therefore have a negative impact

on the Turkish economy which could in turn adversely affect Kuveyt Türk's business, financial condition, results of operations and prospects.

Kuveyt Türk may be affected if there are regional, political or economic events that prevent it from delivering its services. It is not possible to predict the occurrence of such events or circumstances or the impact of such occurrences and no assurance can be given that Kuveyt Türk would be able to fulfil its obligations if such events or circumstances were to occur. A general economic downturn or instability in certain sectors of the regional economy could have an adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

International financial crisis may have an adverse effect on Turkey's economy

The global financial crisis has affected the banking sector in Turkey. The EU is Turkey's main trading partner and as a result, the recent financial crisis being experienced within countries in the EU, particularly Greece and the EU debt crisis, may adversely impact the Turkish economy as demand for Turkish exports may decrease from the EU. This adverse effect on the Turkish economy may in turn have a material adverse effect on Kuveyt Türk's business, financial position, results of operations and cash flows.

Uncertainties relating to Turkey's accession to the EU may adversely affect the Turkish financial markets and result in greater volatility

Turkey has been a candidate country for EU membership since the Helsinki European Council of December 1999. The EU resolved on 17 December 2004 to commence accession negotiations with Turkey and affirmed that Turkey's candidacy will be judged by the same 28 criteria (or "Chapters") applied to other candidates. These criteria require a range of political, legislative and economic reforms to be implemented. Among these legislative reforms are two new major laws: the Turkish Commercial Code and the Code of Obligations which replace the current Turkish Commercial Code No. 6762 and Code of Obligations No. 818, respectively.

Though Turkey has had a long relationship with the EU, that relationship has at times been strained. During 2006, the EU issued several warnings in connection with Turkey's undertakings under the additional protocol dated July 2005. Following this, in December 2006, the EU decided that negotiations in eight Chapters should be suspended and that no Chapter be closed until the EU has verified that Turkey has fulfilled its commitments relating to the additional protocol. There can be no assurance that the EU will continue to maintain an open approach to Turkey's EU membership, nor that Turkey will be able to meet all the criteria applicable to becoming a member state, including the new Chapters opened in 2009 relating to taxation and the environment.

Proposed changes in Turkish law may have a significant impact

Three major pieces of legislation have been subject to substantial amendment, namely the Turkish Code of Obligations, the Turkish Code of Civil Procedures and the Turkish Commercial Code. Draft bills were approved by the Turkish Grand National Assembly on 11, 12 and 13 January 2011, respectively. The Turkish Code of Obligations and the Turkish Code of Civil Procedure were both approved by the President of the Turkish Republic on 3 February 2011, announced in the Official Gazette on 4 February 2011. The Turkish Commercial Code was sent to the President of the Turkish Republic on 4 February 2011 and promulgated in the Official Gazette on 14 February 2011. Both the Turkish Code of Obligations and the Turkish Commercial Code will come into effect as of 1 July 2012, whereas the Turkish Code of Civil Procedures came into effect on 1 October 2011. This legislation will implement substantial changes to Turkish law and it is anticipated that it will have a major impact on commercial life in Turkey and may in turn impact on Kuveyt Türk's business, financial condition or results of operations. At this stage, such potential impact cannot be quantified and it is also possible that amendments will be made to the respective laws from time to time until their effective date.

The government's influence over the Turkish economy could negatively impact Kuveyt Türk's business

Traditionally, the government has exercised, and continues to exercise, significant influence over many aspects of the Turkish economy. The government is also directly involved in the Turkish economy through its ownership and administration of State Economic Enterprises (SEEs) which, despite the divestments undertaken in the government's privatisation programme, continue to represent a significant portion of the Turkish economy. SEEs and other such public enterprises operate in business segments in which Kuveyt Türk operates, or may operate in the future, including businesses in the financial services sector. Accordingly, any decisions taken by the government with respect to SEEs and other such public enterprises may significantly impact the Turkish economy, which could in turn have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

Exchange controls may adversely affect Kuveyt Türk's business, financial condition or results of operations generally or its ability to make any payments required under the Transaction Documents

Turkish citizens were given limited rights to hold and trade foreign currency by Decrees 28 and 30 on the Protection of the Value of the Turkish Currency in 1983. Turkish exchange regulations strictly controlled exchange movements. After the establishment of a foreign exchange market in August 1988, the exchange rate of the Turkish lira began to be determined by market forces, and banks in Turkey currently set their own foreign exchange rates independently of those announced by the CBT.

Pursuant to Decree 32, as amended, the government eased and ultimately abolished restrictions on the convertibility of the Turkish lira for current account and non-resident capital account transactions. Such steps included facilitating exchange of the proceeds of transactions in Turkish securities by foreign investors, enabling Turkish citizens to purchase securities with foreign exchange, permitting residents and non-residents to buy foreign exchange without limitation and to transfer such foreign exchange abroad, and permitting Turkish companies to invest without limitation. With respect to export-related receipts, before Decree 32 was amended in January 2008, exporters had to bring the related foreign currency payment into Turkey and convert it into Turkish lira within 180 days after the related goods were exported. This restriction has now been abolished. Turkish citizens are permitted to buy unlimited amounts of foreign currency from banks and to hold foreign exchange in commercial banks. Although Kuveyt Türk's management believes that it is unlikely that exchange controls will be re-introduced in the near term, the implementation of any such exchange controls may adversely affect Kuveyt Türk's business, financial condition or results of operations generally or its ability to make any payments required under the Transaction Documents.

The Turkish economy is undergoing transformation to a free market system

The Turkish economy is undergoing continued transformation to a free market system, is subject to significant macroeconomic risks and has been dependent upon the support of the IMF in times of economic crisis. Since the early 1980s, the Turkish economy has undergone a transformation from a highly protected and regulated system to a free market system. Although the Turkish economy has responded well in general to this transformation, it has continued to experience severe macroeconomic imbalances and has frequently resorted to support from the IMF. While the economy has been significantly stabilised due, in part, to IMF requirements, Turkey may experience another significant economic crisis. If IMF or similar support is not provided or available in any future crisis, then this lack of assistance could have a material adverse effect on Kuveyt Türk's business, financial condition and/or results of operations. Investors should note that, notwithstanding the Turkish economy's traditional resort to the IMF in times of macroeconomic imbalance, the Turkish government decided that IMF support was not required in connection with the current global financial crisis.

Kuveyt Türk's banking and other businesses are significantly dependent upon its customers' ability to make payments on their loans and meet their other obligations to Kuveyt Türk. If the Turkish economy declines because of, among other factors, a reduction in the level of economic activity, devaluation of the Turkish lira, inflation or an increase in domestic interest rates, then a greater portion of Kuveyt Türk's customers may not be able to repay loans when due or meet their other debt service requirements to Kuveyt Türk, which would increase Kuveyt Türk's past due loan portfolio and could materially reduce its net income and capital levels.

In addition, a decline in the Turkish economy would likely result in a decline in the demand for Kuveyt Türk's products. The occurrence of any or all of the above could have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

Risk factors relating to the Certificates

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in the Certificates must be prepared to hold the Certificates for an indefinite period of time or until their maturity. Application has been made for the listing of the Certificates on the London Stock Exchange but there can be no assurance that such listing will occur on or prior to the Closing Date or at all or, if it does occur, that it will enhance the liquidity of the Certificates.

The Certificates are limited recourse obligations

The Certificates are not debt obligations of the Issuer. Instead, the Certificates solely represent the interests of Certificateholders in the Agency Assets. Recourse to the Issuer in respect of the Certificates is limited to the Agency Assets and proceeds of such Agency Assets are the sole source of payments on the Certificates. Upon the occurrence of a Termination Event, the sole rights of each of the Certificateholders' Representative and, through the Certificateholders' Representative, the Certificateholders will be against Kuveyt Türk to perform its respective obligations under the Transaction Documents. Certificateholders will otherwise have no recourse to any assets of the Issuer or Kuveyt Türk in respect of any shortfall in the expected amounts due under the Agency Assets. Kuveyt Türk is obliged to make certain payments under the Transaction Documents directly to the Issuer, and the Certificateholders' Representative will have direct recourse against Kuveyt Türk to recover such payments due to the Issuer pursuant to the Transaction Documents. In the absence of default by the Certificateholders' Representative, investors have no direct recourse to Kuveyt Türk and there is no assurance that the net proceeds of the realisation of, or enforcement with respect to, the Agency Assets will be sufficient to make all payments due in respect of the Certificates. After enforcing or realising the Agency Assets and distributing the net proceeds of the Agency Assets in accordance with Condition 4.2, the obligations of the Issuer in respect of the Certificates shall be satisfied and neither the Certificateholders' Representative nor any Certificateholder may take any further steps against the Issuer to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Certificateholders' Agent, the Certificateholders' Representative or any Certificateholder have any right to cause the sale or other disposition of any of the Agency Assets except pursuant to the Transaction Documents and the sole right of the Certificateholders' Agent, the Certificateholders' Representative and the Certificateholders against Kuveyt Türk shall be to enforce the obligation of Kuveyt Türk to perform its obligations under the Transaction Documents.

The Certificates may be subject to early redemption

In the event that the amount payable on the Certificates is required to be increased to include additional amounts in certain circumstances and/or Kuveyt Türk is required to pay additional amounts pursuant to certain Transaction Documents, in each case as a result of certain changes affecting taxation in Turkey, or in any political subdivision or any authority thereof or therein having power to tax, the Issuer may redeem all but not some only of the Certificates upon giving notice in accordance with the Terms and Conditions of the Certificates.

Risk factors relating to the Assets Portfolio

Liability attaching to owners of assets

In order to comply with the requirements of *Sharia*, an interest in the Assets Portfolio will pass to the Issuer in its capacity as agent under the Purchase Agreement. Article 18 of the Financial Lease Law numbered 3226 and published in the official gazette dated 28 June 1985 (the **Financial Lease Law**) prohibits the transfer of legal title to assets the subject of a financial lease unless such legal title is transferred to a financial lease company. Therefore, in the case of any Non-Real Estate Ijara Assets, legal title to such assets will at all times remain with Kuveyt Türk, which will hold such legal title on behalf of the Certificateholders' Agent. The Certificateholders' Agent will hold its interests in the Assets Portfolio and the other Agency Assets in accordance with and for the purposes of the communiqué Series: III, No: 43 of the CMB (the **Sukuk Communiqué**) in its name and on behalf of the Certificateholders, including as further provided in the Declaration of Agency.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any of the assets comprising the Assets Portfolio. Only limited representations will be obtained from Kuveyt Türk in respect of the Assets Portfolio. In particular, the precise terms of the Receivable Assets will not be known (including whether there are any restrictions on transfer or any further obligations required to be performed by Kuveyt Türk to give effect to the transfer of the relevant interests in the Receivable Assets). No steps will be taken to perfect the transfer of any interest in the Receivable Assets or otherwise give notice to any obligor in respect thereof.

In addition, if and to the extent that a third party is able to establish a direct claim against KT Sukuk, the Certificateholders' Representative or any Certificateholders on the basis of a legal or other interest in the Assets Portfolio, Kuveyt Türk has agreed in the Declaration of Agency to indemnify KT Sukuk, the Certificateholders' Representative and the Certificateholders against any such liabilities. In the event that Kuveyt Türk is unable to meet any such claims then the Certificateholders may suffer losses in excess of the original face amount invested.

Transfer of the Assets Portfolio

No investigation has been or will be made as to whether any interest in the Assets Portfolio may be transferred as a matter of the law governing the contracts, the law of the jurisdiction where such assets are located or any other relevant law. No investigation will be made to determine if the Purchase Agreement will have the effect of transferring an interest in the Assets Portfolio. The Purchase Agreement is governed by English law and, to the extent that such laws are applied in relation to any dispute, there are doubts whether an interest in certain assets (in particular those assets which are real estate based) can be effectively transferred without registration of the transfer with appropriate authorities. Accordingly, no assurance is given that any interest in the Assets Portfolio has been or will be transferred to KT Sukuk.

It is agreed in the Purchase Agreement and the Purchase Undertaking that any purchase, sale and transfer of any interest in Real Estate Ijara Assets is conditional on perfection of such purchase, sale and transfer before the relevant land registry in Turkey. Kuveyt Türk has undertaken to indemnify KT Sukuk for the purposes of the purchase of such Real Estate Ijara Assets and redemption in full of the outstanding Certificates in the event (i) of any failure to so perfect, or obtain any legally required approvals, consents or permits or do all acts or things as may be required for, such perfection, purchase, sale and transfer or (ii) that any transfer of any relevant interest in the Assets Portfolio is otherwise found to be ineffective. In addition, Kuveyt Türk has agreed in the Purchase Undertaking that, to the extent that the sale and purchase or transfer of any of the Assets Portfolio is not effective in any jurisdiction for any reason, it will in consideration for the payment to Kuveyt Türk by the Issuer of the purchase price for the Assets Portfolio make payment of an amount equal to the purchase price by way of restitution to the Issuer immediately upon request.

In the event that the Assets Portfolio is not repurchased by Kuveyt Türk for any reason, the Certificateholders' Representative will seek to enforce the payment and indemnity obligations of Kuveyt Türk under the Purchase Undertaking or the Purchase Agreement. To the extent that it obtains an English judgment in its favour, it may seek to enforce that judgment or award in a Turkish court. This will be subject

to general enforcement risks in Turkey (see “*Risk factors relating to enforcement—Enforcing foreign judgments in Turkey*”).

Risk factors relating to the Real Estate Ijara Assets

Total Loss Event

As owner of the Real Estate Ijara Assets, KT Sukuk is required, among other things, to insure the Real Estate Ijara Assets. In accordance with *Sharia* principles, KT Sukuk has delegated this obligation to Kuveyt Türk, as its managing agent, which has undertaken in the Management Agreement, among other things, to insure the Real Estate Ijara Assets in the name of KT Sukuk against the occurrence of a Total Loss Event for their full reinstatement value (and to ensure that such amount is not at any time less than the aggregate face amount of Certificates then outstanding). A **Total Loss Event** is defined as the total loss or destruction of, or damage to the whole of, the Real Estate Ijara Assets or any event or occurrence that renders the whole of the Real Estate Ijara Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted by any third party in respect of the Real Estate Ijara Assets) the repair or remedial work in respect thereof is wholly uneconomical.

Nevertheless, should such an event occur the Lease will terminate and the Certificates will be repaid using the proceeds of the insurance received by KT Sukuk. In this scenario, potential investors should be aware that: (i) rental under the Lease will cease upon the occurrence of a Total Loss Event as the Lease will have terminated and accordingly the Periodic Distribution Amount received by the Certificateholders will reflect this fact and (ii) there may be a delay in KT Sukuk receiving the proceeds of insurance and therefore in the Certificateholders receiving a Termination Amount in respect of their Certificates and no additional Periodic Distribution Amount will be paid in respect of this delay. In this regard, the Management Agreement provides that if the insurance proceeds for an amount equal to the full reinstatement value are not paid into the Transaction Account within 30 days of the occurrence of the Total Loss Event, Kuveyt Türk, as Managing Agent, shall have failed in its responsibility to properly insure the Real Estate Ijara Assets and accordingly (unless it proves beyond any doubt that any shortfall in the insurance proceeds is not attributable to its negligence or its failing to comply with the terms of the Management Agreement relating to insurance) Kuveyt Türk shall be responsible for paying any shortfall. The Certificateholders’ Representative will be entitled to enforce this undertaking against Kuveyt Türk on behalf of the Certificateholders.

Risk factors relating to taxation

Taxation risks on payments

Payments made by Kuveyt Türk to the Issuer under the Transaction Documents or by the Issuer in respect of the Certificates could become subject to taxation. The Lease Agreement, the Management Agreement and the Purchase Undertaking each require Kuveyt Türk (in its respective capacities) to pay additional amounts in the event that any withholding or deduction is required by applicable law to be made in respect of payments made by it to the Issuer which are intended to fund Periodic Distribution Amounts and Termination Amounts. Condition 11 provides that the Issuer is required to pay additional amounts in respect of any such withholding or deduction imposed by Turkish law in certain circumstances. In the event that the Issuer fails to pay any such additional amounts in respect of any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, Kuveyt Türk has unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Certificateholders’ Representative (for the benefit of the Certificateholders) an amount equal to the liabilities of the Issuer in respect of any and all additional amounts required to be paid in respect of the Certificates pursuant to Condition 11 in respect of any withholding or deduction in respect of any tax as set out in that Condition.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of certain payments paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to

operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

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

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

Risk factors relating to enforcement

Enforcement risk

Ultimately the payments under the Certificates are dependent upon Kuveyt Türk making payments to the Issuer and the Issuer making payments to Certificateholders in the manner contemplated under the Transaction Documents. If Kuveyt Türk or the Issuer fails to do so, it may be necessary to bring an action against either of them to enforce their respective obligations and/or to claim damages, as appropriate, which may be costly and time consuming.

All of the Transaction Documents are governed by English law, with the courts of England stated to have jurisdiction to settle any disputes. Notwithstanding that a judgment may be obtained in an English court, there is no assurance that Kuveyt Türk or the Issuer has, or would at the relevant time have, assets in the United Kingdom against which such judgment could be enforced.

Enforcing foreign judgments in Turkey

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

In addition, under Law No. 5718, a judgment of a court established in a country other than the Republic of Turkey may not be enforced in Turkish courts in certain circumstances. Although Turkish courts have recognised as enforceable a judgment of the English courts on the basis that there is *de facto* reciprocity between the United Kingdom and Turkey with respect to the enforcement of judgments of their respective courts, there is no treaty between the United Kingdom and Turkey providing for reciprocal enforcement of judgments. See “*Enforcement of Foreign Judgments and Service of Process*”.

Change of law

The structure of the issue of the Certificates is based on English and Turkish law and administrative practices in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law, Turkish law or administrative practices in either jurisdiction after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Certificates or of Kuveyt Türk or KT Sukuk to comply with their respective obligations under the Transaction Documents.

Claims for specific enforcement

In the event that either Kuveyt Türk or KT Sukuk fails to perform its obligations under any Transaction Document, the potential remedies available to the Certificateholders' Agent and the Certificateholders' Representative include obtaining an order for specific enforcement of the relevant obligations or a claim for damages. There is no assurance that any court would order specific enforcement of a contractual obligation, as this is generally a matter for the discretion of the relevant court.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors including an obligation on the Certificateholders' Representative to mitigate any loss arising as a result of the breach. No assurance is provided on the level of damages which a court may award in the event of a failure by either Kuveyt Türk or KT Sukuk to perform its obligations as set out in the Transaction Documents.

Additional risk factors

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Certificates. The ratings may not reflect the potential impact of all risks related to the transaction structure, the market, the additional factors discussed above or any other factors that may affect the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of repayment and may be revised, suspended or withdrawn by the assigning rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit ratings agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to Fitch and its expected rating of the Certificates is set out on page 1 of this Prospectus.

Suitability of investments

The Certificates may not be a suitable investment for all investors. Each potential investor in Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Prospectus;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

Emerging markets

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Consents to variation of Transaction Documents and other matters

The Declaration of Agency contains provisions permitting the Certificateholders' Representative from time to time and at any time without any consent or sanction of the Certificateholders to make any modification to the Declaration of Agency if, in the opinion of the Certificateholders' Representative, such modification (a) is of a formal, minor or technical nature, or (b) is made to correct a manifest error, or (c) is not materially prejudicial to the interest of Certificateholders. Unless the Certificateholders' Representative otherwise decides, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Certificates will be represented on issue by a Global Certificate that will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Certificate. While the Certificates are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

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

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

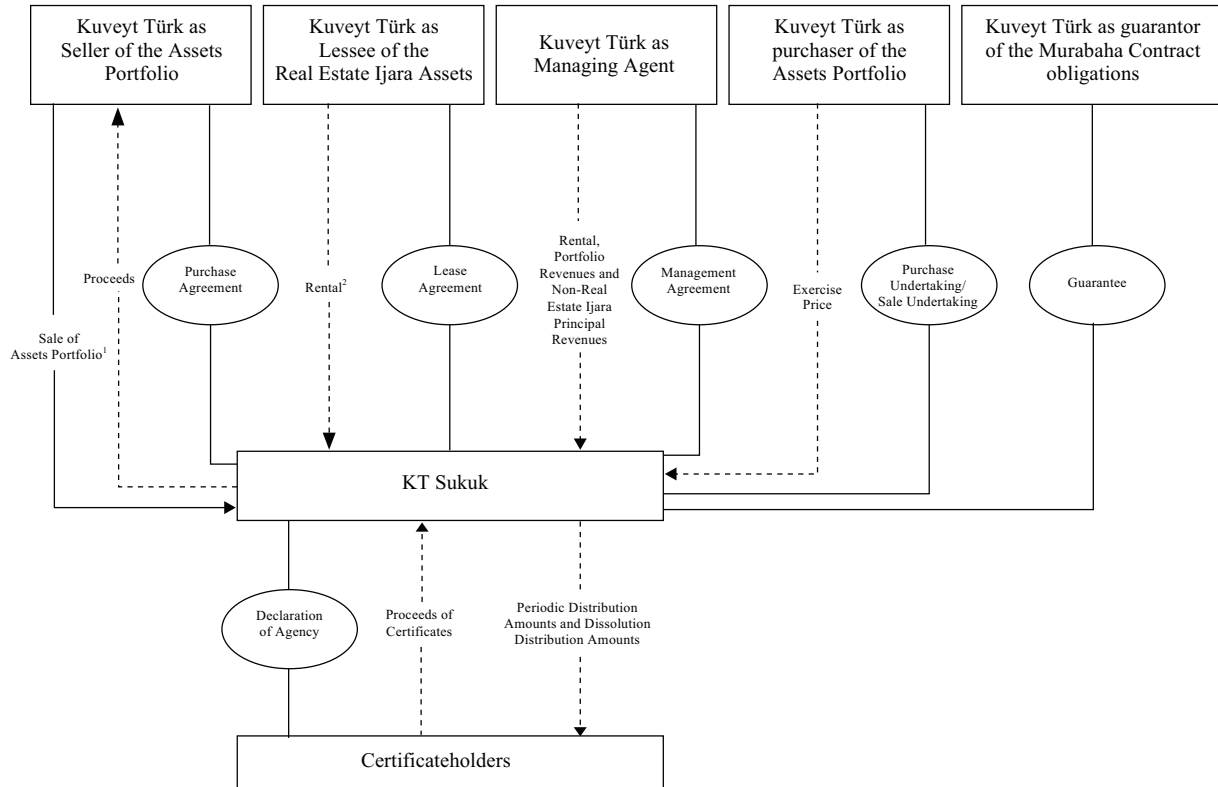
Sharia rules

The HSBC Amanah Central Shari'a Committee, the Standard Chartered Shariah Supervisory Committee and the Liquidity Management House Committee have each reviewed the Transaction Documents. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be *Sharia* compliant by any *Sharia* board or *Sharia* scholars. None of the Issuer, Kuvveyt Türk or the Managers makes any representation as to the *Sharia* compliance of the Certificates and potential investors are reminded that, as with any *Sharia* views, differences in opinion are possible. Potential investors should obtain their own independent *Sharia* advice as to the compliance of the Transaction Documents and the issue and trading of the Certificates with *Sharia* principles.

STRUCTURE DIAGRAM AND CASHFLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying the transaction. Potential investors are referred to the terms and conditions of the Certificates and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Prospectus for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.

Structure diagram



- 1 The Assets Portfolio will be comprised of Real Estate Ijara Assets, Non-Real Estate Ijara Assets and Murabaha Assets.
 2 Rental payable under the Lease Agreement will be paid to the Managing Agent on behalf of KT Sukuk as Lessor.

Principal cash flows

Payments by the Certificateholders and the Issuer

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to KT Sukuk and KT Sukuk will pay such amount to Kuveyt Türk as the purchase price payable under the Purchase Agreement for the Assets Portfolio. The Assets Portfolio shall comprise Real Estate Ijara Assets, Non-Real Estate Ijara Assets and Murabaha Assets. The sum of (i) the aggregate market value of the Real Estate Ijara Assets, as specified in the independent valuation report commissioned by Kuveyt Türk in relation to such assets (the **Market Value**), and (ii) the aggregate of all due and unpaid fixed rental instalment amounts payable by the lessee(s) of the Non-Real Estate Ijara Assets in the nature of capital or principal payments in respect of the related contract under which the lessee(s) leased such Non-Real Estate Ijara Assets, shall be equal to at least 51 per cent. of the aggregate face amount of the Certificates.

Periodic Distribution Payments

Prior to each Periodic Distribution Date, the Managing Agent will pay to KT Sukuk an amount reflecting the rental received in respect of the Real Estate Ijara Assets which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the Certificates and shall be applied by the Issuer for that purpose.

Termination Payment by Kuveyt Türk

On the Scheduled Termination Date, KT Sukuk will have the right to require Kuveyt Türk under the Purchase Undertaking to purchase all of the Assets Portfolio and the exercise price payable by Kuveyt Türk to the Issuer is intended to fund the Termination Distribution Amount payable by the Issuer under the Certificates.

Kuveyt Türk may be required to purchase all of the Assets Portfolio prior to the Scheduled Termination Date for the following reasons: (i) redemption following a Termination Event or (ii) an early redemption for tax reasons. In each case, the amounts payable by the Issuer on the due date for Termination will be funded by Kuveyt Türk purchasing the Assets Portfolio from KT Sukuk and paying the exercise price to (or to the order of) KT Sukuk pursuant to the terms of the Purchase Undertaking or the Sale Undertaking, as the case may be.

Purchase by Kuveyt Türk on the occurrence of a Change of Control Event

On the occurrence of a Change of Control Event, Certificateholders will have the right under Condition 10.1 to require Kuveyt Türk to purchase their Certificates. Upon the exercise of such right, Kuveyt Türk shall purchase the relevant Certificates on the Change of Control Purchase Date for an amount equal to the sum of the face amounts of such Certificates and the Periodic Distribution Amounts on such Certificates (if any) accrued and unpaid to the Change of Control Purchase Date.

OVERVIEW OF THE OFFERING

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Certificates. Accordingly, any decision by a prospective investor to invest in the Certificates should be based on a consideration of this Prospectus as a whole.

*Words and expressions defined in “Terms and Conditions of the Certificates” shall have the same meanings in this overview. Reference to a “Condition” is to a numbered condition of the Terms and Conditions of the Certificates (the **Conditions**).*

Parties

Issuer	KT Sukuk Varlık Kiralama A.Ş., a company incorporated in accordance with the laws of, and formed and registered in, Turkey. The Issuer has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents (as defined below) to which it is a party.
Ownership of the Issuer	The issued and fully paid share capital of the Issuer is TL50,000 consisting of 50,000 shares with a nominal value of TL1 each. The majority of the Issuer’s issued share capital is held by Kuveyt Türk.
Seller	<p>Kuveyt Türk (in such capacity, the Seller). The Seller will sell to the Issuer (to hold in its name and on behalf of the Certificateholders) the Assets Portfolio identified in, and pursuant to, the Purchase Agreement. The Assets Portfolio consists of:</p> <ul style="list-style-type: none">(a) certain real estate assets as described in Schedule 1 to the Purchase Agreement (the Real Estate Ijara Assets);(b) all rights, interests, benefits and entitlements (i) in and to certain non-real estate assets in relation to which the Seller or any person has entered into a non-real estate ijara contract as described in Schedule 2 to the Purchase Agreement (the Non-Real Estate Ijara Contracts) and (ii) under such Non-Real Estate Ijara Contracts, but excluding any obligations or liabilities of Kuveyt Türk in respect of any such assets (the Non-Real Estate Ijara Assets); and(c) all rights, interests, benefits and entitlements (i) in and to certain assets evidenced by the murabaha contracts described in Schedule 3 to the Purchase Agreement and (ii) under such murabaha contracts and any other related murabaha contracts, instruments or other documents evidencing or otherwise comprising Murabaha Assets and any related documentation entered into or to be entered into by any obligor under any such document, including any grant of security to secure the obligations of any such obligor (the Murabaha Contract), but excluding any obligations or liabilities of Kuveyt Türk in respect of any such assets (the Murabaha Assets).
Lessee	Kuveyt Türk. In accordance with the Lease Agreement, the Lessee will lease from the Certificateholders’ Agent the Real Estate Ijara Assets for a five year term and will pay rent to the Certificateholders’ Agent on a semi-annual basis.

Managing Agent	Kuveyt Türk. In accordance with the Management Agreement, the Managing Agent will provide certain services with respect to the Assets Portfolio. Under the Lease Agreement, the Certificateholders' Agent is responsible for insuring the Real Estate Ijara Assets, paying proprietorship taxes and performing major maintenance and structural repair. In accordance with the Management Agreement, the Certificateholders' Agent delegates this responsibility to the Managing Agent. The Managing Agent will make periodic payments to KT Sukuk reflecting the rental received under the Lease Agreement, which is intended to fund the Periodic Distribution Amounts payable by the Issuer in respect of the Certificates.
Kuveyt Türk	In accordance with the Purchase Undertaking, Kuveyt Türk will, at the option of the Certificateholders' Agent, pay the exercise price to KT Sukuk, following which Kuveyt Türk may complete the purchase of all of the Assets Portfolio. Kuveyt Türk shall have the right, under the Sale Undertaking, on an early redemption for tax reasons, to require the sale to Kuveyt Türk by KT Sukuk of all of the Assets Portfolio against payment by Kuveyt Türk of the exercise price.
Murabaha Guarantor	<p>Kuveyt Türk (the Murabaha Guarantor). The Murabaha Guarantor will guarantee all of the obligations of the Murabaha Obligors under the Murabaha Contracts pursuant to a deed of guarantee (the Murabaha Guarantee).</p> <p>Murabaha Contract means any contract, instrument or other document evidencing or otherwise comprising Murabaha Assets and any related documentation entered into or to be entered into by any Murabaha Obligor, including any grant of security to secure the obligations of any Murabaha Obligor.</p> <p>Murabaha Obligor means any obligor under a Murabaha Contract.</p>
Joint Lead Managers and Joint Bookrunners	<p>HSBC Bank plc</p> <p>Liquidity Management House for Investment Company K.S.C.C.</p> <p>Standard Chartered Bank</p>
Joint Lead Managers	<p>Abu Dhabi Islamic Bank PJSC</p> <p>Commerzbank Aktiengesellschaft</p>
Co-Managers	<p>Bank Islam Brunei Darussalam Berhad</p> <p>Kuwait Finance House (Malaysia) Berhad</p> <p>Kuwait International Bank</p> <p>Qatar Islamic Bank S.A.Q.</p>
Certificateholders' Agent	KT Sukuk Varlık Kiralama A.Ş. In accordance with the Declaration of Agency, the Certificateholders' Agent shall act as agent in respect of the Agency Assets for the benefit of the Certificateholders.
Certificateholders' Representative	HSBC Corporate Trustee Company (UK) Limited. Under the Conditions and as further provided in the Declaration of Agency, the Certificateholders have appointed the Certificateholders'

	Representative as their representative to act in their name and on their behalf on the terms set out in the Declaration of Agency.
Principal Paying Agent, Registrar and Transfer Agent	HSBC Bank plc
Summary of the Transaction Structure and Documents	An overview of the structure of the transaction and the principal cash flows is set out under “ <i>Structure Diagram and Cashflows</i> ” and a description of the principal terms of the significant Transaction Documents is set out under “ <i>Summary of the Principal Transaction Documents</i> ”.
Summary of the Certificates	
Certificates	U.S.\$350,000,000 Certificates due 2016.
Agency Assets	Each Certificate evidences an undivided interest in the Agency Assets, subject to the terms of the Transaction Documents and the Conditions, and is a limited recourse obligation of the Issuer. The Agency Assets are all of the KT Sukuk’s rights, title, interest and benefit, present and future, in, to and under the Assets Portfolio and the Transaction Documents together with all monies standing to the credit of the Transaction Account and all proceeds of the foregoing.
Closing Date	31 October 2011.
Issue Price	100 per cent. of the aggregate face amount of the Certificates.
Periodic Distribution Dates	The 30th day of April and 31st day of October in each year commencing on 30 April 2012.
Periodic Distributions	On each Periodic Distribution Date, Certificateholders will receive, from monies received in respect of the Agency Assets, a Periodic Distribution Amount in U.S. dollars equalling an amount equal to the product of (a) 5.875 per cent. per annum, (b) the face amount of the Certificates and (c) the number of days in the relevant Return Accumulation Period calculated on the basis of a year of 12 30-day months divided by 360. See Condition 7.
Return Accumulation Period	The period from and including the Closing Date to but excluding the first Periodic Distribution Date and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date or, if earlier, the relevant Termination Date.
Scheduled Termination of the Agency Arrangements	The Scheduled Termination Date is 31 October 2016. Upon receipt by the Issuer of the exercise price payable in accordance with the terms of the Purchase Undertaking, the exercise price will be applied to redeem the Certificates at the Termination Distribution Amount.
Early Termination of the Agency Arrangements	Other than as a result of the occurrence of a Termination Event or an early termination for tax reasons, the arrangements by which the Certificateholders’ Agent acts as agent for and on behalf of Certificateholders (the Agency Arrangements) will not be subject to termination, and the Certificates will not be redeemed, prior to the Scheduled Termination Date.
Termination Events	The Termination Events are set out in Condition 13. Following the occurrence of a Termination Event which is continuing, the

	<p>Certificates may be redeemed in full at the Termination Distribution Amount.</p>
Termination Distribution Amount	<p>The aggregate outstanding face amount of the Certificates plus all accrued and unpaid Periodic Distribution Amounts in respect of such Certificates.</p>
Change of Control Event	<p>On the occurrence of a Change of Control Event the Certificateholders shall have the right as described in Condition 10.1 to require Kuveyt Türk to purchase their Certificates.</p> <p>A Change of Control Event will occur if at any time Kuwait Finance House KSC ceases to own, directly or indirectly, at least 51 per cent. of the issued share capital of Kuveyt Türk or otherwise ceases to control, directly or indirectly, Kuveyt Türk. For these purposes, Kuwait Finance House KSC will be deemed to control Kuveyt Türk if (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract, trust or otherwise) it has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of Kuveyt Türk or otherwise controls, or has the power to control, the affairs and policies of Kuveyt Türk.</p>
Total Loss Event	<p>The occurrence of a Total Loss Event will result in the redemption of the Certificates and the consequent termination of the Agency Arrangements. The Managing Agent is responsible for ensuring that, in the event of a Total Loss Event occurring, all insurance proceeds in respect thereof are paid in U.S. dollars directly into the Transaction Account by no later than the 30th day after the occurrence of the Total Loss Event.</p> <p>A Total Loss Event is the total loss or destruction of, or damage to the whole of the Real Estate Ijara Assets or any event or occurrence that renders the whole of the Real Estate Ijara Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted by any third party in respect of the Real Estate Ijara Assets) the repair or remedial work in respect thereof is wholly uneconomical.</p>
Covenants	<p>The Purchase Undertaking contains a negative pledge and certain other covenants given by Kuveyt Türk and termination events that apply to Kuveyt Türk, see “<i>Summary of the Principal Transaction Documents</i>”.</p>
Role of Certificateholders’ Representative	<p>In accordance with the Declaration of Agency, the Certificateholders’ Agent shall acknowledge the appointment of the Certificateholders’ Representative and the right, power and authority of the Certificateholders’ Representative to require the Certificateholders’ Agent to act at its direction and in accordance with its instructions (including in respect of the present and future duties, powers, authorities and discretions vested in the Certificateholders’ Agent by certain provisions of the Declaration of Agency), and the Certificateholders’ Agent shall irrevocably and unconditionally undertake to act in accordance with all directions and instructions so given.</p> <p>In particular, the Certificateholders’ Representative shall be entitled to:</p>

	<ul style="list-style-type: none"> (a) deliver an Exercise Notice to Kuveyt Türk in accordance with the Purchase Undertaking; and (b) following a Termination Event, take any enforcement action in the name of the Certificateholders' Agent against either Kuveyt Türk, the Lessee or the Managing Agent.
Form and Delivery of the Certificates	<p>The Certificates will be issued in registered global form only.</p> <p>The Certificates will be represented on issue by beneficial interests in the Global Certificate which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of Certificates will be issued in exchange for interests in the Global Certificate only in the limited circumstances described under "<i>Global Certificate</i>".</p>
Clearance and Settlement	<p>Holders of the Certificates must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearance systems.</p>
Face Amounts of the Certificates:	<p>The Certificates will be issued in minimum face amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.</p>
Status of the Certificates	<p>Each Certificate represents an undivided interest in the Agency Assets and will rank <i>pari passu</i>, without any preference, with the other Certificates.</p>
Transaction Account	<p>The Principal Paying Agent will maintain and operate a U.S. dollar account opened in the name of the Issuer (the Transaction Account). Payments to the Issuer by Kuveyt Türk (as managing agent) under the Management Agreement and the Purchase Undertaking or the Sale Undertaking, as the case may be, respectively, will be credited to the Transaction Account. Periodic Distribution Amounts and the Termination Distribution Amount will be paid to holders of the Certificates from funds standing to the credit of the Transaction Account in accordance with the order of priority described under "<i>Priority of Distributions</i>" below.</p>
Priority of Distributions	<p>On each Periodic Distribution Date and on any Termination Date, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority:</p> <ul style="list-style-type: none"> (a) <i>first</i>, to the Certificateholders' Representative in respect of all amounts owing to it under the Transaction Documents in its capacity as Certificateholders' Representative; (b) <i>second</i>, to the Principal Paying Agent for application in or towards payment <i>pari passu</i> and rateably of all Periodic Distribution Amounts due and unpaid; (c) <i>third</i>, only if such payment is made on a Termination Date, to the Principal Paying Agent for application in or towards payment <i>pari passu</i> and rateably of the Termination Distribution Amount or amount payable on a Total Loss Event, as the case may be; and

- (d) *fourth*, only if such payment is made on a Termination Date, to the Managing Agent in or towards payment of all outstanding Ijara Management Expenses and Management Liabilities Amounts.

Limited Recourse

Each Certificate represents solely an undivided interest in the Agency Assets. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the Agency Assets.

Certificateholders have no recourse to any assets of the Issuer (other than the Agency Assets) or Kuveyt Türk (to the extent that each of them fulfils all of its obligations under the Transaction Documents) or any other person in respect of any shortfall in the expected amounts from the Agency Assets to the extent the Agency Assets have been exhausted following which all obligations of the Issuer shall be extinguished.

Enforcement

Following the distribution of the Agency Assets to the Certificateholders to the extent permitted under the Conditions and the Declaration of Agency, the Issuer shall not be liable for any further amounts and accordingly the Certificateholders may not take any action against the Issuer or any other person (including Kuveyt Türk) to recover any such amount in respect of the Certificates or the Agency Assets.

The Certificateholders' Representative shall not be bound in any circumstances to take any action to enforce or to realise the Agency Assets or take any action against the Issuer or Kuveyt Türk (including when acting in its capacity as Managing Agent) under any Transaction Document unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least 20 per cent. of the aggregate outstanding face amount of the Certificates, and in either case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.

No Certificateholder shall be entitled to proceed directly against the Issuer or Kuveyt Türk unless (a) the Certificateholders' Representative, having become bound so to proceed, fails to do so within 30 days of becoming so bound and such failure is continuing and (b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against the Issuer or Kuveyt Türk, as the case may be) holds at least 20 per cent. of the then aggregate outstanding face amount of the Certificates. Under no circumstances shall the Certificateholders' Representative or any Certificateholders have any right to cause the sale or other disposition of any of the Agency Assets (except pursuant to the Purchase Undertaking) and the sole right of the Certificateholders' Representative and the Certificateholders against the Issuer or Kuveyt Türk shall be to enforce their respective obligations under the Transaction Documents.

The foregoing is subject to the following. After enforcing or realising the Agency Assets and distributing the net proceeds in

accordance with Condition 4.2, the obligations of the Issuer in respect of the Certificates shall be satisfied and no holder of the Certificates may take any further steps against the Issuer, the Certificateholders' Agent and the Certificateholders' Representative or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no holder of the Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Issuer.

Withholding Tax

All payments by the Issuer under the Certificates are to be made without withholding or deduction for or on account of Turkish taxes, unless the withholding or deduction of the taxes is required by law. In such event, Kuveyt Türk will be required pursuant to the relevant Transaction Documents to pay to the Issuer such additional amounts as may be necessary to ensure that the full amount which otherwise would have been due and payable under the Certificates is received by the Certificateholders.

All payments by Kuveyt Türk (including when acting in its capacity as Managing Agent) under the Transaction Documents are to be made without withholding or deduction for or on account of Turkish taxes, unless the withholding or deduction of the taxes is required by law. In such event, Kuveyt Türk (in its relevant capacity) will be required pursuant to the relevant Transaction Documents to pay to the Issuer such additional amounts as may be necessary to ensure that the Issuer will receive the full amount which otherwise would have been due and payable.

Use of Proceeds

The proceeds of the issue of the Certificates will be paid by KT Sukuk on the Closing Date to the Seller as the purchase price for the Assets Portfolio.

Listing

Application has been made to the UK Listing Authority for the Certificates to be admitted to the Official List and to the London Stock Exchange for such Certificates to be admitted to trading on the London Stock Exchange's regulated market.

Ratings

The Certificates are expected to be assigned a rating of BBB- by Fitch. A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of repayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

Fitch is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.

Certificateholder Meetings

A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 17.

Tax Considerations

See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.

Transaction Documents

The Transaction Documents are the Purchase Agreement, the Lease Agreement, the Management Agreement, the Purchase

Undertaking, the Sale Undertaking, the Murabaha Guarantee, the Declaration of Agency and the Paying Agency Agreement.

Governing Law

The Purchase Agreement, the Lease Agreement, the Management Agreement the Purchase Undertaking, the Sale Undertaking, the Murabaha Guarantee, the Declaration of Agency, the Paying Agency Agreement and the Certificates will be governed by English law.

Selling Restrictions

There are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, Turkey, Bahrain, the DIFC, Malaysia, Qatar, Saudi Arabia, Singapore and the United Arab Emirates (excluding the DIFC).

TERMS AND CONDITIONS OF THE CERTIFICATES

The following is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form (if issued) and will, save as provided in “Global Certificate”, apply to the Global Certificate:

Each of the U.S.\$350,000,000 Certificates due 2016 (the **Certificates**) is issued by KT Sukuk Varlık Kiralama A.Ş. (in its capacity as issuer, the **Issuer** or **KT Sukuk**) and represents an undivided interest in the Agency Assets (as defined in Condition 4.1) held by KT Sukuk Varlık Kiralama A.Ş. (in such capacity, the **Certificateholders’ Agent**) in its name and on behalf of the holders of such Certificates (the **Certificateholders**) pursuant to a declaration of agency (the **Declaration of Agency**) dated on or about 31 October 2011 (the **Closing Date**) made by the Certificateholders’ Agent, Kuveyt Türk Katılım Bankası A.Ş. (**Kuveyt Türk**) and HSBC Corporate Trustee Company (UK) Limited as the representative of the Certificateholders (the **Certificateholders’ Representative**).

Payments relating to the Certificates will be made pursuant to a paying agency agreement dated the Closing Date (the **Paying Agency Agreement**) made between the Issuer and HSBC Bank plc as principal paying agent (in such capacity, the **Principal Paying Agent** and, together with any further or other paying agents appointed from time to time in respect of the Certificates, the **Paying Agents**), as registrar (in such capacity, the **Registrar**) and as transfer agent (in such capacity, the **Transfer Agent** and, together with the Registrar and any further or other transfer agents appointed from time to time in respect of the Certificates, the **Transfer Agents**). The Paying Agents and the Transfer Agents are together referred to in these Conditions as the **Paying and Transfer Agents**. References to the Paying and Transfer Agents or any of them shall include their successors.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 4.1). In these Conditions, words and expressions defined and rules of construction and interpretation set out in the Declaration of Agency shall, unless defined herein or the context otherwise requires, have the same meanings herein. Copies of the Transaction Documents are available for inspection during normal business hours at the specified offices of the Paying Agents. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct KT Sukuk, on behalf of the Certificateholders, (i) to apply the sums paid by it in respect of its Certificates in making payment to the Seller as the purchase price for the Assets Portfolio (each as defined in Condition 4.1) and (ii) to enter into each Transaction Document to which it is a party, subject to the provisions of the Declaration of Agency and these Conditions.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Certificates are issued in registered form in face amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each an **Authorised Denomination**). A Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Certificateholders (the **Register**).

Upon issue the Certificates will be represented by a Global Certificate. The Conditions are modified by certain provisions contained in the Global Certificate. Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See “Global Certificate”.

1.2 Title

The Issuer will cause the Registrar to maintain the Register in respect of the Certificates in accordance with the provisions of the Paying Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered holder of any Certificate will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate) and no person will be liable for so treating the holder of any Certificate. The registered holder of a Certificate will be recognised by the Issuer as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Issuer against the original or any intermediate holder of such Certificate. In these Conditions, **Certificateholder** and (in relation to a Certificate) **holder** have the meanings given thereto in the Declaration of Agency.

2. TRANSFERS OF CERTIFICATES

2.1 Transfers

Subject to Conditions 2.4 and 2.5, a Certificate may be transferred in an Authorised Denomination only by depositing the Certificate, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents.

Transfers of interests in the Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.

2.2 Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

2.3 Formalities Free of Charge

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Issuer or any Transfer Agent but upon payment (or the giving of such indemnity as the Issuer or any Transfer Agent may reasonably require) by the transferee in respect of any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered during the period of seven days ending on (and including) the due date for any payment of the Termination Distribution Amount (as defined in Condition 9.2) or any Periodic Distribution Amount (as defined in Condition 7.1).

2.5 Regulations

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfer of Certificates scheduled to the Paying Agency Agreement. The Regulations may be changed by the Issuer from time to time with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests in writing a copy of such regulations.

The holder of Certificates shall be entitled to receive, in accordance with Condition 2.2, only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 2.2.

3. STATUS AND LIMITED RECOURSE

3.1 Status

Each Certificate evidences an undivided interest in the Agency Assets, subject to the terms of the Declaration of Agency and these Conditions, and is a limited recourse obligation of the Issuer. Each Certificate ranks *pari passu*, without any preference or priority, with the other Certificates.

3.2 Limited Recourse

The proceeds of the Agency Assets are the sole source of payments on the Certificates. Save as provided in the next sentence, the Certificates do not represent an interest in or obligation of either the Issuer or Kuveyt Türk. Accordingly, Certificateholders, by subscribing for or acquiring the Certificates, acknowledge that they will have no recourse to any assets of the Issuer, the Certificateholders' Agent (other than the Agency Assets) or Kuveyt Türk (to the extent that each of them fulfils all of its obligations under the Transaction Documents to which it is a party) in respect of any shortfall in the expected amounts from the Agency Assets to the extent the Agency Assets have been exhausted following which all obligations of the Issuer shall be extinguished.

Kuveyt Türk is obliged to make certain payments under the Transaction Documents directly to KT Sukuk and the Certificateholders' Agent for and on behalf of the Certificateholders, and the Certificateholders' Representative will have direct recourse against Kuveyt Türk to recover such payments.

The net proceeds of realisation of, or enforcement with respect to, the Agency Assets may not be sufficient to make all payments due in respect of the Certificates. If, following the distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 14, no holder of Certificates will have any claim against the Issuer (to the extent the Agency Assets have been exhausted) or Kuveyt Türk (to the extent that each fulfils all of its obligations under the Transaction Documents) or against any assets (other than the Agency Assets to the extent not exhausted) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In particular, no holder of Certificates will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of KT Sukuk as a consequence of such shortfall or otherwise, but without limitation to Condition 3.3(b).

3.3 Agreement of Certificateholders

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (a) no payment of any amount whatsoever shall be made by or on behalf of KT Sukuk except to the extent funds are available therefor from the Agency Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or under any Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon any Transaction Document, against KT Sukuk

to the extent the Agency Assets have been exhausted following which all obligations of KT Sukuk shall be extinguished; and

- (b) prior to the date which is one year and one day after the date on which all amounts owing by KT Sukuk under the Transaction Documents have been paid in full, it will not institute against, or join with any other person in instituting against, KT Sukuk any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law.

4. AGENCY ARRANGEMENTS

4.1 Summary of the Agency Arrangements

KT Sukuk will enter into a purchase agreement (the **Purchase Agreement**) to be dated the Closing Date with Kuveyt Türk (in such capacity, the **Seller**). Pursuant to the Purchase Agreement the Seller will sell certain assets (the **Assets Portfolio**) to KT Sukuk. The Assets Portfolio shall comprise (a) certain real estate assets (the **Real Estate Ijara Assets**), (b) all rights, interests, benefits and entitlements (i) in and to certain non-real estate assets and (ii) under related ijara contracts and any other contracts, agreements or documents associated with such ijara contracts, but excluding any obligations or liabilities of Kuveyt Türk in respect of any such assets (the **Non-Real Estate Ijara Assets**); and (c) all rights, interests, benefits and entitlements (i) in and to certain murabaha receivables of Kuveyt Türk and (ii) under any contract, instrument or other document evidencing or otherwise comprising such assets and any related documentation entered into or to be entered into by any obligor under any such document, but excluding any obligations or liabilities of Kuveyt Türk in respect of any such assets (the **Murabaha Assets**). KT Sukuk will, with effect from the Closing Date, lease the Real Estate Ijara Assets to Kuveyt Türk (in such capacity, the **Lessee**) pursuant to a Lease Agreement to be dated the Closing Date. Under a management agreement (the **Management Agreement**) to be dated the Closing Date KT Sukuk will appoint Kuveyt Türk as managing agent (in such capacity, the **Managing Agent**) in respect of the Assets Portfolio. The Assets Portfolio includes any assets acquired by Kuveyt Türk on the Certificateholders' Agent's behalf and excludes any assets substituted or replaced by or transferred to Kuveyt Türk or otherwise disposed of, in each case in accordance with the Management Agreement.

Kuveyt Türk will enter into a purchase undertaking (the **Purchase Undertaking**) to be dated the Closing Date in favour of KT Sukuk under which it will undertake to pay an amount equal to the Termination Distribution Amount to KT Sukuk on the business day immediately preceding the Scheduled Termination Date (as defined in Condition 9.1) or, if earlier, on the due date for termination in accordance with Condition 13, at the Termination Distribution Amount, following which Kuveyt Türk may complete the purchase of all of the Assets Portfolio.

KT Sukuk will execute a sale undertaking (the **Sale Undertaking**) in favour of Kuveyt Türk. Pursuant to the Sale Undertaking, subject to the Issuer being entitled to redeem the Certificates early pursuant to Condition 9.2, Kuveyt Türk may, by exercising its option under the Sale Undertaking and serving notice on KT Sukuk no later than 60 days prior to the Tax Redemption Date (as defined in Condition 9.2), oblige KT Sukuk to sell all of the Assets Portfolio to Kuveyt Türk on the Tax Redemption Date at the Termination Distribution Amount.

Pursuant to a deed of guarantee (the **Murabaha Guarantee**), Kuveyt Türk will guarantee all of the obligations of the obligors (each a **Murabaha Obligor**) under each contract, instrument or other document comprising Murabaha Assets and any related documentation entered into or to be entered into by any Murabaha Obligor, including any grant of security to secure the obligations of any Murabaha Obligor.

The Issuer has established a transaction account (the **Transaction Account**) in the name of the Issuer with the Principal Paying Agent into which Kuveyt Türk will deposit all amounts due to the Issuer under the Management Agreement and the Purchase Undertaking or the Sale Undertaking, as the case may be, respectively.

Pursuant to the Declaration of Agency, the Issuer will declare that it will hold certain assets (the **Agency Assets**) primarily consisting of:

- (a) all of KT Sukuk's rights, title, interest and benefit, present and future, in, to and under the Assets Portfolio;
- (b) all of KT Sukuk's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents; and
- (c) all monies standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing in its name and on behalf of the holders of the Certificates *pro rata* according to the face amount of Certificates held by each holder in accordance with the Declaration of Agency and these Conditions.

The Purchase Agreement, the Lease Agreement, the Management Agreement, the Purchase Undertaking, the Sale Undertaking, the Murabaha Guarantee, the Declaration of Agency and the Paying Agency Agreement are together referred to in these Conditions as the **Transaction Documents** and all of the above arrangements as the **Agency Arrangements**.

4.2 Application of Proceeds from Agency Assets

On each Periodic Distribution Date and on any Termination Date (as defined in Condition 9.2), the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority:

- (a) *first*, to the Certificateholders' Representative in respect of all amounts owing to it under the Transaction Documents in its capacity as Certificateholders' Representative;
- (b) *second*, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;
- (c) *third*, only if such payment is made on a Termination Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the Termination Distribution Amount or amount payable on a Total Loss Event, as the case may be; and
- (d) *fourth*, only if such payment is made on a Termination Date, to the Managing Agent in or towards payment of all outstanding Ijara Management Expenses and Management Liabilities Amounts (each as defined in the Management Agreement) as directed by the Managing Agent.

5. APPOINTMENT OF CERTIFICATEHOLDERS' REPRESENTATIVE

By purchasing Certificates, each Certificateholder is deemed to have agreed to the appointment of the Certificateholders' Representative as its attorney to act in its name and on its behalf in respect of these Conditions, the Certificates, the Declaration of Agency and the other Transaction Documents.

In accordance with the Declaration of Agency, the Certificateholders' Agent shall acknowledge the appointment of the Certificateholders' Representative and the right, power and authority of the Certificateholders' Representative to require the Certificateholders' Agent to act at its direction and in accordance with its instructions (including in respect of the present and future duties, powers, authorities and discretions vested in the Certificateholders' Agent by the relevant provisions of the Declaration of Agency) and the Certificateholders' Agent shall irrevocably and unconditionally undertake to act in accordance with all directions and instructions so given.

6. COVENANTS

The Issuer covenants that for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Certificateholders' Representative):

- (a) incur any indebtedness in respect of borrowed money whatsoever, or give any guarantee in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;
- (b) secure any of its present or future indebtedness for borrowed money or any other certificates issued by it by any lien, pledge, charge, mortgage or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);
- (c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interest in any of the Agency Assets except pursuant to the Transaction Documents;
- (d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
- (e) amend or agree to any amendment of any Transaction Document to which it is a party or its memorandum and articles of association, in each case in a manner which is materially prejudicial to the rights of the holders of the Certificates without the prior approval of the Certificateholders' Representative or of the Certificateholders by way of Extraordinary Resolution;
- (f) act as agent in respect of any arrangements other than the Agency Arrangements or in respect of any parties other than the Certificateholders;
- (g) have any subsidiaries or employees;
- (h) redeem any of its shares or pay any dividend or make any other distribution to its shareholders;
- (i) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents to which it is a party have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; and
- (j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:
 - (i) as provided for or permitted in the Transaction Documents;
 - (ii) the ownership, management and disposal of the Agency Assets as provided in the Transaction Documents; and
 - (iii) such other matters which are incidental thereto.

7. PERIODIC DISTRIBUTIONS

7.1 Periodic Distribution Amounts and Periodic Distribution Dates

Subject to Condition 4.2 and Condition 8, the Principal Paying Agent shall distribute to holders of the Certificates, *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the applicable Periodic Distribution Amount. The **Periodic Distribution Amount** payable on each Periodic Distribution Date shall be U.S.\$29.38 per U.S.\$1,000 in face amount of Certificates. For this

purpose, **Periodic Distribution Date** means the 30th day of April and the 31st day of October in each year commencing on 30 April 2012 and, subject to Condition 7.3, ending on 31 October 2016.

7.2 Calculation of Periodic Distribution Amounts payable other than on a Periodic Distribution Date

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Return Accumulation Period (the **Relevant Period**), it shall be calculated as an amount equal to the product of (a) 5.875 per cent. per annum, (b) the face amount of the relevant Certificate and (c) the number of days in such Relevant Period calculated on the basis of a year of 12 30-day months divided by 360 (with the result being rounded to the nearest U.S.\$0.01, U.S.\$0.005 being rounded upwards). The period from and including 31 October 2011 to but excluding the first Periodic Distribution Date and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date is called a **Return Accumulation Period**.

7.3 Cessation of Accrual

No further amounts will be payable on any Certificate from and including its due date for redemption, unless default is made in payment of the Termination Distribution Amount in which case Periodic Distribution Amounts will continue to accrue in respect of the Certificates in the manner provided in this Condition 7.

8. PAYMENT

8.1 Payments in respect of the Certificates

Subject to Condition 8.2, payment of the Termination Distribution Amount and any Periodic Distribution Amount will be made by the Principal Paying Agent in U.S. dollars by wire transfer in same day funds to the registered account of each Certificateholder. Payments of the Termination Distribution Amount will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Termination Distribution Amount and each Periodic Distribution Amount will be paid to the holder shown on the Register at the close of business on the date (the **record date**) being the seventh day before the date on which the Termination Distribution Amount or the relevant Periodic Distribution Amount, as the case may be, is paid.

For the purposes of this Condition 8, a Certificateholder's **registered account** means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant record date.

8.2 Payments subject to Applicable Laws

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 11.

8.3 Payment only on a Payment Business Day

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated by the Principal Paying Agent on the due date for payment or, in the case of a payment of the Termination Distribution Amount, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the relevant Certificateholder is late in surrendering its Certificate (if required to do so).

If the amount of the Termination Distribution Amount or any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

In this Condition, **Payment Business Day** means a day on which commercial banks and foreign exchange markets in London and New York City are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

8.4 Agents

The names of the initial Paying and Transfer Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying and Transfer Agent and to appoint additional or other Paying and Transfer Agents provided that (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity), (b) it will at all times maintain a Paying Agent (which may be the Principal Paying Agent) having its specified office in London for so long as the Certificates are listed on the Official List of the UK Listing Authority and (c) there will at all times be a Paying Agent (which may be the Principal Paying Agent) located in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such Directive. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Issuer in accordance with Condition 16.

9. CAPITAL DISTRIBUTIONS

9.1 Scheduled Termination

Unless the Certificates are previously redeemed, the Issuer will redeem each Certificate at the Termination Distribution Amount on the Periodic Distribution Date falling on 31 October 2016 (the **Scheduled Termination Date**). Upon payment in full of the Termination Distribution Amount to the Certificateholders, the Agency Arrangements will terminate, the Certificates shall cease to represent Agency Assets and no further amounts shall be payable in respect thereof and the Issuer and the Certificateholders' Agent shall have no further obligations in respect thereof.

9.2 Early Termination for Tax Reasons

The Certificates may be redeemed by the Issuer in whole, but not in part, on any Periodic Distribution Date (such date, the **Tax Redemption Date**), on giving not less than 30 nor more than 60 days' notice to the Certificateholders in accordance with Condition 16 (which notice shall be irrevocable), at the Termination Distribution Amount, if:

- (a) (1) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 11 as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 11) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 27 October 2011 and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or
- (b) (1) the Issuer has received notice from the Lessee or the Managing Agent that the Lessee or the Managing Agent has or will become obliged to pay additional amounts pursuant to the terms of the Lease Agreement or the Management Agreement, respectively, as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 27 October 2011 and (2) such obligation cannot be avoided by the Lessee or the Managing Agent taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given unless an exercise notice has been received by the Issuer under the Sale Undertaking and no such notice of redemption shall be given

earlier than 60 days prior to the earliest date on which (in the case of (a) above) the Issuer would be obliged to pay such additional amounts if a payment in respect of the Certificates were then due or (in the case of (b) above) the Lessee or the Managing Agent, as the case may be, would be obliged to pay such additional amounts if a payment to the Issuer under the Lease Agreement or the Management Agreement, respectively, was then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Certificateholders' Representative (i) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such termination and setting forth a statement of facts showing that the conditions precedent in (a) or (b) above to the right of the Issuer so to terminate have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer, the Lessee or the Managing Agent, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment. The Certificateholders' Representative shall be entitled to accept (without further investigation) any such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Certificateholders. Upon the expiry of any such notice as is referred to in this Condition 9.2, the Issuer shall be bound to redeem the Certificates at the Termination Distribution Amount and upon payment in full of the Termination Distribution Amount to the Certificateholders, the Agency Arrangements will terminate, the Certificates shall cease to represent Agency Assets and no further amounts shall be payable in respect thereof and the Issuer shall have no further obligations in respect thereof.

In these Conditions, **Termination Date** means any of the Scheduled Termination Date, the Tax Redemption Date and any date specified by the Certificateholders' Representative in accordance with Condition 13 and **Termination Distribution Amount** in relation to a Certificate means its outstanding face amount plus all accrued and unpaid Periodic Distribution Amounts in respect of such Certificate.

9.3 Termination Following a Termination Event

Upon the occurrence of a Termination Event (as defined in Condition 13) which is continuing, the Certificates may be redeemed at the Termination Distribution Amount and the Agency Arrangements terminated as more particularly specified in Condition 13.

9.4 Termination following a Total Loss Event

Upon the occurrence of a Total Loss Event the Certificates may be redeemed and the Agency Arrangements terminated on the dates specified by the Certificateholders' Representative. The Certificates will be redeemed using the proceeds of insurance payable in respect of the Total Loss Event which are required to be paid into the Transaction Account by no later than the 30th day after the occurrence of the Total Loss Event.

A **Total Loss Event** is the total loss or destruction of, or damage to the whole of, the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical.

*The Management Agreement provides that if the obligations of the Managing Agent thereunder are not strictly complied with and as a result any insurance amounts paid into the Transaction Account are less than U.S.\$136,870,351.80 (the difference between the amount (if any) paid into the Transaction Account and U.S.\$136,870,351.80 being the **Shortfall Amount**), the Managing Agent shall be responsible for paying the Shortfall Amount into the Transaction Account immediately.*

9.5 No other Termination

The Issuer shall not be entitled to redeem the Certificates, and the Certificateholders' Agent shall not be entitled to terminate the Agency Arrangements, otherwise than as provided in this Condition 9 and Condition 13.

9.6 Cancellations

All Certificates which are redeemed will forthwith be cancelled and accordingly may not be held, reissued or resold.

10. PURCHASE OF CERTIFICATES

10.1 Purchase of Certificates following a Change of Control

- (a) If a Change of Control Event occurs, Kuveyt Türk shall, upon the holder of any Certificate giving notice to Kuveyt Türk at any time during the Change of Control Purchase Period, purchase, or procure the purchase of, such Certificate on the Change of Control Purchase Date for an amount equal to the sum of its face amount and the Periodic Distribution Amounts on such Certificate (if any) accrued and unpaid to the Change of Control Purchase Date.
- (b) Immediately upon the Issuer or Kuveyt Türk becoming aware that a Change of Control Event has occurred, the Issuer or Kuveyt Türk, as the case may be, shall and, at any time following the occurrence of a Change of Control Event, the Certificateholders' Representative, if so requested in writing by Certificateholders representing not less than one-fifth in face amount of the Certificates for the time being outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), shall, give notice (a **Change of Control Notice**) to the Certificateholders specifying the nature of the Change of Control Event, the Change of Control Purchase Period and the Change of Control Purchase Date.

For the purposes of this Condition 10.1:

a **Change of Control Event** will occur if at any time Kuwait Finance House KSC ceases to own, directly or indirectly, at least 51 per cent. of the issued share capital of Kuveyt Türk or otherwise ceases to control, directly or indirectly, Kuveyt Türk. For the purposes of this Condition, Kuwait Finance House KSC will be deemed to **control** Kuveyt Türk if (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract, trust or otherwise) it has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of Kuveyt Türk or otherwise controls, or has the power to control, the affairs and policies of Kuveyt Türk;

Change of Control Purchase Date means the first Business Day following the expiration of the Change of Control Purchase Period provided that the Change of Control Notice is given within 30 days of the Change of Control Event occurring, otherwise it means the date falling 14 days after the date on which the relevant Certificateholders exercise their right to require the purchase of the relevant Certificates in accordance with this Condition 10.1; and

Change of Control Purchase Period means, in relation to any Change of Control Event, the period from and including the date on which that Change of Control Event occurs (whether or not the Issuer, Kuveyt Türk or the Certificateholders' Representative has given a Change of Control Notice in respect of such event) to and including the date falling 60 days after the date on which the Change of Control Notice is given, provided that if no Change of Control Notice is given, the Change of Control Purchase Period shall not terminate.

The Certificateholders' Representative is under no obligation to ascertain whether a Change of Control Event, or any event which could lead to the occurrence of or could constitute a Change of Control Event, has occurred and, until it shall have actual knowledge or written notice

pursuant to the Declaration of Agency to the contrary, the Certificateholders' Representative may assume that no Change of Control Event or other such event has occurred.

- (c) The right of Certificateholders to require the purchase of Certificates under this Condition 10.1 on the occurrence of a Change of Control Event may be exercised by Certificateholders in any multiple of the Authorised Denomination of the Certificates. To exercise such right, a Certificateholder must deliver, at the specified office of the Principal Paying Agent at any time during normal business hours of such Principal Paying Agent within the Change of Control Purchase Period, a duly completed and signed notice of purchase in the form (for the time being current) obtainable from the specified office of the Principal Paying Agent (a **Purchase Notice**) and in which the Certificateholder must specify a bank account to which payment is to be made under this Condition 10.1 accompanied by the relevant Certificates or evidence satisfactory to the Principal Paying Agent concerned that the relevant Certificates will, following delivery of the Purchase Notice, be held to its order or under its control.
- (d) All notices to be given by any Certificateholder to Kuveyt Türk or by the Issuer or Kuveyt Türk to any Certificateholder under this Condition 10.1 must be given in accordance with Condition 16. Any Purchase Notice given by a Certificateholder pursuant to this Condition 10.1 shall be irrevocable and Kuveyt Türk will purchase, or procure the purchase of, all Certificates which are the subject of a validly delivered Purchase Notice on the Change of Control Purchase Date.

10.2 Purchases

- (a) Kuveyt Türk or any Subsidiary of Kuveyt Türk (other than the Issuer) may at any time purchase Certificates at any price in the open market or otherwise.
- (b) Following any purchase of Certificates pursuant to Condition 10.1 or 10.2(a), the Managing Agent may sell, transfer and assign to Kuveyt Türk (acting in its own capacity and for its own account) Murabaha Assets, Non-Real Estate Ijara Assets or Real Estate Ijara Assets (in such order, with no Non-Real Estate Ijara Assets or Real Estate Ijara Assets to be sold, transferred and assigned to Kuveyt Türk pursuant to this Condition 10.2 until all Murabaha Assets and Non-Real Estate Ijara Assets, respectively, have first been so sold, transferred and assigned) of a Value (as defined in the Management Agreement) that is not more than (and, in the case of any Murabaha Assets, that is equal to) the aggregate face amount of the Certificates so purchased in return for the delivery of such Certificates to the Principal Paying Agent for cancellation in accordance with Condition 10.3.
- (c) To the extent any Non-Real Estate Ijara Principal Revenues (as defined in the Management Agreement) are held by the Managing Agent at the time of any proposed sale, transfer and assignment of Non-Real Estate Ijara Assets to Kuveyt Türk pursuant to Condition 10.2(b), the Managing Agent shall first pay such Non-Real Estate Ijara Principal Revenues to Kuveyt Türk (for its own account) in place of any such sale, transfer and assignment to the extent, and in return for the delivery to the Principal Paying Agent for cancellation in accordance with Condition 10.3, of an aggregate face amount of Certificates equal to the amount of such Non-Real Estate Ijara Principal Revenues.
- (d) Any sale, transfer and assignment of any of the Assets Portfolio to Kuveyt Türk pursuant to this Condition 10.2 and delivery of Certificates to the Principal Paying Agent for cancellation pursuant to Condition 10.3 may only take place on a Periodic Distribution Date and any Murabaha Assets, Non-Real Estate Ijara Assets or Real Estate Ijara Assets to be so sold, transferred and assigned must be sold, transferred and assigned in full and there may not be any transfer of such assets in part only.

10.3 Cancellation

Following any purchase of Certificates by Kuveyt Türk or any Subsidiary of Kuveyt Türk pursuant to this Condition 10, such Certificates shall be delivered by Kuveyt Türk or such Subsidiary to the

Principal Paying Agent for cancellation on the immediately following Periodic Distribution Date and accordingly may not be held, reissued or resold.

11. TAXATION

All payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (**Taxes**), unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay additional amounts so that the full amount which otherwise would have been due and payable under the Certificates is received by parties entitled thereto, except that no such additional amount shall be payable in relation to any payment in respect of any Certificate:

- (a) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or
- (b) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment (where presentation is required) by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union.

In these Conditions, references to the **Termination Distribution Amount** or any **Periodic Distribution Amount** payable in respect of a Certificate shall be deemed to include any additional amounts payable under this Condition 11. In addition, in these Conditions:

Relevant Date means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Certificateholders' Representative on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to Certificateholders by the Issuer in accordance with Condition 16; and

Relevant Jurisdiction means the Republic of Turkey or any political sub-division or authority thereof or therein having power to tax.

The Lease Agreement, Management Agreement and Purchase Undertaking each provide that payments thereunder by the Lessee, Managing Agent and Kuveyt Türk, respectively, shall be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by law and, in such case, provide for the payment by the Lessee, Managing Agent or Kuveyt Türk, as the case may be, of additional amounts so that the full amount which would otherwise have been due and payable is received by the Issuer.

12. PRESCRIPTION

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within periods of ten years (in the case of the Termination Distribution Amount) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof, subject to the provisions of Condition 7.

13. TERMINATION EVENTS

Upon the occurrence and continuation of any of the following events (**Termination Events**):

- (a) default is made in the payment of the Termination Distribution Amount or any Periodic Distribution Amount and such default continues for a period of seven days from the due date for payment; or
- (b) the KT Sukuk defaults in performance or observance of or compliance with any of its other obligations or undertakings under the Transaction Documents to which it is a party and such default is not capable of remedy or (if capable of remedy) is not remedied within 30 days after written notice of such default shall have been given to KT Sukuk by the Certificateholders' Representative; or
- (c) a Kuveyt Türk Event (as defined in the Purchase Undertaking) occurs; or
- (d) KT Sukuk repudiates any Transaction Document to which it is a party or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document to which it is a party; or
- (e) at any time it is or will become unlawful or impossible for KT Sukuk (by way of insolvency or otherwise) to perform or comply with any or all of its obligations under the Transaction Documents or any of the obligations of KT Sukuk under the Transaction Documents are not or cease to be legal, valid, binding and enforceable; or
- (f) either (i) KT Sukuk becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the whole or substantially the whole of the undertaking, assets and revenues of the Issuer is appointed (or application for any such appointment is made), (iii) KT Sukuk takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it, (iv) KT Sukuk ceases or threatens to cease to carry on all or substantially the whole of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent approved by Extraordinary Resolution of the Certificateholders); or
- (g) an order or decree is made or an effective resolution is passed for the winding up, liquidation or dissolution of KT Sukuk; or
- (h) any event occurs which under the laws of the Republic of Turkey has an analogous effect to any of the events referred to in paragraph (f) or (g) above,

upon being notified in writing or otherwise upon having actual knowledge thereof, the Certificateholders' Representative shall give notice of the occurrence of such Termination Event to the holders of Certificates in accordance with Condition 16 with a request to such holders to indicate if they wish the Certificates to be redeemed in an aggregate amount equal to the Termination Distribution Amount and the Periodic Distribution Amounts on such Certificates (if any) accrued and unpaid and the Agency Arrangements to be terminated. If so requested in writing by the holders of at least 20 per cent. of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the holders of the Certificates, the Certificateholders' Representative shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) or, if the Certificateholders' Representative so decides in its discretion, the Certificateholders' Representative may (subject to being indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer, Kuveyt Türk and all the holders of the Certificates in accordance with Condition 16 that the Certificates are to be redeemed in an aggregate amount equal to the Termination Distribution Amount and the Periodic Distribution Amounts on such Certificates (if any) accrued and unpaid on the date specified in such notice. Upon payment in full of such amounts, the Agency Arrangements will terminate, the Certificates shall cease to represent the Agency Assets and no further

amounts shall be payable in respect thereof and the Issuer and the Certificateholders' Agent shall have no further obligations in respect thereof.

For the purpose of (a) above, amounts shall be considered due in respect of the Certificates (including any amounts calculated as being payable under Condition 7 and Condition 9) notwithstanding that the Issuer has, at the relevant time, insufficient funds to pay such amounts.

14. ENFORCEMENT AND EXERCISE OF RIGHTS

14.1 Following the distribution in full of the proceeds of the Agency Assets in respect of the Certificates to the Certificateholders in accordance with these Conditions and the Declaration of Agency, the Issuer shall not be liable for any further sums and, accordingly, Certificateholders may not take any action against the Issuer or any other person to recover any such sum in respect of the Certificates or Agency Assets.

14.2 The Certificateholders' Representative shall not be bound in any circumstances to take any action to enforce or to realise the Agency Assets or take any action against the Issuer, Kuveyt Türk or any other party under any Transaction Document unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least 20 per cent. of the then aggregate face amount of the Certificates outstanding and in either case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.

14.3 No Certificateholder shall be entitled to proceed directly against the Issuer, Kuveyt Türk or any other party unless (a) the Certificateholders' Representative, having become bound so to proceed, fails to do so within 30 days of becoming so bound and such failure is continuing and (b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Issuer, Kuveyt Türk or any other party, as the case may be) holds at least 20 per cent. of the then aggregate face amount of the Certificates outstanding. Under no circumstances shall the Certificateholders' Representative or any Certificateholder have any right to cause the sale or other disposition of any of the Agency Assets (other than pursuant to the Purchase Undertaking) and the sole right of the Certificateholders' Representative and the Certificateholders against the Issuer, Kuveyt Türk or any other party shall be to enforce their respective obligations under the Transaction Documents.

14.4 The foregoing paragraphs in this Condition are subject to this paragraph. After enforcing or realising the Agency Assets and distributing the proceeds of the Agency Assets in accordance with Condition 4.2 and the Declaration of Agency, the obligations of the Issuer in respect of the Certificates shall be satisfied and no holder of the Certificates may take any further steps against the Issuer, the Certificateholders' Agent, the Certificateholders' Representative or any other person to recover any further sums in respect of the Certificates and the right to receive any sums unpaid shall be extinguished. In particular, no holder of the Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of KT Sukuk.

15. REPLACEMENT OF CERTIFICATES

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer or Kuveyt Türk may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

16. NOTICES

All notices to Certificateholders will be valid if:

- (a) published in a daily newspaper having general circulation in London (which is expected to be the *Financial Times*) approved by the Certificateholders' Representative; or
- (b) mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective registered addresses.

The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with the relative Certificate or Certificates, with a Paying Agent.

17. MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

17.1 The Declaration of Agency contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of these Conditions or the provisions of the Declaration of Agency. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than a majority in the outstanding face amount of the Certificates, or at any adjourned such meeting one or more persons present whatever the outstanding face amount of the Certificates held or represented by him or them, except that any meeting the business of which includes the modification of certain provisions of the Certificates (including modifying the Scheduled Termination Date, reducing or cancelling any amount payable in respect of the Certificates or altering the currency of payment of the Certificates or amending certain covenants given by the Issuer and Kuveyt Türk in the Transaction Documents), the quorum shall be one or more persons present holding or representing not less than 75 per cent. in the outstanding face amount of the Certificates, or at any adjourned such meeting one or more persons present holding or representing not less than 25 per cent. in the outstanding face amount of the Certificates. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than three-quarters of the persons voting on a show of hands or, if a poll is duly demanded, a majority of not less than three-quarters of the votes cast on such poll and, if duly passed, will be binding on all holders of the Certificates, whether or not they are present at the meeting and whether or not voting.

17.2 The Certificateholders' Representative may agree, without the consent or sanction of the Certificateholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Agency or any other Transaction Document, or determine, without any such consent or sanction as aforesaid, that any Termination Event or Potential Termination Event (as defined in the Declaration of Agency) shall not be treated as such, which in any such case is not, in the opinion of the Certificateholders' Representative, materially prejudicial to the interests of Certificateholders or may agree, without any such consent or sanction as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.

17.3 In connection with the exercise by it of any of its powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Certificateholders' Representative shall have regard to the general interests of the Certificateholders as a class (but shall not have regard to any interests arising from

circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Certificateholders' Representative shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Certificateholders' Representative or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders.

- 17.4 Any modification, abrogation, waiver, authorisation or determination shall be binding on all the Certificateholders and, if the Certificateholders' Representative so requires, shall be notified by the Issuer to the Certificateholders as soon as practicable thereafter in accordance with Condition 16.

18. INDEMNIFICATION AND LIABILITY OF THE CERTIFICATEHOLDERS' REPRESENTATIVE AND THE CERTIFICATEHOLDERS' AGENT

- 18.1 The Declaration of Agency contains provisions for the indemnification of the Certificateholders' Representative in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.
- 18.2 The Certificateholders' Representative makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of Kuveyt Türk or the Issuer under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been made by Kuveyt Türk or the Issuer but are not so paid and shall not in any circumstances have any liability arising from the Agency Assets other than as expressly provided in the Conditions or in the Declaration of Agency.
- 18.3 Each of the Certificateholders' Agent and the Certificateholders' Representative is exempted from (i) any liability in respect of any loss or theft of the Agency Assets or any cash, (ii) any obligation to insure the Agency Assets or any cash and (iii) any claim arising from the fact that the Agency Assets or any cash are held by or on behalf of the Certificateholders' Agent or on deposit or in an account with any depositary or clearing system or are registered in the name of the Certificateholders' Agent or its nominee, unless such loss or theft arises as a result of default or misconduct by the Certificateholders' Agent.

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

20. GOVERNING LAW AND DISPUTE RESOLUTION

- 20.1 The Declaration of Agency and the Certificates (and any non-contractual obligations arising out of or in connection with the Declaration of Agency and the Certificates) are governed by, and shall be construed in accordance with, English law.
- 20.2 Both the Issuer and Kuveyt Türk have in the Declaration of Agency irrevocably agreed for the benefit of the Certificateholders' Agent, the Certificateholders' Representative and the Certificateholders that the courts of England are to have exclusive jurisdiction to settle any dispute, suit, action or proceeding (together referred to as **Proceedings**) which may arise out of or in connection with the Declaration of Agency and the Certificates (and any non-

contractual obligations arising out of or in connection with the Declaration of Agency and the Certificates) and has accordingly submitted to the exclusive jurisdiction of the English courts.

- 20.3 Each of the Issuer and Kuveyt Türk has also agreed to waive any objection to the Proceedings on the grounds that they are in an inconvenient or inappropriate forum and has agreed that a judgment in any Proceedings brought in the English courts shall be conclusive and binding on it and may be enforced in the courts of any other jurisdiction.
- 20.4 The Certificateholders' Agent, the Certificateholders' Representative and the Certificateholders may bring Proceedings under the Declaration of Agency and the Certificates in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.
- 20.5 The Issuer and Kuveyt Türk agree, without prejudice to the enforcement of a judgment obtained in the English courts according to the provisions of Article 54 of Law No. 5718, that in the event that any action is brought in relation to the Issuer and/or Kuveyt Türk in a court in Turkey in connection with these Declaration of Agency or the Certificates (or any non-contractual obligations arising out of or in connection with the Declaration of Agency or the Certificates), in addition to other permissible legal evidence, any judgment obtained in the courts of England in connection with such action shall constitute conclusive evidence of the existence and amount of the claim against the Issuer and/or Kuveyt Türk, as applicable, pursuant to the provisions of Article 193/1 of the Civil Procedure Code of Turkey (Law No. 6100) and Articles 58 and 59 of Law No. 5718.
- 20.6 Each of the Issuer and Kuveyt Türk has in the Declaration of Agency appointed an agent for service of process and has undertaken that, in the event of such agent ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Certificateholders' Representative as its agent for service of process in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any matter permitted by law.

GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Certificates in respect of which it is issued whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning in paragraphs 1 to 7 below.

1. **Holders**

For so long as all of the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular aggregate face amount of such Certificates (each, a **Holder**) (in which regard any certificate or other document issued by a clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of such aggregate face amount of such Certificates (and the expression **Certificateholders** and references to **holding of Certificates** and to **holder of Certificates** shall be construed accordingly) for all purposes other than with respect to payments on such Certificates, the right to which shall be vested, as against the Issuer and the Certificateholders' Representative, solely in the registered holder of the Global Certificate in accordance with and subject to its terms. Each Holder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the registered holder of the Global Certificate.

2. **Cancellation**

Cancellation of any Certificate represented by the Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register.

3. **Payments**

Payments of the Termination Distribution Amount and each Periodic Distribution Amount in respect of Certificates represented by the Global Certificate, shall be made to the holder shown on the Register at the close of the business day (being for this purpose, a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date for such payment.

In addition, payments of the Termination Distribution Amount in respect of Certificates represented by the Global Certificate will be made only upon presentation and surrender of the Global Certificate to or to the order of the Registrar or such other Paying and Transfer Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures.

A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.

4. **Notices**

So long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Certificateholders may be given by delivery of the relevant notice to those clearing systems for communication to entitled Holders in substitution for notification as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given to the

Certificateholders on the day after the day on which such notice is delivered to the relevant clearing systems.

Notices to be given by any Certificateholder may be given to a Paying Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

5. **Registration of Title**

The Registrar will not register title to the Certificates in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Termination Distribution Amount in respect of the Certificates.

6. **Transfers**

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

7. **Exchange for Definitive Certificates**

Interests in the Global Certificate will be exchanged for Certificates in definitive form (**Definitive Certificates**) upon the occurrence of an Exchange Event.

For these purposes, **Exchange Event** means that (a) the Certificateholders' Representative has given notice in accordance with Condition 13 that a Termination Event has occurred and is continuing or (b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor or alternative clearing system satisfactory to the Certificateholders' Representative is available. Upon the occurrence of an Exchange Event, the Issuer will issue Definitive Certificates in exchange for the whole of the Global Certificate within 30 days of the occurrence of the relevant Exchange Event upon presentation of the Global Certificate by the person in whose name it is registered in the Register on any day (other than a Saturday or Sunday) on which banks are open for business in the city in which the Registrar has its specified office.

USE OF PROCEEDS

The net proceeds of the issue of the Certificates will be paid by the Issuer on the Closing Date to the Seller as the purchase price for the Assets Portfolio.

DESCRIPTION OF THE ISSUER

KT Sukuk Varlık Kiralama A.Ş. was incorporated in Turkey on 23 September 2011.

The Issuer was incorporated under the laws of Turkey as a joint stock company and with limited liability. Its registered number is 791104.

The Issuer's registered office and principal place of business is at Büyükdere Cad. No:129/1 K.9 Esentepe Sisli, İstanbul. The Memorandum and Articles of Association of the Issuer may be inspected at the registered office of the Issuer.

Kuveyt Türk holds the majority of the Issuer's issued share capital. The Issuer has no subsidiaries. The ownership structure of the Issuer is as follows:

<u>Shareholder</u>	<u>Percentage of Shares</u>	<u>Nominal Value of Shares in TL</u>
Kuveyt Türk Katılım Bankası A.Ş.	99.99%	49,996
Ufuk Uyan	0.0025%	1
Ahmet Karaca	0.0025%	1
Murat Çetinkaya	0.0025%	1
Nurettin Kolac	0.0025%	1
Total	100%	50,000

Business of the Issuer and Principal Activities

The Issuer has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the issue of the Certificates. The Issuer's activities will principally be the issue of the Certificates and the execution and performance of the Transaction Documents, the execution and performance of all documents relating thereto to which it is expressed to be a party, the exercise of related rights and powers and other activities reasonably incidental thereto. The Issuer's financial year end is 31 December with the first year end being 31 December 2011.

Directors

The Directors of the Issuer and their respective nationalities, business addresses and occupations are:

<u>Name</u>	<u>Nationality</u>	<u>Business Address</u>	<u>Occupation</u>
Ufuk Uyan	Turkish	Büyükdere Cad. No:129/1 Esentepe Sisli, İstanbul	Chief Executive Officer of Kuveyt Türk
Murat Çetinkaya	Turkish	Büyükdere Cad. No:129/1 Esentepe Sisli, İstanbul	Executive Vice President, Treasury, Investment and International Banking of Kuveyt Türk
Nurettin Kolac	Turkish	Büyükdere Cad. No:129/1 Esentepe Sisli, İstanbul	Executive Vice President, Monitoring and Legal Affairs of Kuveyt Türk

There are no potential conflicts of interest between the private interests of the Directors listed above and their duties to the Issuer.

Share Capital

The issued and fully paid share capital of the Issuer as at the date of this Prospectus is TL50,000, comprising 50,000 shares of TL1 each.

Financial Statements

Since the date of its incorporation, no financial statements of the Issuer have been prepared. The Issuer is not required by Turkish law, and does not intend, to publish audited financial statements.

Statutory Auditor

The statutory auditor of the Issuer is Mr. Ömer Asım Özgözükara.

SELECTED FINANCIAL OVERVIEW

Unless otherwise indicated, the information set forth below has been extracted from Kuveyt Türk's IFRS Accounts (as defined in "*Presentation of Financial and other Information*"). The financial information presented below should be read in conjunction with such financial statements, auditors reports and limited review report therein, as applicable, and the notes thereto. This disclosure contains forward looking statements that involve risks and uncertainties. Kuveyt Türk's actual results could differ materially from those anticipated in these forward looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the heading "*Cautionary Statement Regarding Forward Looking Statements*" and "*Risk Factors*". The results of operations for any period are not necessarily indicative of the results to be expected for any future period.

Significant Factors Affecting Results of Operations

Turkey's Economic Condition

Kuveyt Türk operates primarily in Turkey. Accordingly, its results of operations and financial condition are and will continue to be significantly affected by Turkish economic factors, including the economic growth rate, the rate of inflation and fluctuations in exchange rates and interest rates.

The following table sets forth key Turkish economic indicators for the years 2009 and 2010.

	2010	2009
GDP in billion Turkish lira.....	1,103 ¹	952.0
GDP in billion U.S. dollars	7,351 ¹	617.6
Real GDP growth	9.0%	(4.7)%
GDP per capita in U.S. dollars.....	10,067	8,581
Unemployment	11.9%	14.0%
CBT policy rate (year-end)	6.5%	6.5%
Benchmark yield (year-end).....	7.1%	8.9%
Inflation	6.4%	6.5%
Exports in billion U.S. dollars	113.9	102.1
Imports in billion U.S. dollars	185.5	140.9
Trade deficit in billion U.S. dollars	71.6	38.8
Current account deficit in billion U.S. dollars	48.4	13.9
Budget deficit in billion Turkish lira	39.6	52.8

¹ Ministry of Finance, Undersecretariat of the Treasury, TURKSTAT.

(Sources of macro-economic data: CBT, Turkish Statistical Institute General Directorate of Public Accounts, Turkish Treasury, Turkish State Planning Organisation (DPT), IMF and other public sources).

The Turkish economy recovered rapidly from the global economic crisis; the unemployment rate declined and budget revenues rose above target, resulting in a lower than anticipated 2010 budget deficit for the Turkish government. Reflecting this recovery, Kuveyt Türk's loan portfolio increased from TL4,587 million as at 31 December 2009 to TL6,869 million as at 31 December 2010.

Declining Interest Rate Environment in Turkey

In general, increases in interest rates allow Kuveyt Türk to increase its revenue from loans due to the higher margins that Kuveyt Türk receives and the corresponding higher return on its excess capital. However, such an increase may adversely affect Kuveyt Türk's results of operations as a result of reduced overall demand for loans and greater risk of default by Kuveyt Türk's customers. In addition, increased interest rates affect Kuveyt Türk's funding costs and can adversely affect Kuveyt Türk's net income if Kuveyt Türk is unable to pass on any increased funding costs to its customers. On the other hand, a decrease in interest rates can reduce Kuveyt Türk's revenue from loans as a result of lower rates on Kuveyt Türk's loans. This reduction

of revenue may however be offset by an increase in the volume of Kuveyt Türk's loans resulting from increased demand for loans and by a decrease in Kuveyt Türk's funding costs.

Despite the recent low interest rate environment in Turkey, Kuveyt Türk has been able to grow its customer deposits and accordingly grow its asset base. On average, due to the short-term nature of the majority of Kuveyt Türk's participation accounts, reductions in interest rates are re-priced into Kuveyt Türk's liabilities after approximately 40 days. The following table sets out the average rate of return paid by Kuveyt Türk on its deposits (in TL, USD, EUR) on a quarterly basis.

2009		2010	
First Quarter 2009	10.76%	First Quarter 2010.....	6.83%
Second Quarter 2009	9.47%	Second Quarter 2010	6.65%
Third Quarter 2009.....	8.34%	Third Quarter 2010	6.66%
Fourth Quarter 2009.....	6.99%	Fourth Quarter 2010	6.50%

Kuveyt Türk's Key Accounting Policies

The accounting policies adopted by Kuveyt Türk are critical to understanding its results of operations and IFRS Accounts incorporated by reference in this Prospectus. These accounting policies are described in detail in Note 2 to the Audited IFRS Accounts. Certain of Kuveyt Türk's accounting policies require significant managerial judgement on matters that are inherently uncertain, including the valuation of certain assets and liabilities and the adoption of estimates and assumptions based on historical experience and other factors considered reasonable and significant by Kuveyt Türk's management. Kuveyt Türk has established policies and control procedures intended to ensure that stringent valuation methods are applied in accordance with applicable accounting principles during the preparation of the IFRS Accounts for the relevant period and under the relevant accounting principles. The following is a brief description of Kuveyt Türk's current accounting policies which require significant managerial judgment or otherwise are critical to the results of operations and financial condition presented in the IFRS Accounts.

Financial assets

Kuveyt Türk classifies its financial assets in the following categories: at fair value through profit or loss (including those held for trading); due from financing activities (loans and receivables); held to maturity and available-for-sale. Kuveyt Türk determines the classification of its financial assets at initial recognition.

All investments are initially recognised at fair value plus in the case of financial assets not at fair value through profit and loss directly attributable incremental acquisition charges associated with the investment.

All regular way purchases and sales of financial assets are recognised on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as acquired assets i.e. for assets carried at cost or amortised cost, change in value is not recognised; for assets classified as held for trading, the change in value is recognised through profit and loss.

Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit sharing rates, exchange rates or equity prices. Available-for-sale financial assets are subsequently carried at fair value, except for equity investments where there is no quoted price in an active market and whose fair value cannot be reliably measured, which are carried at cost less any impairment. For investments that are actively traded in organised financial markets, fair value is determined by reference to market bid prices at the close of business on the balance sheet date.

Unrealised gains and losses are recognised directly in other comprehensive income under equity. When the security is disposed of or determined to be impaired, the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. After initial recognition, trading securities are remeasured at fair value based on quoted closing average bid prices. All related realised and unrealised gains or losses are recognised in income.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when Kuveyt Türk has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost using the effective yield method. Gains or losses are recognised in profit or loss when the investments are derecognised as impaired, as well as through the amortisation process.

Due from financing activities, net

Credits originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorised as "due from financing activities" and are carried at amortised cost using the effective profit rate. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective profit rate, transaction costs, and all other premiums or discounts. Direct third party expenses, such as legal fees, incurred in securing a credit are treated as part of the cost of the transaction and included in the effective profit rate of the instrument.

All credits and advances are recognised when cash is advanced to borrowers.

Derivative financial instruments

The Bank enters into transactions with derivative instruments including swaps in the foreign exchange and capital markets. All of these derivative transactions are considered as effective economic hedges under Kuveyt Türk's risk management policies. However, since they do not qualify for hedge accounting under the specific provisions of IAS 39 "Financial Instruments: Recognition and Measurement", they are treated as derivatives held for trading. Derivative financial instruments are initially recognised in the balance sheet at fair value on the date on which a derivative contract is entered into and subsequently are remeasured at their fair value. Gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement and recognised in net trading income. The fair value of these derivatives is determined using principally a discounted cash flow analysis.

Impairment of financial assets

(a) Assets carried at amortised cost

Kuveyt Türk assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of Kuveyt Türk about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in profit or principal payments by more than 90 days;
- (c) Kuveyt Türk granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified by reference to the individual financial assets in Kuveyt Türk, including:
 - (i) adverse changes in the payment status of borrowers; or
 - (ii) national or local economic conditions that correlate with defaults on the assets of Kuveyt Türk.

If there is objective evidence of an impairment loss on credits and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate (i.e. the effective profit rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the income statement. The calculation of the present value of the estimated future cash flows includes the realisation of collateral where appropriate.

Kuveyt Türk first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

A write off is made when all or part of a credit is deemed uncollectible or in the case of debt forgiveness. Such credits are written off after all the necessary 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 credit. Subsequent recoveries of amounts previously written off are included in "other income" in the income statement.

Kuveyt Türk's accounting treatment of allowances for credit losses depends on the source of the credit itself. Allowances for losses in credits that are entirely financed by Kuveyt Türk's equity or by current and savings accounts (self-financed credit) are reflected wholly in the income statement as a provision expense. Allowances for credits in arrears that are funded by corresponding profit or loss investment accounts (jointly financed credit) are reflected in the income statement as a provision expense to the extent Kuveyt Türk has

participated in the profit or loss which may arise from the fund utilised. The remaining portion of the allowance for such credit is reflected ultimately in the profit or loss sharing investor accounts as a loss.

(b) Available for sale financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on equity instruments are not reversed.

(c) Available-for-sale financial assets carried at fair value

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment regarding equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

(d) Renegotiated financing and leasing receivables

Where possible, Kuveyt Türk seeks to restructure financing and leasing receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Profit share income continues to be accrued at the original effective or the current profit rates at the renegotiation dates. Kuveyt Türk does not offer a reduction in the loan amount to its customers. The financing and leasing receivables continue to be subject to an individual or collective impairment assessment calculated using the original effective yield.

Current accounts and profit / loss sharing investors' accounts

Current accounts and profit/loss sharing investors' accounts are initially recognised at cost, being the fair value. Current accounts are not entitled to profit participation. After initial recognition, all profit / loss sharing accounts are recognised at cost plus attributable profit (or less attributable loss) on credits granted taking into consideration amounts repaid and losses attributable. Profit or losses attributable to profit/loss sharing investors' accounts that result from financing transactions are distributed among such accounts according to each party's contribution to the financing investment.

Due to other financial institutions and banks

Deposits and funds borrowed are initially recognised at fair value of consideration received less directly attributable transaction costs. After initial recognition, all profit bearing liabilities are subsequently measured at amortised cost using the effective yield method. Amortised cost is calculated by taking into account any discount or premium.

Provisions

Provisions are recognised when Kuveyt Türk has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks

specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an expense.

Income and expense recognition

Fees and commissions are recognised based on the purposes for which such fees and commissions are collected and the basis of accounting for any associated financial instrument. Commissions and fees that are collected as an integral part of the profit share rate of loans are treated as an adjustment to the profit share rate. Commissions and fees on loans that are collected as reimbursement of expenses incurred and are not considered as an adjustment to the profit share rate and commission income from various banking services are recognised as income when collected. Fees (such as credit card fees) that are related to servicing a loan are recognised on a straight-line basis over the period of the service provided.

Income from funds invested from current accounts and equity is recognised on an accrual basis. Income from funds invested from profit/loss sharing accounts is accrued using the effective yield method and the net income is attributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognised in full and generally 75 per cent. to 90 per cent. of this income is recorded as an expense, being the profit share distribution (as this is the legal and contractual range for profit share payments).

Dividend income is recognised when Kuveyt Türk's right to receive the payment is established.

Income earned on available-for-sale equity investments, which are carried at cost less any impairment is reported as dividend income.

Income from the sale of time sharing houses is recognised when the significant risks and rewards of ownership of the asset have passed to the buyer.

Results of Operations for the Years Ended 31 December 2010 and 2009 and for the Six Month Periods Ending 30 June 2011 and 2010

The following table sets forth the consolidated income statement for Kuveyt Türk for the years ended 31 December 2010 and 2009 and for the six month periods ending 30 June 2011 and 2010.

	For the year ending 31 December		For the six month period ending 30 June	
	2010	2009	2011	2010
	<i>(TL in thousands)</i>		<i>(TL in thousands)</i>	
	<i>(audited)</i>		<i>(unaudited)</i>	
Income from financing activities				
Profit on originated loans from profit / loss sharing accounts	362,672	427,298	206,673	146,022
Profit on originated loans from current accounts and equity	249,196	150,245	168,365	141,443
Profit on deposits with other banks and financial institutions	22,727	35,878	9,419	10,048
Profit on finance leases	4,656	7,219	3,135	2,433
Total income from financing activities	639,251	620,640	387,592	299,946
Profit shares distributed to participation accounts	(303,553)	(349,348)	(173,924)	(122,537)
Profit shares distributed to other banks and financial institutions	(14,543)	(20,496)	(15,305)	(5,769)
Net financing income.....	321,155	250,796	198,363	171,640

	For the year ending 31 December		For the six month period ending 30 June	
	2010	2009	2011	2010
	<i>(TL in thousands)</i> <i>(audited)</i>		<i>(TL in thousands)</i> <i>(unaudited)</i>	
Provision for impairment of amounts due from financing activities and lease receivables	(62,431)	(64,821)	(33,301)	(30,255)
Net financing income after provision for impairment in due from financing activities and lease receivables	258,724	185,975	165,062	141,385
Foreign exchange gain, net	40,115	32,731	38,144	18,524
Net financing income after net foreign exchange gain/(loss)	298,839	218,706	203,206	159,909
Fees and commission income	164,884	157,436	97,107	75,862
Income/(loss) from construction projects, net	1,865	642	585	422
Net trading income	23,852	47,762	8,099	13,196
Other income	44,857	10,904	21,235	29,744
Share of profit / (loss) of an associate	(489)	30	–	–
Total other operating income	234,969	216,774	127,026	119,224
Fees and commission expense	(24,833)	(28,552)	(14,190)	(11,401)
Staff costs	(162,903)	(134,297)	(90,339)	(66,256)
Depreciation and amortisation expense	(21,681)	(18,216)	(12,445)	(10,575)
Withholdings and other taxes	(11,366)	(4,503)	(9,694)	(5,493)
Rent expense	(23,777)	(19,811)	(14,184)	(11,217)
Other expenses	(79,420)	(63,126)	(40,843)	(46,613)
Share of loss of an associate	–	–	–	(489)
Total other operating expense	(323,980)	(268,505)	(181,695)	(152,044)
Income before taxation	209,828	166,975	148,537	127,089
Current tax charge	(42,227)	(34,902)	(22,836)	(26,999)
Deferred tax (charge)/credit	651	(1,847)	(5,560)	292
Net income for the year from continuing operations	168,252	130,226	120,141	100,382
Net income/(loss) after tax for the year from a discontinued operation	–	4,055	–	–
Net income for the year	168,252	134,281	120,141	100,382
Exchange differences on translation of the foreign subsidiary	308	–	944	–
Other comprehensive income for the year	308	–	944	–
Total comprehensive income for the year	168,560	134,281	121,085	100,382
Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)	0.253	0.244	0,126	0,106
Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in the full TL per share) from continuing operations	0.253	0.237	0,126	0,106

Total income from financing activities was TL639 million for the year ended 31 December 2010, an increase of 2.99 per cent. compared to TL621 million for the year ended 31 December 2009. Total assets increased by 40.78 per cent. in 2010, from TL6,815 million as at 31 December 2009 to TL9,594 million as at 31 December 2010.

Kuveyt Türk's funding expenses decreased by 14 per cent. between 2010 and 2009 and consolidated interest income increased by 3 per cent. during the same period. The changes in net financing income are primarily attributable to changes in the average amounts of return earning assets and return bearing liabilities and the rates applicable thereto.

Kuveyt Türk's funding expenses increased by 47 per cent. to TL189.2 million for the six month period ending 30 June 2011 from TL128.3 million for the same period in 2010 primarily due to an increase in Kuveyt Türk's funding portfolio and total income from financing activities increased by 29.22 per cent. for the six month period ending 30 June 2011 compared to the six month period ending 30 June 2010.

Income from financing activities

The following table sets forth the principal components of Kuveyt Türk's income for the years ended 31 December 2010 and 2009 and for the six month periods ending 30 June 2011 and 2010.

	For the year ending 31 December		For the six month period ending 30 June	
	2010	2009	2011	2010
	<i>(TL in thousands)</i>		<i>(TL in thousands)</i>	
	<i>(audited)</i>		<i>(unaudited)</i>	
Income from financing activities				
Profit on originated loans from profit / loss sharing accounts	362,672	427,298	206,673	146,022
Profit on originated loans from current accounts and equity	249,196	150,245	168,365	141,443
Profit on deposits with other banks and financial institutions	22,727	35,878	9,419	10,048
Profit on finance leases	4,656	7,219	3,135	2,433
Total income from financing activities	639,251	620,640	387,592	299,946

Kuveyt Türk's income consists of returns earned by Kuveyt Türk on (a) originated loans from profit and loss sharing accounts (which relate to income earned from loans funded by Kuveyt Türk from funds deposited by its customers in its profit and loss sharing account); (b) originated loans from current accounts and equity; (which relate to income earned from loans funded by Kuveyt Türk from funds deposited either in its current account or through equity contributions by its shareholders); (c) deposits at other banks and financial institutions; and (d) financing leases (which relate to income earned by Kuveyt Türk from financing lease transactions entered into with its customers).

Income from financing activities for the years ended 31 December 2010 and 2009

Kuveyt Türk's primary sources of income are returns on loans originated from profit and loss sharing accounts and loans originated from current accounts and equity. Income from loans originated from profit and loss sharing accounts decreased by 15.12 per cent. in 2010, from TL427 million as at 31 December 2009 to TL363 million as at 31 December 2010. This decrease was a direct result of the increase in Kuveyt Türk's volume of loans funded from current accounts and equity from which income increased by 65.86 per cent. in 2010 from TL150 million as at 31 December 2009 to TL249 million as at 31 December 2010. The increase in loans originated from current accounts and equity in 2010 was as a result of the cash capital contribution by Kuveyt Türk's shareholders which enabled Kuveyt Türk to utilise its own funds to finance customer

financings. In addition, the decrease in income on originated loans from profit and loss sharing accounts is also attributable to the decrease in foreign currency interest rates.

Income from deposits at banks and financial institutions (including income from reserve deposits with the CBT) decreased by 36.65 per cent., from TL36 million as at 31 December 2009 to TL23 million as at 31 December 2010. This decrease was due to a significant decrease in the average rate of return from 3.2 per cent. as at 31 December 2009 to 1.8 per cent. as at 31 December 2010 and due to the reduction in the rates of return paid by the CBT in line with the lower interest rate environment.

Whilst the balance of minimum finance lease payments receivable increased from TL53.5 million as at 31 December 2009 to TL87.5 million as at 31 December 2010, income from financing leases decreased by 35.50 per cent. in 2010, from TL7.21 million as at 31 December 2009 to TL4.65 million as at 31 December 2010. The decrease was primarily due to a decrease in the interest rate environment within Turkey and the increasingly competitive nature of the financing sector within the banking industry in Turkey.

The overall increase in Kuveyt Türk's total income from financing activities in 2010 was primarily due to an increase in its net assets due from financing activities of 49.75 per cent. from TL4,587 million as at 31 December 2009 to TL6,869 million as at 31 December 2010, which was partially offset by a decrease in interest rates in 2010 as compared to 2009.

Income from financing activities for the six month periods ending 30 June 2011 and 2010

Income on loans originated from profit and loss sharing accounts increased by TL61 million, or 41 per cent., to TL207 million for the six month period ending 30 June 2011 from TL146 million for the six month period ending 30 June 2010. Income on loans originated from current accounts and equity also increased by TL27 million, or 19 per cent., to TL 168 million for the six month period ending 30 June 2011 from TL141 million for the six month period ending 30 June 2010. These increases were principally due to the general increase in Kuveyt Türk's loans originated for the six month period ending 30 June 2011 which were again partially offset by the lower interest rates for the six month period ending 30 June 2011 as compared to this period in 2010.

Income from deposits at banks decreased by TL0.629 million, or by 6 per cent., to TL9.4 million for the six month period ending 30 June 2011 from TL10 million for the six month period ending 30 June 2010. This decrease was due to a significant decrease in the average rate of return from 1.29 per cent. for the six month period ending 30 June 2010 to 0.82 per cent. for the six month period ending 30 June 2011 and due to a the "Communiqué regarding change in the Communiqué regarding the Reserve Requirements published in the Official Gazette dated 23 September 2010 No. 27708" which annulled interest payments by the CBT on any deposits placed with it by financial institutions.

Income from financing leases increased by TL0.7 million, or by 29 per cent., to TL3.1 million for the six month period ending 30 June 2011 from TL2.4 million for the six month period ending 30 June 2010. This increase was due to a significant increase in the average balance of Kuveyt Türk's finance leases to customers. The growth in income was lower than the growth in average lease payment receivables due to the lower interest rate environment now prevailing in Turkey.

The overall growth in loans and leases for the six month period ending 30 June 2011 as compared to the six month period ending 30 June 2010 (from TL5,728 million to TL8,318 million) is attributable to the improved economic outlook for Turkey, the growth in Kuveyt Türk's SME loan portfolio and the relatively lower rates set by Kuveyt Türk for its financing activities (see "*Description of Kuveyt Türk – Strategy*" for further details).

Financing expenses

Kuveyt Türk's financing expenses consist of profit shares distributed in relation to (a) deposits by customers in participation accounts which represent the returns paid to customers on their deposits; and (b) borrowings and deposits to other banks and financial institutions.

The following table sets forth the principal components of Kuveyt Türk's financing expenses for the years ended 31 December 2010 and 2009 and the six month periods ending 30 June 2011 and 2010.

	For the year ending 31 December		For the six month period ending 30 June	
	2010	2009	2011	2010
	<i>(TL in thousands)</i> <i>(audited)</i>		<i>(TL in thousands)</i> <i>(unaudited)</i>	
Profit shares distributed to participation accounts	(303,553)	(349,348)	(173,924)	(122,537)
Profit shares distributed to other banks and financial institutions	(14,543)	(20,496)	(15,305)	(5,769)

Financing expenses for the years ended 31 December 2010 and 2009

Total liabilities excluding shareholders' equity increased by 38.70 per cent. in 2010, from TL5,997 million as at 31 December 2009 to TL8,318 million as at 31 December 2010. The key contributors to total liabilities were customer deposits (current and profit/loss sharing accounts) and borrowings (securities issued and amounts due to other financial institutions and banks) all of which increased. In particular, deposits increased by 34.87 per cent. in 2010, from TL5,545 million as at 31 December 2009 to TL7,479 million as at 31 December 2010 sukuk securities in 2010 increased to TL156 million with Kuveyt Türk issuing its first sukuk in the amount of U.S.\$100 million with a three year maturity, on 24 August 2010; and amounts due to other financial institutions and banks increased by 25.87 per cent. in 2010, from TL384 million as at 31 December 2009 to TL483 million as at 31 December 2010.

Despite the increase in total liabilities, profit shares distributed to participation accounts decreased by 13.10 per cent. to TL304 million for the year ended 31 December 2010 from TL349 million for the year ended 31 December 2009 and profit shares distributed to other banks and financial institutions decreased by 29.04 per cent. to TL14.5 million for the year ended 31 December 2010 from TL20.5 million for the year ended 31 December 2009. These decreases were all as a result of declining interest rates in 2010.

The decrease in profit shares distributed to participation accounts in 2010 was mainly due to an overall decrease in average returns paid by Kuveyt Türk on profit sharing accounts. The decrease was also attributable to the lower income derived from the profit sharing pools as a result of lower interest rates which meant that Kuveyt Türk's profit distribution on these account also decreased. The decrease in 2010 for profit shares distributed to other banks and financial institutions was mainly due to a decrease in foreign currency interest rates.

Financing expenses for the six month periods ending 30 June 2011 and 2010

Total liabilities excluding shareholders' equity increased by TL3,388 million, or by 50 per cent., to TL10,116 million as at 30 June 2011 from TL6,728 million as at 30 June 2010. This increase in deposit base was principally due to the growth of Kuveyt Türk's branch network.

Deposits in Kuveyt Türk increased by 45 per cent. from TL6,066 million as at 30 June 2010 to TL8,799 million as at 30 June 2011. Sukuk securities issued increased by 6.11 per cent. from TL156 million as at 31 December 2010 to TL166 million as at 30 June 2011 and amounts due to other financial institutions and banks increased by 95 per cent. from TL431 million as at 30 June 2010 to TL842 million as at 30 June 2011. This increase was principally due to additional funds raised from financial institutions under bilateral arrangements.

The outstanding amount of Kuveyt Türk's total liabilities increased by 50.4 per cent. from TL6,728 million as at 30 June 2010 to TL10,116 million as at 30 June 2011. The average rate (including TL, U.S. dollar and Euro deposits) on Kuveyt Türk's borrowings in the form of deposits decreased only slightly from 6.74 per cent. as at 30 June 2010 to 6.22 per cent. as at 30 June 2011, which was offset partly by the overall increase in Kuveyt Türk's financing expenses principally as a result of the increase in its deposits.

Net financing income

For the years ended 31 December 2010 and 2009

Net financing income before provision for impairment increased by 28.05 per cent. from TL251 million in 2009 to TL321 million in 2010.

For the six months ended 30 June 2011 and 2010

Net financing income before provisions for impairment increased by 15 per cent. for the six month period ending 30 June 2011 to TL198 million from TL172 million for the six month period ending 30 June 2010. A higher increase would have been achieved if the change in regulation requiring banks operating in Turkey to increase their reserve deposits with the CBT had not come into effect in this period in 2011, as these deposits do not earn any returns.

Provision for Loan Losses

Kuveyt Türk's provisions for impairment due from financing activities and lease receivables decreased by 3.69 per cent. to TL62.4 million as at 31 December 2010 from TL64.8 million as at 31 December 2009 primarily due to improvements in the Turkish economy.

Non performing loans (NPL) as a percentage of total loans, remained at low levels relative to Turkish averages as published by the BRSA. This percentage decreased to 3.6 per cent. as at 31 December 2010 (including rescheduled or restructured loans reclassified as performing), compared to 6.4 per cent. as at 31 December 2009. The NPL ratio as at 30 June 2011 decreased to 2.72 per cent. compared to 5.02 per cent. as at 30 June 2010.

The quality of Kuveyt Türk's loan portfolio by class of financial asset is set forth below.

	As at 31 December 2010					
	<i>(TL in thousands)</i>					
	<i>(audited)</i>					
	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Unrated(*)	Total
Due from banks, central bank and reserve deposits (excluding cash on hand) ..	623,989	933,913	–	–	–	1,557,902
Financing and leasing receivables	221,613	3,063,049	128,234	–	3,543,514	6,956,410
Corporate lending.....	219,456	3,040,618	127,935	–	1,193,583	4,581,592
Small business lending.....	1,666	17,239	46	–	886,770	905,721
Consumer lending	–	–	–	–	1,392,133	1,392,133
Credit cards	491	5,192	253	–	71,028	76,964
Contingent liabilities and other guarantees	452,106	2,008,123	81,866	–	1,188,113	3,730,208
Commitments	625,386	–	–	–	659,285	1,284,671
Total	1,923,094	6,005,085	210,100	–	5,390,912	13,529,191

As at 31 December 2009

(TL in thousands)

(audited)

	High grade	Standard grade	Sub- standard grade	Past due or individually impaired	Unrated (*)	Total
Due from banks, central bank and reserve deposits (excluding cash on hand) ..	401,613	903,319	–	–	–	1,304,932
Financing and leasing receivables	101,782	1,603,822	53,836	–	2,880,858	4,640,298
Corporate lending	99,342	1,580,945	53,319	–	1,072,181	2,805,787
Small business lending	2,043	18,415	450	–	462,484	483,392
Consumer lending	–	–	–	–	1,245,233	1,245,233
Credit cards	397	4,462	67	–	100,960	105,886
Contingent liabilities and other guarantees	270,845	1,620,451	50,850	–	1,388,485	3,330,631
Commitments	1,275,633	–	–	–	648,836	1,924,469
Total	2,049,873	4,127,592	104,686	–	4,918,179	11,200,330

The “sub-standard grade” column indicates loans which are less than 90 days overdue. As at 31 December 2010 these amounted to a total of TL210 million compared to TL104 million as at 31 December 2009. This increase was primarily as a result of global economic downturn. See “*Description of Kuveyt Türk - Credit Classification and Provisioning Policy*” for further details.

The following table sets forth the aging analysis of past due but not impaired loans by class of financial asset:

As at 31 December 2010

(TL in thousands)

(audited)

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	9,111	3,491	13,062	–	25,664
Consumer lending	122,055	40,289	15,433	–	177,777
Small business lending	52,203	18,869	8,380	–	79,452
Credit cards	4,709	2,657	1,246	–	8,612
Total	188,078	65,306	38,121	–	291,505

As at 31 December 2009

(TL in thousands)

(audited)

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	88,568	19,483	16,449	–	124,500
Consumer lending	89,984	23,539	13,664	–	127,157
Small business lending	42,844	15,098	5,814	–	63,756
Credit cards	7,341	3,588	502	–	11,431
Total	228,707	61,708	36,429	–	328,844

Fee and commission income

Kuveyt Türk generates fee and commission income from both its cash and non-cash businesses. The following table sets forth Kuveyt Türk's net fee and commission income for the years ended 31 December 2010 and 2009 and for the six month periods ending 30 June 2011 and 2010.

	For the year ending 31 December		For the six month period ending 30 June	
	2010	2009	2011	2010
	<i>(TL in thousands)</i> <i>(audited)</i>		<i>(TL in thousands)</i> <i>(unaudited)</i>	
Fees and Commission Income	164,884	157,436	97,107	75,862
Fees and Commission Expense.....	(24,833)	(28,552)	14,190	11,401

The table below sets forth the breakdown of fee and commission income for the years ended 31 December 2010 and 2009 and for the six month periods ending 30 June 2011 and 2010.

	For the year ending 31 December		For the six month period ending 30 June	
	2010	2009	2011	2010
	<i>(TL in thousands)</i> <i>(audited)</i>		<i>(TL in thousands)</i> <i>(unaudited)</i>	
Fees and commission income				
Commissions received on loans	60,297	47,652	43,798	27,511
Commission income from commitments	45,138	45,120	26,496	22,800
Communication expense charges	17,691	20,102	–	–
POS commission income	10,631	13,339	5,972	4,996
Credit card fees and commissions.....	7,506	12,658	3,914	3,976
Import letter of credit commissions	4,926	5,543	–	–
Income from agency activities	3,241	511	6	1
Commission from cheques and notes	2,214	2,460	1,292	1,040
Other	13,240	9,991	15,629	15,538
Total	164,884	157,436	97,107	75,862

Fees and commission income for the years ended 31 December 2010 and 2009

Total fee and commission income decreased by 4.73 per cent. in 2010 to TL165 million from TL157 million in 2009. Fee and commission income is primarily derived from commissions received on loans and from commitments, which includes letter of guarantee issuance commission and letter of credit confirmations. Fees and commissions received on loans increased by 26.53 per cent. from TL47.65 million for the year ending 31 December 2009 to TL60.30 million for the year ending 31 December 2010. This was principally as a result of an increase in the loan volumes due to increased demand. Communication expense charges (which are comprised of customer teller and transfer fees) and point-of-sale (POS) commission income both decreased slightly by 11.99 per cent. to TL17.69 million for the year ending 31 December 2010 from TL20.10 million for the year ending 31 December 2009 and by 20.30 per cent. to TL10.63 million for the year ending 31 December 2010 from TL13.34 million for the year ending 31 December 2009, respectively. Communication expense charges decreased due to a decision by Senior Management, to cancel fees charged on to customers when clearing accounts in line with the advice of Kuveyt Türk's Sharia advisory board. In the case of POS commission income, the decrease was as a result of decreased costs from the reimbursement of merchants for charges on credit or debit cards as well as a decrease in volume usage of credit cards in Turkey.

Credit card fees and commissions decreased by 40.70 per cent. to TL7.51 million for the year ending 31 December 2010 from TL12.66 million for the year ending 31 December 2009. This was mainly as a result of Kuveyt Türk cancelling one of its credit card products, the Siz Card. The decrease in credit card fees and commissions was also attributable to the general decrease in the volume of credit cards issued by Kuveyt Türk in 2010.

Import letter of credit commissions decreased by 11.13 per cent. to TL4.93 million for the year ending 31 December 2010 from TL5.54 million for the year ending 31 December 2009. This was primarily due to the increasingly competitive nature of the non-cash credit sector within Turkey which has resulted in a decrease in the rate of commission charged. Income from agency activities increased by 534.24 per cent. to TL3.24 million for the year ending 31 December 2010 from TL0.51 million for the year ending 31 December 2009. The increase was primarily as a result of agency fees Kuveyt Türk earned from offering insurance products to its customers provided by Neova Sigorta A.Ş. in which Kuveyt Türk also has an equity stake.

Fees and commission income for the six month periods ending 30 June 2011 and 2010

Total fees and commission income increased by 28 per cent. for the six month period ending 30 June 2011 to TL97 million from TL76 million for six month period ending 30 June 2010. Commission on loans increased by 59 per cent. from TL28 million for the six month period ending 30 June 2010 to TL44 million for the six month period ending 30 June 2011. This was mainly due to the growth of Kuveyt Türk's loan portfolio. Commission income from commitments increased by 16.21 per cent. from TL23 million for the six month period ending 30 June 2010 to TL26 million for the six month period ending 30 June 2011, as a result of an increase in the volume of letters of guarantee, in particular. POS commission income increased by 20 per cent. from TL5 million for the six month period ending 30 June 2010 to TL6 million for the six month period ending 30 June 2011 as a result of an increase in transaction volume. Credit card fees and commissions decreased by 2 per cent. from TL3.98 million for the six month period ending 30 June 2010 to TL3.91 million for the six month period ending 30 June 2011 for the same reasons as set out above for the years ended 31 December 2010 and 2009.

Income from Construction Projects

Net income from construction projects relates to revenues generated through the activities of Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez") a wholly owned subsidiary of Kuveyt Türk. This income for the year ending 31 December 2010 was TL1.8 million compared to TL0.64 million for the year ending 31 December 2009, an increase of 190.50 per cent. This increased income is as a result of the upturn in construction activity in Turkey.

Share of Loss of an Associate

The share of loss of an associate of TL489 thousand in 2010 relates to the sale and repurchase by Kuveyt Türk of 51 per cent. of its shares in Körfez (see "Description of Kuveyt Türk – subsidiary" for further details). The 49 per cent. of the loss incurred by Körfez before the buy back has been recognised as a share of loss of an associate.

Fees and commission expenses

The following table sets forth the breakdown of fee and commission expenses for the years ended 31 December 2010 and 2009 and for the six month periods ending 30 June 2011 and 2010.

	For the year ending 31 December		For the six month period ending 30 June	
	2010	2009	2011	2010
	<i>(TL in thousands)</i>		<i>(TL in thousands)</i>	
	<i>(audited)</i>		<i>(unaudited)</i>	
Fee and commission expenses				
Credit card machine charges and fees paid for				
credit cards	20,433	22,265	8,184	6,450
Brokerage fees on borrowings	2,160	3,611	3,564	2,772
ATM charges	48	25	25	46
Other	2,192	2,651	2,417	2,133
Total	24,833	28,552	14,190	11,401

Total fee and commission expenses decreased by 13.03 per cent. in 2010 from TL28.55 million for the year ending 31 December 2009 to TL24.83 million for the year ending 31 December 2010. The decrease was primarily due to the decrease in the volume of Kuveyt Türk's credit card business which was due to the cancellation of Kuveyt Türk's Siz Card. Brokerage fees on borrowings also decreased by 40 per cent. in 2010 from TL3.611 million for the year ending 31 December 2009 to TL2.16 million for the year ending 31 December 2010. In line with Kuveyt Türk's strategy to expand its branch network and increase its presence within the Turkish market, the number of ATMs installed at Kuveyt Türk's branches and off-site increased thereby increasing ATM charges by 92 per cent. in 2010 from TL0.025 million for the year ending 31 December 2009 to TL0.48 million for the year ending 31 December 2010.

Total fee and commission expenses increased by 24 per cent. from TL11.4 million for the six month period ending 30 June 2010 to TL14.2 million for the six month period ending 30 June 2011.

Income Taxes

Income tax expense was TL41.58 million in 2010 compared to TL36.75 million in 2009. The effective tax rates were 19.8 per cent. and 22.0 per cent. in 2010 and 2009, respectively.

Assets

The following table sets forth the consolidated balance sheet for Kuveyt Türk as at 31 December 2010 and 2009 and as at 30 June 2011 and 2010.

	As at 31 December		As at 30 June	
	2010	2009	2011	2010
	<i>(TL in thousands)</i> <i>(audited)</i>		<i>(TL in thousands)</i> <i>(unaudited)</i>	
Cash and balances with the Central Bank.....	415,764	239,090	780,691	273,534
Balances with other banks and financial institutions ..	933,913	903,319	730,847	537,337
Reserve deposits at the Central Bank	329,844	218,689	420,850	242,014
Financial assets - held for trading	32,738	9,952	78,073	14,004
Derivative financial instruments	28,480	9,925	74,440	13,977
Share Certificates	27	27	27	27
Gold Fund	4,231	–	3,606	–
Financial assets - available-for-sale	4,520	4,520	5,515	4,520
Financial assets - held to maturity	–	7,529	–	–
Due from financing activities, net.....	6,868,937	4,586,786	8,212,757	5,658,333
Minimum finance lease payments receivable, net	87,473	53,512	105,539	69,521
Precious Metals	507,311	409,854	632,062	420,056
Other assets	165,004	180,367	248,717	172,058
Construction projects, net	3,167	3,025	35,156	3,361
Investment in associate	–	12,315	–	–
Investment in properties, net	55,975	47,207	52,168	80,113
Property and equipment, net	137,046	108,180	116,251	126,916
Intangible assets, net	13,158	8,256	19,351	8,800
Deferred tax assets	13,400	12,749	7,840	13,041
	<u>9,568,250</u>	<u>6,805,350</u>	<u>11,445,817</u>	<u>7,623,608</u>
Assets and a disposal group held for sale	26,015	9,547	30,279	11,488
Total Assets	9,594,265	6,814,897	11,476,096	7,635,096
Liabilities and equity				
Due to other financial institutions and banks	482,972	383,681	841,632	430,645
Sukuk securities issues	156,433	–	165,987	–
Current and profit/loss sharing investors' accounts	7,479,284	5,545,201	8,799,119	6,066,082
Derivative financial instruments	14,300	6,231	37,478	7,985
Other liabilities	171,938	49,422	235,344	199,291
Provisions	7,909	7,107	21,415	5,614
Income taxes payable	5,663	5,774	14,608	17,891
	<u>8,318,499</u>	<u>5,997,416</u>	<u>10,115,583</u>	<u>6,727,508</u>
Liabilities directly associated with assets classified as held for sale.....	–	–	–	–
Total Liabilities	8,318,499	5,997,416	10,115,583	6,727,508
Share capital	850,000	500,000	950,000	550,000
Share premium	23,250	23,250	23,250	23,250
Legal reserves and retained earnings	402,208	294,231	408,600	334,338
Currency translation differences	308	–	1,252	–
Other reserves	–	–	(22,589)	–
Total equity attributable to equity holders of the parent	1,275,766	817,481	1,360,513	907,588
Total liabilities and equity	9,594,265	6,814,897	11,476,096	7,635,096

As at 31 December 2010, Kuveyt Türk had total consolidated assets of TL9,594 million, an increase of 40.78 per cent. from TL6,815 million as at 31 December 2009. The increase in Kuveyt Türk's total consolidated assets in 2010 was largely due to an increase in the amount of: (i) cash balances with the Central Bank, (ii) financial assets - held for trading (iii); due from financing activities; and (iv) precious metals.

The 73.89 per cent. increase in cash and balances with the Central Bank from TL239.09 million as at 31 December 2009 to TL415.76 million as at 31 December 2010 was due to the fact that as at 31 December 2010 Kuveyt Türk had placed excess liquidity with the CBT.

Additionally, effective from 29 April 2011, the CBT increased the required deposit reserve ratio with the CBT from a blanket 6 per cent. to tiered ratios ranging from 16 per cent. for deposits of immediately available funds through to 5 per cent. for deposits with maturities of more than 2 years. Accordingly, Kuveyt Türk increased its reserve deposit with the Central Bank in anticipation of this change by 50.83 per cent. in 2010, from TL218.69 million as at 31 December 2009 to TL329.84 million as at 31 December 2010.

As at 30 June 2011, Kuveyt Türk had total consolidated assets of TL11,476 million, an increase of 50 per cent. from TL7,635 million as at 30 June 2010. The increase in Kuveyt Türk's total consolidated assets as at 30 June 2011 was largely due to an increase in Kuveyt Türk's loan and leasing receivables as economic conditions in Turkey improved.

Financial assets

Kuveyt Türk classifies its financial assets in the following categories: financial assets at fair value through profit or loss (including those held for trading), due from financing activities (loans and leases), held to maturity and available-for-sale financial assets. All investments are initially recognised at fair value plus in the case of financial assets not at fair value through profit and loss directly attributable incremental acquisition charges associated with the investment.

The following table sets forth the financial assets held by Kuveyt Türk (excluding derivatives, loans and leases) as at 31 December 2010 and 2009.

	As at 31 December					
	<i>(TL in thousands)</i>					
	2010			2009		
	Available for sale	Held to maturity	Held for trading	Available for sale	Held to maturity	Held for trading
At the beginning of the year	4,520	7,529	27	1,389	7,583	64
Exchange differences	-	-	-	-	(54)	-
Additions ^(*)	-	-	4,231	3,131	-	27
Disposals (sales and redemptions)	-	(7,529)	-	-	-	(64)
Fair value movement	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Balance at the end of the year	4,520	-	4,258	4,520	7,529	27

(*) Kuveyt Türk has established the Type B Gold Fund listed on the İstanbul Stock Exchange (ISE) which is classified under held for trading as of 31 December 2010.

Financial assets at fair value through profit or loss

Financial assets held for trading increased by 229 per cent. in 2010 from TL9.95 million as at 31 December 2009 to TL32.74 million as at 31 December 2010. Financial assets held for trading comprise derivative financial instruments, share certificates and the Type B Gold Fund.

Kuveyt Türk's investments in derivative and financial instruments predominantly relate to swap and forward agreements entered into to manage Kuveyt Türk's currency fluctuation risk as well as profit share amounts to be paid or to be received. The Bank aims to maintain a net even position. Derivative financial instruments increased by 187 per cent. in 2010 from TL9.93 million as at 31 December 2009 to TL28.48 million as at 31 December 2010.

The table below shows the fair value of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

	As at 31 December 2010 (audited)			As at 31 December 2009 (audited)		
	Fair value asset	Fair value liabilities	Notional amount in TL equivalent	Fair value asset	Fair value liabilities	Notional amount in TRY equivalent
Inflows	28,480	–	1,439,739	9,925	–	880,092
Outflows	–	14,300	1,420,369	–	6,231	868,246
	<u>28,480</u>	<u>14,300</u>	<u>2,860,108</u>	<u>9,925</u>	<u>6,231</u>	<u>1,748,338</u>

Share certificates remained the same at TL0.027 million in 2009 and 2010. Share certificates represent Kuveyt Türk's shares in SWIFT, the member-owned co-operative Society for Worldwide Interbank Financial Telecommunications.

Financial assets held for trading increased by 458 per cent. to TL78.1 million as at 30 June 2011 from TL14 million as at 30 June 2010. This was primarily due to an increase in the value of Kuveyt Türk's derivative financial instruments.

Financial Assets Available-for-sale

Financial assets available-for-sale remained the same in both 2009 and 2010. As at 31 December 2010, Kuveyt Türk's financial assets available-for-sale comprised of TL4.52 million unlisted shares. The breakdown of unlisted shares is as follows:

	Nature of the business	As at 31 December (audited)				As at 30 June (unaudited)			
		2010		2009		2011		2010	
		%	Amount	%	Amount	%	Amount	%	Amount
Islamic International Rating Agency (IRA)	Financial information	8.99	714	8.99	714	8.99	714	8.99	714
Neova Sigorta A.Ş.	Insurance	6.99	1,806	6.99	1,806	6.99	2,801	6.99	1,806
Kredi Garanti Fonu AŞ (KGF)	Financial institution	1.67	2,000	1.67	2,000	1.67	2,000	1.67	2,000
		–	4,520	–	4,520	–	5,515	–	4,520

Financial Assets Held to Maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when Kuveyt Türk has the positive intention and ability to hold to maturity. The only non-derivative financial assets held to maturity was Kuveyt Türk's investment through its Bahrain branch in a sukuk. The sukuk investment amounted to TL7.53 million as at 31 December 2009 and matured in February 2010.

Due from financing activities, net

As at 31 December 2010, *Murabaha* financing originated by Kuveyt Türk predominately accounted for credits due from financing activities. Credits due from financing activities increased by 49.78 per cent. in 2010, from TL4,586 million as at 31 December 2009 to TL6,869 million as at 31 December 2010, and by 45.16 per cent. from TL5,658 million as at 30 June 2010 to TL8,213 million as at 30 June 2011. These increases were primarily as a result of increased lending by Kuveyt Türk in conjunction with its branch growth, and the improving Turkish economy.

Minimum finance lease payments receivable net

Net minimum finance lease receivables increased by 63.46 per cent. from TL53.51 million as at 31 December 2009 to TL87.47 million as at 31 December 2010. The increase was as a result of the volume of Kuveyt Türk's finance lease transactions as a result of the improving Turkish economy as well as an increase in the number of branches.

The following table sets out Kuveyt Türk's minimum finance lease payments receivables (net) for the years ending 31 December 2010 and 2009 and for the six month periods ending 30 June 2011 and 2010.

	For the year ending		For the six month	
	31 December		period ending	
	2010	2009	2011	2010
	<i>(TL in thousands)</i>		<i>(TL in thousands)</i>	
	<i>(audited)</i>		<i>(unaudited)</i>	
Gross investment in finance leases	98,725	55,403	123,803	68,999
Unearned finance income	(14,964)	(5,417)	(21,453)	(5,177)
Total impaired receivables.....	8,111	4,809	8,693	10,565
Impairment allowance	(4,399)	(1,283)	(5,504)	(4,866)
Minimum lease payments receivables, net	87,473	53,512	105,539	69,521

Precious Metals

Precious metals held by Kuveyt Türk for its gold and precious metal products and services offered to customers increased by 24 per cent. in 2010 from TL409.85 million as at 31 December 2009 to TL507.31 million as at 31 December 2010. The increase was primarily due to the introduction of new customer products utilising precious metals and as a result of the increase in the general market value of precious metals prices such as gold.

Deposits and assets

The tables below set out Kuveyt Türk's deposits and assets maturities for the periods presented.

	As at 31 December					
	(audited)					
	2010			2009		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
	(TL in thousands)			(TL in thousands)		
Assets						
Cash and balances						
with the Central Bank ..	415,764	–	415,764	239,090	–	239,090
Balances with other banks and financial institutions	933,913	–	933,913	903,319	–	903,319
Reserve deposits at the Central Bank	329,844	–	329,844	218,689	–	218,689
Financial assets –						
held for trading	32,738	–	32,738	9,952	–	9,952
Derivative financial instruments	28,480	–	28,480	9,925	–	9,925
Share Certificates	27	–	27	27	–	27
Gold Fund	4,231	–	4,231	–	–	–
Financial assets – available-for-sale	4,520	–	4,520	4,520	–	4,520
Financial assets – held to maturity	–	–	–	7,529	–	7,529
Due from financing activities, net	4,401,171	2,467,766	6,868,937	3,382,242	1,204,544	4,586,786
Minimum finance lease payments receivable, net	46,346	41,127	87,473	33,492	20,020	53,512
Precious Metals	507,311	–	507,311	409,854	–	409,854
Other assets	165,004	–	165,004	180,367	–	180,367
Construction projects, net ..	–	3,167	3,167	–	3,025	3,025
Investment in associate	–	–	–	12,315	–	12,315
Investment properties, net ..	–	55,975	55,975	–	47,207	47,207
Property and equipment, net	–	137,046	137,046	–	108,180	108,180
Intangible assets, net	–	13,158	13,158	–	8,256	8,256
Deferred tax assets	–	13,400	13,400	–	12,749	12,749
Assets and a disposal group held for sale	26,015	–	26,015	9,547	–	9,547
Total assets	6,862,626	2,731,639	9,594,265	5,410,916	1,403,981	6,814,897

As at 31 December
(audited)

	2010			2009		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
Assets	<i>(TL in thousands)</i>			<i>(TL in thousands)</i>		
Due to other financial institutions and banks ..	482,972	–	482,972	378,385	5,296	383,681
Sukuk securities issued	–	156,433	156,433	–	–	–
Current and profit / loss sharing investors' accounts	6,903,366	575,918	7,479,284	5,078,928	466,273	5,545,201
Derivative financial instruments	14,285	15	14,300	6,231	–	6,231
Other liabilities.....	171,938	–	171,938	49,422	–	49,422
Provisions.....	–	7,909	7,909	–	7,107	7,107
Income taxes payable.....	5,663	–	5,663	5,774	–	5,774
Total Liabilities.....	7,578,224	740,275	8,318,499	5,518,740	478,676	5,997,416
Net	(715,598)	1,991,364	1,275,766	(107,824)	925,305	817,481

As at 31 December 2010, Kuveyt Türk had a net surplus of TL1,276 million in relation to its total assets compared to its total liabilities. This was an increase of 56.06 per cent. compared to the net surplus of TL817 million as at 31 December 2009. This increase was principally due to the faster growth rate of Kuveyt Türk's total assets as compared to its liabilities.

As at 30 June 2011, Kuveyt Türk had a net surplus of TL1,360 million in relation to its total assets compared to its total liabilities. This was an increase of 49.90 per cent. compared to the net surplus as at 30 June 2010.

Funding

As a participation bank, Kuveyt Türk does not have access to the same sources of funding as conventional banks (such as interest-bearing facilities or security portfolios). Kuveyt Türk's funding base for its activities are substantially derived from: (i) customer deposits (specifically deposits placed in current accounts and participation accounts); (ii) credits from banks and other international financial institutions; (iii) issuance of international listed sukuk securities; and (iv) shareholders' equity.

The following table sets out Kuveyt Türk's sources of funding as at the dates indicated.

	As at 31 December				As at 30 June			
	2010	%	2009	%	2011	%	2010	%
	<i>(TL in thousands)</i>				<i>(TL in thousands)</i>			
	<i>(audited)</i>				<i>(unaudited)</i>			
Deposit from customers	7,479,284	77.96	5,545,201	81.37	8,799,119	76.67	6,066,082	79.78
Due to other financial institutions and banks	482,972	5.03	383,681	5.63	841,632	7.33	430,645	5.66
Total shareholders' equity	1,275,766	13.30	817,481	12.00	1,360,513	11.86	907,588	11.94
Sukuk Securities	156,433	1.63	–	–	165,987	1.45	–	–
Other liabilities*	199,810	2.08	68,534	1.00	308,845	2.69	199,291	2.62
Total	9,594,265	100.00	6,814,897	100.00	11,476,096	100.00	7,603,606	100.00

* "Other liabilities" includes derivative financial instruments, income tax payable and liabilities directly associated with assets classified as held for sale.

Customer Deposits

Retail deposits were the major source of funding for Kuveyt Türk for the year ended 31 December 2010. As at 31 December 2010, deposits comprised 78 per cent. of Kuveyt Türk's total liabilities and shareholders equity which is higher than the sector average (at 61 per cent.). As at 31 December 2010, deposits increased by 34.87 per cent. to TL7,479 million, from TL5,545 million as at 31 December 2009. Kuveyt Türk has a broad and diversified source of depositors and is not reliant on any key anchor depositors with 70.6 per cent. of its total deposits coming from retail depositors and 68.2 per cent. of the total depositors, having placed less than TL1 million with Kuveyt Türk.

The following table sets out the total liabilities which are substantially dominated by deposits, for the core business segments for the years ended 31 December 2010 and 2009.

For the year ended 31 December 31 2010	Retail Banking	International and Corporate and Investment Banking and Treasury		Unallocated	Total
		commercial Banking			
(TL in thousands) (audited)					
Total liabilities	5,026,332	2,355,141	653,704	283,322	8,318,499

For the year ended 31 December 31 2009	Retail Banking	International and Corporate and Investment Banking and Treasury		Unallocated	Total
		commercial Banking			
(TL in thousands) (audited)					
Total liabilities	3,767,615	1,602,384	389,912	237,505	5,997,416

Credits from banks and other international financial institutions

Kuveyt Türk has a number of utilised credit facilities with domestic and international banks in both Turkish lira and foreign currencies, predominantly Euro and U.S. dollars, along with borrowings from the international debt capital markets. Kuveyt Türk's current borrowings from other financial institutions and banks as of 31 December 2010 and 2009 are as follows:

	As at 31 December		As at 30 June	
	2010	2009	2011	2010
(TL in thousands) (audited)				
(TL in thousands) (unaudited)				
Original foreign currency				
U.S.\$	472,542	383,681	763,644	417,131
Euro	10,356	–	77,988	13,514
Other	74	–	–	–
	<u>482,972</u>	<u>383,681</u>	<u>841,632</u>	<u>430,645</u>

As at 31 December 2010, Kuveyt Türk did not have any Turkish lira borrowing. Kuveyt Türk's total U.S. dollar borrowing was equivalent to TL472.54 million, its total Euro borrowing was equivalent to TL10.35 million and its borrowing in other currencies (comprising of Swiss Franc) was equivalent to TL0.74 million as at 31 December 2010 (total U.S. dollar borrowing was equivalent to TL383.69 million as

at 31 December 2009). Kuveyt Türk's foreign currency borrowing represents 100 per cent. of its total borrowing.

As at 31 December 2010, 100 per cent. of Kuveyt Türk's total borrowing (due to other financial institutions and banks) is scheduled for maturity within one year.

Kuveyt Türk also aims to secure longer-term sources of funding in order to further improve the management of the liability side of its balance sheet so as to increase the average maturity of its Turkish lira funding facilities, which at 108 days are close to the sector average. Kuveyt Türk will diversify the financial instruments it makes use of and strengthen its balance sheet. The average maturity of deposits as at 31 December 2010 was 104 days for Turkish lira, deposits which were longer than the market average of 60 days. Approximately 7.7 per cent. of Kuveyt Türk's total deposits mature in more than one year and most of its deposits are typically rolled over on maturity.

As at 30 June 2011, Kuveyt Türk had a balance of TL624.17 million with the CBT for its local currency reserve requirements and TL422.1 million for its foreign currency requirements.

The availability of funds from banks and other financial institutions, as well as from customer accounts, is influenced by factors such as prevailing interest rates, market conditions and levels of competition. See — "Risks relating to Kuveyt Türk — Risks relating to Kuveyt Türk's Business—Liquidity Risk" for further details.

Off-balance sheet commitments

Kuveyt Türk's off-balance sheet commitments principally comprise letters of guarantee, letters of credit and commitments to extend credit.

The following table analyses Kuveyt Türk's significant contingencies and commitments as at 30 June 2011 and as at 31 December 2010 and 2009.

	As at 31 December 2010	As at 30 June 2009	As at 30 June 2011
	<i>(audited)</i>		<i>(unaudited)</i>
	<i>(TL thousands)</i>		
Letters of guarantee issued by Kuveyt Türk.....	3,150,355	2,867,436	3,457,353
Letters of credit.....	535,890	426,991	533,909
Commitments	1,284,671	1,924,469	1,251,706
Acceptance credits	39,285	30,567	60,741
Other guarantees	4,678	5,637	63,098
Total	5,014,879	5,255,100	5,366,807

Recent Developments

On 29 September 2011, Kuveyt Türk completed a *Sharia* compliant 10 year subordinated facility for U.S.\$200 million with KFH. As at the date of this Prospectus, Kuveyt Türk has applied to the BRSA for approval to categorise this funding as Tier II capital for the purposes of Kuveyt Türk's capital adequacy ratio.

DESCRIPTION OF KUVEYT TÜRK

Overview

Kuveyt Türk Katılım Bankası Anonim Şirketi (A.Ş.) (which translates to Kuveyt Türk Participation Bank Inc.) (**Kuveyt Türk**) is a full service bank operating primarily in the Republic of Turkey (**Turkey**) over the last 22 years, see “*History*” for further details. Kuveyt Türk’s business is undertaken in compliance with the principles of interest-free banking, known as participation banking in Turkey.

Kuveyt Türk was incorporated on 22 November 1988 as a joint stock company and commenced operations on 31 March 1989 with the name Kuveyt Türk Evkaf Kurumu A.Ş., after being granted a licence by the CBT to operate as a “Special Finance Institution” (an institution undertaking banking activities in an interest-free manner). Following the introduction of a new banking framework in 2005 (whereby the regulation and supervision of all interest-free financial institutions in Turkey was transferred to the BRSA, Kuveyt Türk was reclassified as a “Participation Bank” (*katılım bankası*), see “*Overview of the Turkish Banking Sector and Regulations*” for further details. On 26 April 2006, in accordance with changes to the BRSA’s regulations, Kuveyt Türk changed its name to Kuveyt Türk Katılım Bankası A.Ş.

Kuveyt Türk’s core business segments are:

- (i) **Retail Banking:** which focuses on deposit taking (current and participation accounts), the granting of loans, credit card facilities and fund transfer facilities to individual customers and to small and medium sized retail enterprises (**SMEs**) with an annual turnover of less than TL5 million and additionally where the level of credit provided is below U.S.\$500,000 (**Retail SMEs**) (see “*Business Activities—Retail Banking*” for further details);
- (ii) **Corporate and Commercial Banking:** which focuses on granting of loans, other credit facilities and banking services to corporate SMEs with an annual turnover in excess of TL5 million (**Corporate SMEs**) and corporate clients (including institutional customers) (see “*Business Activities—Corporate and Commercial Banking*” for further details); and
- (iii) **International and Investment Banking and Treasury Services:** which focuses on: (i) international banking services to Kuveyt Türk’s retail and corporate customers such as international trade finance; (ii) international organisation in order to expand Kuveyt Türk’s international network; (iii) investment banking; and, (iv) treasury services, which is responsible for managing Kuveyt Türk’s liquidity and market risks (see “*Business Activities—International and Investment Banking and Treasury Services*” for further details).

As at 31 December 2010, Kuveyt Türk had approximately 560,000 individual customers, 90,000 SMEs (comprising both Retail SMEs and Corporate SMEs) and 62,113 corporate clients, 99.5 per cent. of which originated from Turkey, to which it provided retail, corporate and international banking services. Kuveyt Türk operates through a network of 160 branches across Turkey. Approximately 41 per cent. of Kuveyt Türk’s branches are in İstanbul, with the rest spread across the country.

In addition to its head office and branches in İstanbul and Anatolia, Kuveyt Türk provides banking services to international customers through its wholesale banking branch in Bahrain and through its subsidiary incorporated in the DIFC in the Emirate of Dubai (**Dubai**) in the UAE. Kuveyt Türk also provides services to its international customers through a representative office in Kazakhstan and a financial services branch in Mannheim, Germany (see “*Group Structure, Subsidiaries, International Branches and Strategic Relationships*” for further details).

Kuveyt Türk’s commercial registration number is 250489/198060. Its registered address is Büyükdere Cad. No. 129, 34394 Esentepe-Sisli, İstanbul and its telephone number is +90 212 354 11 11. As at the date of this Prospectus, Kuveyt Türk is regulated by the BRSA and in accordance with Banking Law No. 5411, dated 1 November 2005 (**Banking Law**).

History

Kuveyt Türk is a joint stock company, incorporated on 22 November 1988 in Turkey and a subsidiary of KFH, a financial institution incorporated in the State of Kuwait (**Kuwait**). (See “*Shareholders and Capital Structures — Shareholders—KFH*” for further details).

On 28 February 1989, Kuveyt Türk was granted a Special Finance Institution licence in accordance with the Council of Ministers Decree Number 83/7506 dated 19 December 1983 by the CBT and commenced operations on 31 March 1989 under the name Kuveyt Türk Evkaf Kurumu A.Ş. In the initial stages following its incorporation, Kuveyt Türk focused predominantly on providing interest-free financing to corporate customers and opened eight branches in Turkey within five years. Since 2003, Kuveyt Türk has adopted a more retail-oriented approach to service Retail SMEs and individuals and was the first participation bank in Turkey to provide products and services to retail customers.

In 2000, Kuveyt Türk began implementing its growth strategy (see “*Strategy*” for further details) and opened a total of eight new branches, thereby doubling its network of branches at the time. In the same year, Kuveyt Türk began offering online banking services to its customers, followed by the introduction of its Automated Teller Machines (**ATM**) network. In 2001 Kuveyt Türk introduced debit cards, followed by credit cards in 2002 whereby it became the first Turkish participation bank to become a member of Visa® International.

In 2002, Kuveyt Türk turned its focus to international opportunities particularly within the Gulf Cooperation Council countries (**GCC**) (comprising the UAE, Saudi Arabia, Qatar, the Sultanate of Oman, Bahrain and Kuwait) and accordingly opened an offshore branch in Bahrain. The branch was established in December 2002 with a wholesale banking licence issued by the Central Bank of Bahrain (see “*Group Structure, Subsidiaries, International Branches and Strategic Relationships*” for further details). The main activities undertaken by the Bahrain branch include providing an avenue for Kuveyt Türk to tap funding sources through wakala, commodity murabaha and mudaraba investments from financial institutions in order to assist Kuveyt Türk in maintaining liquidity, as well as investing part of Kuveyt Türk’s excess liquidity within financial institutions based in the GCC. The branch also provides foreign financing to Turkish corporate clients.

In May 2005, Kuveyt Türk established a representative office in Mannheim, Germany, to focus on trade financing and fund mobilisation from the local population of Turkish descent. As at the date of this Prospectus, there is no other bank providing interest-free banking in Germany.

In 2007, Kuveyt Türk launched a new product that provided customers access to gold saving accounts and gold trading on selected gold exchanges (see “*Business Activities—Retail Banking*” for further details). In 2008, Kuveyt Türk continued the expansion of its branch network within Turkey by opening a further 26 branches. In 2009, Kuveyt Türk opened 8 more branches, a significant portion of which were established in İstanbul to capitalise on the economic growth of the city.

On 12 May 2009, Kuveyt Türk established a representative office in Kazakhstan to capitalise on trade finance opportunities based on its customers’ corporate operations in Central Asia.

On 28 August 2009, Kuveyt Türk received a financial services branch licence from the German Federal Financial Supervisory Authority (**BaFin**) in respect of its representative office in Mannheim, permitting Kuveyt Türk to convert the representative office into a financial services branch. The licence permits fund collection and the intermediation of funds for retail investments for customers. However, it currently restricts Kuveyt Türk from providing credit to customers from the branch. Kuveyt Türk commenced its financial services operations from the branch on 26 April 2010. The branch provides Kuveyt Türk with an opportunity to access deposits from customers in Germany.

On 15 November 2009, Kuveyt Türk was granted a licence to establish a subsidiary in Dubai, Kuwait Turkish Participation Bank (Dubai) Limited (**KT Dubai**), to undertake interest-free finance activities from the DIFC in Dubai. On 29 March 2011, the category of licence granted to KT Dubai was extended and it was duly authorised by the Dubai Financial Services Authority (**DFSA**) to expand the provision of its financial services to include providing credit facilities pursuant to its Islamic finance business.

Kuveyt Türk added 20 new branches in 2010 and an additional 18 branches early this year to its network of branches bringing the total number of branches in Turkey to 160. The BRSA has granted permission for Kuveyt Türk to open an additional 20 branches in Turkey in 2011, which is anticipated to contribute to an increase in Kuveyt Türk’s market share.

Shareholders and Capital Structure

Shareholders

As at the date of this Prospectus, Kuveyt Türk’s principal shareholders and their shareholdings are as follows:

<u>Shareholders</u>	<u>Per cent.</u>
KFH	62.23
General Directorate for Foundations—Turkey (GDF)	18.72
Public Institution for Social Security—Kuwait (PIFSS)	9.00
The Islamic Development Bank (IDB)	9.00
Others	1.05
Total	<u>100.0</u>

KFH

As at the date of this Prospectus, KFH, one of the world’s largest Islamic banks in terms of assets, holds approximately 62 per cent. of the share capital of Kuveyt Türk. KFH was established in Kuwait in 1977 as the first bank operating in accordance with *Sharia* principles and is listed on the Kuwait Stock Exchange (**KSE**). As at the date of this Prospectus, KFH is assigned a rating of Aa3 by Moody’s, A- by Standard & Poors and A+ by Fitch.

GDF

As at the date of this Prospectus, the GDF (Vakıflar Genel Müdürlüğü Mazbut Vakıfları) holds approximately 19 per cent. of the share capital of Kuveyt Türk. The GDF was established in 1924 to administer, manage and regulate existing and future Turkish charitable foundations as a state entity directly reporting to the Turkish Prime Minister. The GDF consists of a large number of recorded foundations, the assets and prospects of which are administered and managed by the GDF. Pursuant to Foundations Law No. 2762 and the Law on the Organisation and Duties of the General Directorate for Foundations, the assets and properties of the recorded foundations are administered and managed by the GDF.

PIFSS

As at the date of this Prospectus, the PIFSS holds approximately 9 per cent. of the share capital of Kuveyt Türk. PIFSS was founded in 1976, to implement the Kuwaiti social security system including social security benefits for (i) old age, disability, sickness and death of civil workers in the government, private and oil sectors; (ii) old age, disability, sickness and death of the self-employed, those working for their own account and their affiliates; and (iii) sufferers of occupational diseases. PIFSS is a major investor on the KSE and in other Arab and Islamic countries.

IDB

As at the date of this Prospectus, the IDB holds approximately 9 per cent. of the share capital of Kuveyt Türk. The IDB is a multinational development bank established in 1973 as a result of the Declaration of Intent issued by the Conference of Finance Ministers of Muslim Countries to promote the economic development and social progress of its member countries in accordance with the principles of Islamic law. The IDB currently has 56 member states, all of which are shareholders and members of the Organisation of the Islamic Conference. Turkey is a founding member and owns 8.41 per cent. of the shares of the IDB. Other major shareholders include Saudi Arabia, Kuwait, Libya, Iran and the UAE. The head office of the IDB is located

in Jeddah in Saudi Arabia. As at the date of this Prospectus, IDB is rated Aaa by Moody's and AAA by both Standard & Poors and Fitch.

Capital Structure

At the time of incorporation Kuveyt Türk's initial share capital was TL15,000,000,000. The following table sets out the capital increases which have been undertaken since 2005.

<u>Date of registration</u>	<u>Capital (TL)</u>
5 May 2005	200,188,000
2 May 2007	213,500,000
30 June 2007	260,000,000
30 May 2008	500,000,000
14 April 2010	550,000,000
8 August 2010	850,000,000
1 May 2011	950,000,000

On 8 August 2010, Kuveyt Türk increased its share capital by TL300,000,000 through cash payments from shareholders to TL850,000,000. On 1 May 2011, Kuveyt Türk further increased its share capital by TL100,000,000 from retained earnings to TL950,000,000. This allowed Kuveyt Türk to extend additional cash credits, resulting in increased income from current accounts and equity.

As at 30 June 2011, Kuveyt Türk's authorised and issued share capital was TL950,000,000 and each share has a nominal value of TL1. The shares of Kuveyt Türk are not listed. There are no different classes of shares or different privileges attached to any shares.

Strategy

Kuveyt Türk's primary objectives are to establish itself as the leading participation bank within Turkey and seeks to become one of the top 10 banks (in terms of assets) in Turkey by 2018. Kuveyt Türk's strategy to achieve its objectives is set out below.

Enhancing loan growth with a special focus on non-cash business and increasing its market share

In addition to expanding its cash credit product offerings (such as loans and other cash advances), Kuveyt Türk aims to continue to expand and develop its non-cash credit product offerings (such as guarantees and letters of credit) as they provide relatively stable returns based on fee income which are not directly influenced by mark-up rate fluctuations (see "Activities—Corporate and Commercial Banking—Non-Cash Credits" for further details). It aims to achieve this by leveraging off relationships with existing customers and correspondent banks and cross-selling its non-cash credit products, as well as by targeting new customers in Turkey and new correspondent banks in countries where it has operations with potential demand for Kuveyt Türk's non-cash credit products. Kuveyt Türk aims to diversify its non-cash credit allocations across different sectors primarily within the Turkish economy and also focus on making such allocations in less risky industry sectors internationally.

Growing local customer base through expansion of branch network and alternative distribution channels

Kuveyt Türk intends to grow its local customer base by expanding its branch network throughout Turkey into under-banked areas which it considers represent high growth opportunities. Kuveyt Türk aims to have over 250 branches within Turkey by 2014 and, in this regard, Kuveyt Türk's senior management (**Senior Management**) have identified Anatolia as a key area which they believe is under-banked and provides opportunities for expansion of its branch network over the next few years. By the end of 2011, Kuveyt Türk aims to have opened 20 additional branches in Turkey and the BRSA has granted approval for this.

Kuveyt Türk also aims to increase its customer base and decrease operational costs through the expansion of its alternative distribution channels including internet banking, ATMs, Automated Teller Safes, call centres and mobile banking. In addition, Kuveyt Türk aims to grow its international customer base by expanding its international geographical presence in key countries (see “*Strategy—Strategic investments and international expansion*” for further details).

Leverage off existing customer base through enhanced product offerings and increasing product diversity and service quality, with a special focus on cross-selling

Kuveyt Türk aims to develop revenue opportunities by continuing to provide bespoke solutions and a variety of products to meet the evolving needs of customers. The approach involves continuously reviewing and developing products and service offerings to compliment its core banking products as well as increasing operations geared towards SMEs. Kuveyt Türk opened its first corporate only branch in İstanbul in 2010, and, recently its second corporate only branch in Ankara to target high-value Turkish corporates and provide bespoke Corporate and Commercial Banking services. The branches are also designed to support and increase Kuveyt Türk’s corporate loan portfolio and increase its market share in trade finance and various other related financial products and services.

Kuveyt Türk aims to distinguish itself from competitors by providing innovative products (such as gold products, see “*Business Activities—Retail Banking — Gold savings and trading products*” for further details) and accordingly capitalising on first mover advantage. By providing bespoke and innovative products and services, Senior Management believes Kuveyt Türk will expand upon its current customer base, increase revenues and maintain sustainable growth. Kuveyt Türk also aims to be a ‘house’ bank for its customers, whereby customers have access to a full range of services, and aims to provide high quality customer service and customer satisfaction. Senior Management believes this will assist Kuveyt Türk in retaining customers as well as providing further opportunities for both account and service cross selling.

Enhancing profitability and improving operational efficiency through cost control initiatives

Kuveyt Türk aims to increase net profit through increased operational efficiency and cost control initiatives. It endeavours to increase its operating efficiency by developing its alternative distribution channels and outsourcing certain functions, such as its corporate vehicle requirements, to car fleet companies.

In line with this strategy, Kuveyt Türk in 2010 established a separate expense and cost control committee (the **Cost Control Committee**) to streamline Kuveyt Türk’s cost structure and develop cost management policies and systems.

Increasing market share in international trade business

Kuveyt Türk intends to increase revenue by increasing its market share in international trade business. To this end, Kuveyt Türk intends to expand its correspondent bank network by establishing new relationships with banks located in countries which are business and trade partners for Turkey and with those that could generate new business opportunities for Kuveyt Türk and increase the volume of global trade transactions. In particular, Kuveyt Türk aims to develop upon its existing international banking operations by seeking to capture trade flow in the GCC region through its branch in Bahrain and subsidiary in Dubai. Kuveyt Türk also aims to complement these efforts by continuing to identify opportunities to expand its international branch network outside Turkey.

Strategic investments and international expansion

Although Kuveyt Türk’s strategic plan is to primarily focus on organic growth opportunities, Kuveyt Türk from time to time may seek to enhance growth through sector and/or geographic-specific strategic associations. Kuveyt Türk’s strategy is to also invest in related businesses which allow it to supplement its product offerings and align with its strategy to become a ‘house’ bank. An example of this is Kuveyt Türk’s investment in Neova Sigorta A.S. (**Neova**), an insurance company to provide interest-free (*takaful*) insurance to its Turkish customers (see “*Group Structure, Subsidiaries, International Branches and Strategic Relationships—Associates Neova*” for further details).

Kuveyt Türk's strategy for international expansion comprises three core elements, namely: (i) that Kuveyt Türk's customers have a direct business relationship with the geographic location (to capture trade financing opportunities and key trade finance routes); (ii) that Kuveyt Türk has a presence in key geographical regions to source funding; and (iii) the locations have a strong Turkish immigrant community with continuing relationships with Turkey. Kuveyt Türk aims to strengthen and consolidate its presence in Europe, Central Asia and, in particular, the GCC and endeavours to increase its income and market share in these jurisdictions by enhancing customer satisfaction through competitive offerings. In this regard, subject to the development of the regulatory market for interest-free financial institutions in Germany, Kuveyt Türk also aims to establish a subsidiary in Germany to capture customer's requirements for the provision of interest-free banking facilities. Kuveyt Türk has also made applications to establish a branch in Erbil in Northern Iraq and a subsidiary in Qatar, which have been approved by the BRSA.

Strategies of each core business segment

In addition to Kuveyt Türk's overall strategy, Kuveyt Türk has also developed specific strategies for each of its core business segments to improve its business and maintain sustainable growth and profitability.

Retail Banking

Kuveyt Türk's retail business activities are currently targeted at individual customers and Retail SMEs. Kuveyt Türk aims to increase its retail credit exposure to Retail SMEs and thereby increase corresponding fee income by actively targeting its current retail customer base and leveraging off its branch network and alternative distribution channels to attract new customers.

Corporate and Commercial Banking

Kuveyt Türk intends to continue to diversify and expand its corporate client portfolio, particularly in respect of Corporate SMEs, while also maintaining its strategic relationships with major companies within the European and GCC markets. Kuveyt Türk also aims to increase its revenue generating activities without taking substantial risk exposure to its assets by focusing on increasing fee and commission income.

Kuveyt Türk intends to continue developing and enhancing its asset base and building a more diversified loan portfolio. In some cases, Kuveyt Türk will consider increasing exposure to certain sectors (within prescribed limits) to support project financing requirements of major corporates. Aside from the short-term working capital needs of its customers, Kuveyt Türk intends to increase its exposure in mid-term and long-term loans by providing opportunities for its customers to access international markets to raise funds.

International and Investment Banking and Treasury Services

Kuveyt Türk aims to consolidate and strengthen the various departments within its international banking business segment by increasing the rate of uptake by its customers for investment services products through cross-selling treasury and investment services to selected retail and corporate banking clients. Kuveyt Türk intends to broaden the scope of its investment services capacity to allow customers to benefit from its developing interest-free banking product range (including hedging, foreign exchange operations, fixed income, equity and commodity markets access). Kuveyt Türk aims to further develop its direct risk management advisory and financial advisory capabilities.

Business Activities

Kuveyt Türk's principal business activities are focused around its core business segments: (i) Retail Banking, (ii) Corporate and Commercial Banking; and (iii) International and Investment Banking and Treasury Services. Although, Kuveyt Türk's operations have focused primarily on the domestic market within Turkey, Kuveyt Türk has an expanding deposit and facility portfolio in the GCC and Europe.

The following table sets out income and profit and certain asset and liability information regarding the business segments for the periods presented.

For the year ended 31 December 2010	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
<i>(TL in thousands) (audited)</i>					
Revenue					
Third party	134,097	385,618	51,691	-	571,406
Intersegment (*)	140,191	(131,567)	(8,624)	-	-
Total operating income	274,288	254,051	43,067	-	571,406
Credit loss expense	(25,795)	(36,636)	-	-	(62,431)
Impairment losses on financial investments	-	-	-	-	-
Net operating income	248,493	217,415	43,067	-	508,975
Results					
Net profit share income/(expense)	185,054	137,141	(1,040)	-	321,155
Net fees and commission income	52,875	88,630	(1,454)	-	140,051
Net trading income	315	2,146	21,391	-	23,852
Segment profit/(loss)	238,244	227,917	18,897	(275,230)	209,828
Income tax expense	-	-	-	(41,576)	-
Net profit for the year	238,244	227,917	18,898	(316,806)	168,252
Asset and liabilities as of 31 December 2010					
Assets					
Capital expenditures					
Property and equipment	-	-	-	49,488	49,488
Other intangible assets	-	-	-	7,722	7,722
Total assets	2,325,389	4,729,899	2,206,488	332,489	9,594,265
Total liabilities	5,026,332	2,355,141	653,704	283,322	8,318,499

(*) The majority of Kuveyt Türk's deposits come from its Retail Banking business while the majority of its loans are generated by its Corporate and Commercial Banking business. The intersegment line item reflects the presentation of the relevant income by reference to the source of funding.

The following table sets out Kuveyt Türk's total operating income for the core business segments and periods presented.

	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury
<i>(TL in thousands)</i>			
Year ended 31 December 2010	274,288	254,051	43,067
Year ended 31 December 2009	201,893	220,811	49,045

Retail Banking

The Retail Banking Department was established in 2000. Kuveyt Türk was the first participation bank in Turkey to offer retail banking services to customers. Kuveyt Türk provides a wide range of retail banking services and products to SMEs and individuals with a primary focus on Retail SMEs and middle-to-upper-income individuals.

For the year ended 31 December 2010, Retail Banking accounted for 25 per cent. of Kuveyt Türk's total assets (excluding unallocated assets), and 60.4 per cent. of Kuveyt Türk's total liabilities. As at 31 December 2009, Retail Banking accounted for approximately 31.2 per cent. of Kuveyt Türk's total assets (excluding unallocated assets), and 62.8 per cent. of Kuveyt Türk's total liabilities.

For the year ended 31 December 2010, Kuveyt Türk had approximately 650,000 active retail customers (including individuals and Retail SMEs) with outstanding cash or non-cash credit balances (as compared to 570,000 active retail customers for the same period in 2009). The customers of Kuveyt Türk's Retail Banking Department had total cash credits outstanding as at 31 December 2010 of TL2,558 million, as compared to TL1,498 million as at 31 December 2009 (including commercial instalment loans, as per Kuveyt Türk's Turkish GAAP accounting reports). Kuveyt Türk's deposits from customers are primarily denominated in Turkish lira, Euro and U.S. dollars.

Kuveyt Türk offers its customers a range of retail products, including:

- **Deposit taking:** Kuveyt Türk provides customers with deposit taking services categorised under two types of accounts (set out below). The majority of Kuveyt Türk's deposits are short-term deposits averaging between one and two months. The majority of these deposits are typically rolled over on maturity.
 - *Current Accounts:* These are accounts which may be opened in Turkish lira or foreign currency in return for a Special Current Account Deposit Book in the name of the customer and the funds deposited may be withdrawn at any time, either partially or completely (as preferred by the customer). The accounts allow customers to pay invoices via automatic payment instructions, carry out electronic fund transfers (EFTs), collect cheques/bonds and make credit payments. As at 30 June 2011, Kuveyt Türk had 706,493 current accounts opened for customers. Customers do not receive any mark-ups (i.e. profit share) on their deposits.
 - *Participation Accounts:* These are high-revenue accounts that may be opened in one of three currencies (Turkish lira, U.S. dollars or Euro). These accounts offer customers the option of participating in the profit and loss of Kuveyt Türk which arises through the investment of the deposited funds by Kuveyt Türk. The funds are accumulated in participation accounts which are used in the financing of the real sector (in order to be compliant with the principles of interest-free banking). Kuveyt Türk has five types of participation accounts: the Classical Account, the Silver Account, the Gold Account, the Platinum Account and the Platinum + Account, each of which differs according to minimum deposit requirements. In participation accounts, customers forfeit any accrued profits if amounts on deposit are withdrawn prior to maturity. As at 30 June 2011, Kuveyt Türk had 165,788 participation accounts opened for customers.
- **Gold savings and trading products:** Kuveyt Türk has introduced a number of products based on and related to gold, including the following:
 - *Gold Storage Account:* These accounts enable customers to invest in gold (buy or sell). Through the Gold Storage Account, accountholders have the added benefit of minimising risk as the government (through a separate scheme) guarantees the amount of gold up to the value of U.S.\$35,000. In addition, these accounts can have varying maturity dates, providing greater flexibility to customers and enabling them to convert their gold savings into TL or U.S. dollars at market value on demand.
 - *Participation Accounts (denominated in gold):* This type of participation account can be opened with 10 grams of gold and provides customers with the ability to save in gold and generate returns on their savings. Each gram of gold deposited in this account is used in the physical gold trading sector and profits from that are returned to the customer in the form of more gold. The participation account has different maturity options ranging between three months and one year and can be opened at Kuveyt Türk branches or via the internet.
 - *Kuveyt Türk Gram Altın—Physical Gold:* Kuveyt Türk has commenced purchasing and selling physical gold denominated in 1, 2.5, 5, 10, 20, 50 and 100 grams certified and coined by the İstanbul Gold Refinery. This is an alternative product offered to customers who prefer to have physical gold rather than cash accounts. Kuveyt Türk gold purchased from Kuveyt Türk

branches and other gold products carrying the certificate of the İstanbul Gold Refinery can be resold to all branches after the necessary security checks have been undertaken.

- *Gold Transfer and Delivery:* Kuveyt Türk also provides its customers with the ability to transfer their gold to other accounts as well as the delivery of gold. This is undertaken for a set fee.
- *Physical Gold Deposit:* Kuveyt Türk introduced a new product whereby its customers are able to deposit their physical gold savings into their current and/or participation accounts electronically without the need to convert the gold into physical cash.
- **Silver and platinum trading:** In addition to providing its customers the opportunity to trade in gold, Kuveyt Türk has established additional products which allow customers to invest in silver and platinum at market prices (the first products of their kind to be provided by a participation bank). These products allow customers to buy silver or platinum for investment purposes, which Kuveyt Türk then holds at the İstanbul Gold Exchange on their behalf.
- **Car financing:** Kuveyt Türk finances vehicle purchases for individuals and businesses pursuant to a Murabaha structure by purchasing approved vehicles and selling them to the relevant customer at a pre-determined mark-up price, paid back to Kuveyt Türk in instalments. Leasing is also widely used for car financing.
- **Property finance:** Kuveyt Türk provides financing to customers to purchase land, properties which have been, or are being, built by an approved developer, and properties on the secondary market. Kuveyt Türk also provides financing for self-construction. In each instance, evaluation and approval is determined on a case-by-case basis. Property financing is provided on a fixed rate basis.
- **Consumer loans:** Kuveyt Türk provides general purpose financing to customers including study, travel, home appliance purchases and boat financing. Collateral taken when providing such financings is dependent upon on the credit capability of each customer and is evaluated on case by case basis.
- **Credit and debit cards:** Kuveyt Türk was the first participation bank to introduce interest-free debit cards and credit cards to its customers in 2001 and 2002, respectively. As at 30 June 2011, Kuveyt Türk has issued a total of approximately 302,688 debit cards and 77,400 credit cards. Debit cards permit customers to access their current accounts and conduct transactions, including ATM withdrawals, fund transfers, account activity and balance enquiries, retail purchases and credit card, utility and other payments. Kuveyt Türk intends to continue developing unique card products to capture niche markets. Specifically, Kuveyt Türk has developed a new credit card branded the “Sale Plus” which is a unique credit card combining the benefit of discounts, instalment payment options and gold reward points. Kuveyt Türk has also developed another credit card branded the “Installment Card” which combines loan and credit card features with an option of instalment payments for up to 36 months.

In accordance with the principles underlying its participation banking status, Kuveyt Türk’s credit cards contain some features that are not typical of conventional credit cards. For example, the credit cards may only be used for purchases and not for cash advances.

In addition to earning fees from the customers’ use of credit cards, Kuveyt Türk has Point of Sale (**POS**) terminals in stores throughout Turkey from which Kuveyt Türk earns a small fee from each transaction in which the cards are used (regardless of whether they are used by a customer of Kuveyt Türk or not). The number of Kuveyt Türk POS terminals through which transactions using Kuveyt Türk’s own debit or credit cards and the credit cards of other banks are effected has slightly increased from 11,968 units as at 31 December 2010 to a total of 13,285 as at 30 June 2011. The volume of transactions increased to TL681 million as at 30 June 2011 compared to TL558 million for the same period in 2010.

Kuveyt Türk conducts its retail banking operations through its 160 branches located throughout Turkey and an offshore branch in Bahrain, as well as its alternative distribution channels including ATMs, internet banking, 24-hour telephone banking, and POS terminal payment locations.

Kuveyt Türk's retail products are supported by the adoption of stringent credit criteria, including specified lending limits for each retail product (see "*Risk Management*" for further details).

As at 31 December 2010, Kuveyt Türk had TL2,558 million in outstanding retail credits as compared to TL1,498 million as at 31 December 2009. Home financings accounted for 42 per cent., or TL1,086 million, of Kuveyt Türk's total retail credit portfolio, as at 31 December 2010 as compared to 54 per cent., or TL807 million, as at 31 December 2009. Auto financings accounted for 3.5 per cent., or TL90 million, of Kuveyt Türk's total retail credit portfolio as at 31 December 2010, as compared to 5 per cent., or TL74 million, as at 31 December 2009. All of Kuveyt Türk's home and vehicle financings are collateralised by the property or vehicles purchased with the proceeds of such credits. Credit card financings accounted for 2.9 per cent., or TL74 million, of Kuveyt Türk's total retail credit portfolio as at 31 December 2010, as compared to 6.5 per cent., or TL97 million, as at 31 December 2009. As at 31 December 2010, the remaining 51 per cent. of Kuveyt Türk's retail credit portfolio was comprised of Retail SME credits and other personal credits (all as per Turkish GAAP).

Retail Banking in Participation Banks

The principles underlying participation banking products determine the ways in which the proceeds from Kuveyt Türk's retail credits may be used and how these proceeds are transferred. Transfers of funds are effected in such a manner that the proceeds are transferred directly to the vendor or service provider that is the subject of the transaction. Repayments of retail credits are done in a similar way as at a conventional bank, with a larger portion of the earlier payments being applied to the mark-up portion and, subsequently, a greater portion applied to the principal closer to the end of the term. Turkish law requires Kuveyt Türk to permit retail customers to pre-pay in part or in full. In the event that a retail customer makes an early payment, Kuveyt Türk commits to making a reduction of the profit share and commission payable *pro rata* to the sums that are paid early. The current accounts and participation accounts offered by Kuveyt Türk also comply with interest-free banking principles. Kuveyt Türk utilises the funds deposited by account holders (which are accumulated in a pool for specific business activities), and any profits earned from such respective pools of funds are shared between the account holders and Kuveyt Türk in proportion to a pre-agreed ratio.

Customers

Kuveyt Türk categorises its retail customers primarily based on the amount of their opening deposits with Kuveyt Türk. Depending on the deposited amount, retail customers will become a member of one of the following groups: Classic (minimum opening balance TL500), Silver (TL25,000), Gold (TL150,000), Platinum (TL375,000) and Platinum+ (TL1,250,000). As the status of the customer improves, Kuveyt Türk offers the client a wider variety of products with more attractive terms, thereby encouraging customers to concentrate their banking business with Kuveyt Türk. Kuveyt Türk intends to increase the number of customers of its Retail Banking Department by cross-selling new products and services and expanding the branch network (see "*Strategy*" for further details).

The individuals primarily targeted by Kuveyt Türk's Retail Banking Department comprise professionals and owners of businesses that use Kuveyt Türk's services primarily for their non-business related banking needs. For the year ended 31 December 2010, Kuveyt Türk provided retail banking services to approximately 500,000 individuals. For the year ended 31 December 2010, the total amount of its outstanding cash credits to individuals represented 48 per cent. of the total cash credit portfolio of Kuveyt Türk's Retail Banking Department, amounting to TL1,222 million. For the same period in 2009, the total amount represented 63 per cent. of the total cash credit portfolio of its Retail Banking Department, amounting to TL942 million. Kuveyt Türk's Retail Banking Department also provides a wide range of products and services to Retail SMEs. For the year ended 31 December 2010, the total amount of Kuveyt Türk's outstanding cash credits to Retail SME customers represented 52 per cent. of the total cash credit portfolio of its Retail Banking Department, amounting to TL1,336 million. For the same period in 2009, the total amount represented 37 per cent. of the total cash credit portfolio of its Retail Banking Department, amounting to TL556 million (all as per Turkish GAAP).

Corporate and Commercial Banking

For the year ended 31 December 2010, Corporate and Commercial Banking accounted for 51 per cent. of Kuveyt Türk's total assets (excluding unallocated assets) and 28 per cent. of Kuveyt Türk's total liabilities. As at 31 December 2009, Corporate and Commercial Banking accounted for 45 per cent. of Kuveyt Türk's total assets (excluding unallocated assets) and 27 per cent. of Kuveyt Türk's total liabilities.

Kuveyt Türk's Corporate and Commercial Banking Department designs and offers business solutions to both Corporate SMEs as well as large corporates (operating primarily in the manufacturing, construction, wholesale and trade industries) through dedicated teams. Operating within an interest-free banking framework, Kuveyt Türk's Corporate and Commercial Banking Department seeks to provide innovative financing solutions for the specific requirements of the customers. Kuveyt Türk's principal commercial products and services are categorised into two sections: (i) Cash Credits; and (ii) Non-Cash Credits.

Cash Credits

Kuveyt Türk provides a broad range of cash credit (i.e. loan) facilities and financial leasing products (which it refers to together as cash credits) to its corporate and commercial customers to meet their short- and long-term financing requirements. Kuveyt Türk's cash credits are used to support the business activities of Kuveyt Türk's commercial customers and consist principally of credits that are offered in Turkish lira, U.S. dollars and Euros.

Kuveyt Türk focuses on high volume, short-term financing provided for the purposes of production support and working capital requirements (described below) in order to mitigate any adverse effects caused by interest rate fluctuations. Kuveyt Türk also provides a broad range of financial leasing products. Through its leasing products, commercial customers are able to obtain machinery, equipment and other goods from both domestic and international vendors. Under Turkish law, conventional banks are not allowed to engage directly in leasing activities – they are only permitted to do so through their subsidiaries. Consequently, Kuveyt Türk (as a participation bank) can enter into leasing transactions more efficiently with its customers than conventional banks can. Kuveyt Türk has also introduced a basket loans product which allows customers who seek to reduce foreign exchange risk with foreign exchange indexed loans, to borrow in two or three different currencies for the same project. For the year ended 31 December 2010, Kuveyt Türk had TL87.4 million (excluding unearned profit share) in outstanding leases, as compared to TL53.5 million for the same period in 2009. Kuveyt Türk also provides commercial customers with a variety of credit card services.

Kuveyt Türk provides foreign cash credits to its corporate customers through its Bahrain branch, which not only provides maturity and cost opportunities but also provides tax benefits for the clients. Kuveyt Türk also intermediates the trade business facilities of its customers through its Dubai subsidiary and Kazakhstan representative office and seeks to increase its cash credits for Turkish corporates having business in these regions.

Non-Cash Credits

Kuveyt Türk offers its corporate and commercial customers non-cash credits denominated in all major foreign currencies, principally comprised of letters of guarantee, letters of credit, acceptances and commitments. Non-cash credit facilities are extended in connection with a broad range of activities, including domestic and international trade finance, tenders in the construction sector, tenders in connection with privatisations and public sector tenders.

Kuveyt Türk aims to introduce innovative products to the Turkish market and has developed a number of tailor-made products in relation to its non-cash credits. For example Kuveyt Türk has developed a gold "forward" product, a first of its kind to be offered by a participation bank in Turkey. As part of this product, Kuveyt Türk offers its customers the ability to fix future exchange rates in order to protect the customer from exchange rate fluctuations. Kuveyt Türk utilises relationships developed with established financial institutions in various countries to assist with channelling and distributing these tailor-made financial products.

Corporate and Commercial Banking in Participation Banks

In accordance with the principles underlying Kuveyt Türk's participation banking status, its financings are made for the purposes of "production support", a term particular to participation banks. In this context, production support is used to describe tangible assets used by a business (i) in its operations including, among other things, raw materials, machinery, tools, vehicles and equipment and (ii) for the payment of certain service providers, so long as such services (such as installation services) are provided in connection with the acquisition of tangible assets.

As a participation bank, Kuveyt Türk does not provide credits to fund a business' general working capital which does not have any underlying assets. Instead, when a credit is extended, the proceeds are given directly to the vendor or service provider subject to the transaction, rather than to the customer. In a typical Murabaha financing transaction, the commercial customer applies for credit for the purpose of purchasing a product/service that it will use in its business. If the credit is granted, Kuveyt Türk buys the product directly from the vendor and sells this product/service for credit at a marked-up price to Kuveyt Türk's commercial customer. The customer repays the principal of the credit plus the fixed mark-up through instalment payments made over time. Kuveyt Türk also offers credits in *Istisna'a* transactions where the product being purchased by the customer does not yet exist at the time the credit is granted.

Unlike retail customers, Kuveyt Türk's commercial customers do not have the legal right to pre-pay their credit obligations. Under certain circumstances, however, Kuveyt Türk may permit a commercial customer to pre-pay such obligations. In such cases, in addition to requiring pre-payment of 100 per cent. of the principal of the credit, Kuveyt Türk also requires a small percentage of the scheduled fixed mark-up payments as a "discouragement fee".

Customers

For the year ended 31 December 2010, Kuveyt Türk had over 60,000 corporate clients (of which 1,000 are institutional banking clients), to whom designated corporate relationship managers provide a dedicated point of contact throughout, assessing their cash management, treasury, trade finance, working capital finance, asset and project finance requirements (as compared to 50,000 corporate and commercial clients for the same period in 2009). Kuveyt Türk's corporate and commercial customers had a total cash credit outstanding with Kuveyt Türk of TL4,342 million and total non-cash credits (comprising of letters of credit and letters of guarantee) outstanding with Kuveyt Türk of TL3,686 million (as compared to TL3,557 million cash credits and TL3,294 million non-cash credits for the same period in 2009 outstanding with Kuveyt Türk) (all as per Turkish GAAP).

The customers of Kuveyt Türk's Corporate and Commercial Banking Department include Turkish companies in various sectors including textile, construction, food-stuff, metals, machinery and plastic manufacturing, as well as the automotive industries. With respect to cash credits, Kuveyt Türk's highest customer concentrations were historically in the textile sector. Kuveyt Türk has, however, expanded and diversified its corporate customer base and moved its cash credit focus towards the construction, food-stuff and metals and machinery industries, thereby also helping to decrease risks relating to credit concentration. With respect to non-cash credits, a majority of Kuveyt Türk's customers are in the construction industry.

International and Investment Banking and Treasury Services

The international banking business segment is divided into four departments, the International Banking Department, the Investment Banking Department, the Treasury Department and the International Organisation and Investor Relations Department. Through this business segment, Kuveyt Türk aims to expand and improve its global correspondent banking network to meet intermediate foreign and international payments as well as to source low-cost funding.

For the year ended 31 December 2010, the international banking segment accounted for 24 per cent. of total assets (excluding unallocated assets). For the year ended 31 December 2009, the international banking segment accounted for approximately 24 per cent. of the total assets (excluding unallocated assets). For the year ended 31 December 2010, the international banking segment accounted for 7.86 per cent. of total liabilities.

International Banking Department

To cater for the worldwide needs of both its corporate and retail customers, Kuveyt Türk's International Banking Department offers customers a wide range of services, including international payments, international documentary credits, letters of guarantee and other services involving counterparties outside of Turkey. To provide these services, as at 30 June 2011, Kuveyt Türk has established relationships with 1,064 correspondent banks in 106 countries, one of the largest international networks amongst the Turkish participation banks.

The number of correspondent banks with whom Kuveyt Türk has established relationships has grown considerably in recent years. After a period of significantly increasing the number of correspondent banks, Kuveyt Türk's primary goal is to leverage and strengthen the existing relationships it has with existing correspondent banks while adding new correspondent banks in regions where it does not yet have a relationship and where Senior Management believe it can capture trade flows and leverage Kuveyt Türk's trade finance experience. These regions include the Middle and Far East and Africa.

Some of Kuveyt Türk's significant international correspondent banks include: Abu Dhabi Islamic Bank, Al Rajhi Bank, Bank of China Limited, Bank of Montreal, The Bank of New York Mellon, Barclays Bank PLC, BNP Paribas, Calyon, Citibank N.A., Commerzbank AG, Credit Suisse, Danske Bank Aktieselskab, Deutsche Bank AG, HSBC Bank plc, ING Belgium SA/NV, Intesa Sanpaolo SpA, KFH, Nordea Bank Sweden AB, Société Générale, Standard Chartered Bank, UBS AG and UniCredit SpA.

In addition to providing it with an alternative source of funding, Kuveyt Türk's wholesale banking branch in Bahrain provides it with access to additional international banking business and the opportunity to strengthen Kuveyt Türk's profile and existing relationships in the GCC. In addition, Kuveyt Türk currently has a representative office in Kazakhstan and recently converted its representative office in Germany to a financial services branch through which it will target opportunities for future business for Kuveyt Türk, in particular fund mobilisation from the local Turkish and other Muslim population. Kuveyt Türk has also established a wholly owned subsidiary in Dubai (see "*Group Structure, Subsidiaries, International Branches and Strategic Relationships*" for further details).

Investment Banking Department

Kuveyt Türk's Investment Banking Department offers customers credit arrangement services and corporate products related to structured international financing projects. Kuveyt Türk was the first Turkish participation bank to have an investment banking arm when it established its Investment Banking Department in 2000. Kuveyt Türk's Investment Banking Department has undertaken a number of intermediary and advisory roles in relation to project financing. Although active in different sections of corporate finance, Kuveyt Türk intends to continue to focus on niche financing products such as the arrangement of internationally syndicated interest-free credit facilities for Turkish corporations.

In line with Kuveyt Türk's reputation of providing innovative financing solutions, the Investment Banking Department has been involved in the introduction of three different transaction types, all of which have been the first of their kind in Turkey. First, the Investment Banking Department introduced the "matched Murabaha" to the Turkish market in 2005. A second significant Turkish market first for Kuveyt Türk's Investment Banking Department was the internationally syndicated commodity Murabaha transaction that was arranged to meet Kuveyt Türk's funding need. The U.S.\$200 million facility, which was concluded in 2006 (and renewed in the amount of U.S.\$115 million in 2009 and repaid in full in April 2010) and which was over-subscribed by international investors, was the first of its kind by a participation bank in Turkey. Since then, other participation banks in Turkey have followed this model and established their own syndicated Murabaha facilities. The third transaction type was Kuveyt Türk's U.S.\$100 million Sukuk due 2013, which is listed on the London Stock Exchange. This was the first Sukuk issuance from Turkey and it was rated "BBB-" by Fitch, in line with Kuveyt Türk's long term foreign currency rating.

In terms of the volume of transactions, Kuveyt Türk's main area of focus is financing arrangements for its corporate customers. The majority of these transactions are generated through Kuveyt Türk's branch network and relationship managers. The main products Kuveyt Türk offers are trade finance services, with transaction

sizes typically ranging from U.S.\$500,000 to U.S.\$5 million and so called “club deals”, with transaction sizes ranging typically from U.S.\$10 million to U.S.\$20 million. In addition, Kuveyt Türk arranges internationally syndicated facilities with transaction values of over U.S.\$20 million. Kuveyt Türk has arranged approximately U.S.\$400 million of syndications since 2004. Working through its Bahrain branch and its Dubai subsidiary, Kuveyt Türk intends to continue to use its relationship with KFH to tap additional funding sources in the GCC. In the future, Kuveyt Türk believes that its Dubai subsidiary will provide a key avenue to meet its future funding needs (see “*Group Structure, Subsidiaries, International Branches and Strategic Relationships*” for further details).

Treasury Department

The Treasury Department is responsible for managing Kuveyt Türk’s liquidity risk and acts under the supervision of the Assets and Liabilities Committee (**ALCO**) (see “*Risk Management*” for further details). This department also manages Kuveyt Türk’s market risks.

The Treasury Department is active in the money market, currency trading and precious metals trading (see “*Risk Management*” for further details). The core strategy for Kuveyt Türk’s Treasury Department is to focus on liquidity and market risk management. The Treasury Department does not carry out proprietary trading and Kuveyt Türk does not act as a market maker. As at 31 December 2010, Kuveyt Türk’s foreign exchange trade volume was U.S.\$10 billion, compared to U.S.\$2.7 billion as at 31 December 2009.

The Treasury department is also responsible for the marketing of treasury products that Kuveyt Türk offers to customers. These products include currency spot trading, precious metals trading and currency forwards and swaps. Kuveyt Türk has also entered into a number of ISDA (International Swaps and Derivatives Association) agreements that are based on Murabaha principles with an international counterparty. As at 31 December 2010, Kuveyt Türk’s total Murabaha transactions volume amounted to U.S.\$4 billion and swap volume transactions amounted to U.S.\$22 billion, as compared to U.S.\$10 billion and U.S.\$11.5 billion respectively in 2009.

International Organisation and Investor Relations Department

The International Organisation and Investor Relations Department performs a dual function, first, in relation to Kuveyt Türk’s International Offices and second, in relation to Investor Relations.

Under the International Organisation function, the department administers and coordinates Kuveyt Türk’s international offices. It is also responsible for identifying additional international expansion opportunities and preparing and presenting a feasibility report in relation to each opportunity identified to Senior Management.

Under the Investor Relations function, the department organises and manages Kuveyt Türk’s relationships with third parties, monitors relevant developments in the domestic and international markets and prepares and disseminates monthly updates both internally and externally. The department is also responsible for preparing data for the weekly ALCO meeting, as well as national and international economic evaluation reports for Senior Management prior to each meeting of the Board of Directors.

Group Structure, Subsidiaries, International Branches and Strategic Relationships

Kuveyt Türk is headquartered in İstanbul, Turkey. Kuveyt Türk is the parent company of the group, which, at the date of this Prospectus, consists of three wholly-owned operating subsidiaries, one offshore branch, one financial services branch and one representative office.

Subsidiaries

Körfez Gayrimenkul İnfaat Taahhüt Turizm San. Tic. A.Ş. (Körfez Gayrimenkul)

Körfez Gayrimenkul was incorporated on June 1996 as a joint stock company under the Turkish Commercial Code and its registered address is Büyükdere Caddesi, Esentepe, İstanbul. Körfez Gayrimenkul is engaged

in: (i) the development, marketing and sale of real estate projects; (ii) property valuations; and (iii) property management.

Körfez Gayrimenkul is also developing a commercial and residential real estate project in the Kartal area located on the Anatolian side of İstanbul. According to the official zoning plan of the project, hotels, hospital and commercial complexes can be constructed on this land. Körfez Gayrimenkul's main sources of revenue are the sales of these real estate projects, expert valuations carried out on behalf of third parties and property management fees.

Körfez Gayrimenkul's net revenue for the year ended 31 December 2010 was TL7,204 thousand (according to its books of accounts, in accordance with the relevant regulations on accounting framework and accounting standards as promulgated by the Turkish Commercial Code and relevant legislation) which accounted for 1.03 per cent. of Kuveyt Türk's consolidated financial statement for the same period.

On 23 November 2009, Kuveyt Türk entered into an agreement with Hayat Investment Company (a Kuwait incorporated company) to sell 51 per cent. of its shareholding in Körfez Gayrimenkul. On 10 June 2010, Kuveyt Türk repurchased 51 per cent. of the shares at the original price and accordingly obtained full control by owning 100 per cent. of the shares in Körfez Gayrimenkul. The repurchase of the 51 per cent. of the shares in Körfez Gayrimenkul was as a result of issues with the local municipality over the land for the construction of the project. As at the date of this Prospectus, Körfez Gayrimenkul is wholly owned by Kuveyt Türk and its share capital is TL65,820,000.

Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İş letmeciliği San. Tic. A.Ş. (Körfez Tatil Beldesi)

Körfez Tatil Beldesi was incorporated in 2001 in Edremit, Turkey. Körfez Tatil Beldesi was established to deal with the development of real estate based financial investment in Turkey (including the "Güre Project"—a construction project of 199 time-sharing houses in Edremit-Balikesir, which the company now operates) for and on behalf of Kuveyt Türk. Körfez Tatil Beldesi is a wholly-owned subsidiary.

Körfez Tatil Beldesi's net revenue for the year ended 31 December 2010 was TL2,474 thousand (according to its books of accounts, in accordance with the relevant regulations on accounting framework and accounting standards as promulgated by the Turkish Commercial Code and relevant legislation), which accounted for 0.43 per cent. of Kuveyt Türk's consolidated financial statement. For the financial year ended 31 December 2009, no revenue was accounted for in Kuveyt Türk's consolidated financial statement for the same period.

Kuwait Turkish Participation Bank Dubai Ltd (KT Dubai)

KT Dubai was established on 15 November 2009 on being issued a licence to operate as a subsidiary branch office from within the DIFC on 15 November 2009. Kuveyt Türk undertakes its banking business in Dubai as a separate entity for local law requirements through KT Dubai. KT Dubai is a wholly-owned subsidiary of Kuveyt Türk.

The subsidiary was established with a capital of U.S.\$12 million and has been granted a "Category 5" licence by the DIFC permitting it to operate as an Islamic Financial Institution. On 29 March 2011, the category of licence granted to KT Dubai was extended and it was duly authorised by the DFSA to expand the provision of its financial services to include providing audit facilities pursuant to its Islamic finance business. KT Dubai is anticipated to provide further opportunities to Kuveyt Türk to diversify its funding source, capture trade flow finances and other business opportunities that are not currently available to Kuveyt Türk through its Bahrain branch due to regulatory restrictions. Prior to the establishment of KT Dubai, Kuveyt Türk was developing business with financial institutions and corporates through its Bahrain branch with limited products and services. However, since KT Dubai has commenced operations, Kuveyt Türk is able to offer a wider scope of products and services to customers.

International Branches

In line with its strategy to expand its international network, Kuveyt Türk has established an offshore branch in Bahrain and a financial services branch in Germany (see "History" for further details). Through the

Bahrain branch, Kuveyt Türk is able to diversify its funding sources and accordingly enhance its product offerings. Kuveyt Türk's financial services branch in Germany was converted from a representative office in 2009. Kuveyt Türk also aims to establish a subsidiary in Germany to capture customers' requirements for the provision of interest-free banking facilities (although this is subject to a change in German regulations regarding interest-free financial institutions). Kuveyt Türk's applications to the BRSA for approval for establishing a branch in Erbil, Northern Iraq, and establishment of a subsidiary in Qatar have been approved.

Representative Office

Over the last couple of years, Kuveyt Türk has also expanded its operations by opening representative offices. Kuveyt Türk's Kazakhstan office was opened in May 2009. The representative office was established to maintain client counterparty relations in this market and to capitalise on trade financing and fund mobilisation from this community.

As at the date of this Prospectus, this representative office does not materially contribute to the revenue of Kuveyt Türk and is considered as a strategic initiative by Senior Management, which is anticipated to contribute to business development and revenue contribution in the long-term.

Associates

Neova

Neova was incorporated in İstanbul in 2008 and commenced operations in the second half of 2010. As at the date of this Prospectus, Kuveyt Türk holds seven per cent. of the shares in Neova. Neova is the first insurance company providing *Sharia* compliant insurance products in Turkey.

Islamic International Rating Agency (IIRA)

The IIRA is the sole rating agency established to provide capital markets and the banking sector in predominantly Islamic countries with a rating spectrum. The IIRA was incorporated in Manama, Bahrain and commenced operations in July 2005. The IIRA is sponsored by multilateral development institutions, leading banks and other financial institutions and rating agencies. The company's shareholders operate from eleven countries which constitute the agency's primary marketing focus. As at the date of this Prospectus, Kuveyt Türk owns nine per cent. of the shares of the IIRA.

Competition and Competitive Advantages

As at 30 June 2011, according to the Banks Association of Turkey, there were 48 banks operating in Turkey, including four participation banks and seven branches of foreign banks established and licensed outside Turkey. The private commercial banks in Turkey can be divided into three groups: (i) large private banks (with a bank-only asset size between TL1 billion and TL20 billion); (ii) small private banks (with a bank-only asset size less than TL1 billion); and (iii) banks under foreign control.

Although the main competition faced by Kuveyt Türk is from the three other participation banks in Turkey, Kuveyt Türk also faces competition from large- and small-sized private Turkish banks and from foreign banks operating in Turkey. The principal area of competition is in relation to SMEs, corporate banking and retail banking activities as Kuveyt Türk is competing against all banks in Turkey in respect of the provision of mortgage credits (as regulation permits banks to fully collateralise these, therefore increasing the appetite for the provision of such credit) and as the profit margins on products offered to SMEs are relatively higher in the current market conditions.

Aside from the three other participation banks in Turkey, Kuveyt Türk considers its main competitors to be the medium-sized commercial banks (in terms of asset size). Kuveyt Türk considers these banks to be its main competitors due to the level of their activities in certain areas of the Turkish banking sector and, in particular, retail and SME banking and import/export trade finance. However, the commercial banks do not have Islamic windows and do not operate in accordance with interest-free principles. These provide Kuveyt Türk with an advantage which, along with its reputation for the various innovative products which it has introduced, contributes to customer awareness of Kuveyt Türk's brand and services.

Although the banking industry in Turkey is highly competitive, Senior Management believe that Kuveyt Türk is well positioned to compete in this environment due to its expanding branch network and strong customer deposit base and expects the recent and continuing growth of the economy to lead to an overall growth in demand for banking services, particularly interest-free products.

Kuveyt Türk believes that it enjoys a number of key competitive advantages, including the following:

Committed and strong majority shareholder support: Kuveyt Türk's majority shareholder, KFH, is one of the world's largest Islamic banks in terms of assets (see "*Shareholders and Capital Structure — KFH*" for further details). KFH has over 30 years of experience in providing *Sharia* compliant banking services and Kuveyt Türk has been able to leverage on this experience when developing and introducing new products to the Turkish market, as well as in adopting best practices within its operations, including practices relating to reporting and risk management systems. In addition, Senior Management believe that the support that KFH, together with the IDB, provides to Kuveyt Türk (including the global expertise represented by directors appointed by them) has been important in Kuveyt Türk's growth, both in Turkey and the GCC. Senior Management believe that Kuveyt Türk also benefits from being associated with the KFH brand, which it believes provides Kuveyt Türk with a competitive advantage as the levels of trade between Turkey and the GCC increase. In addition to the support on business know-how and experience, the shareholders have supported Kuveyt Türk since its establishment to strengthen its capital structure and to leverage its financing opportunities and increase its market share.

Experienced management team with a proven track record: Kuveyt Türk has a highly experienced management team with a clearly defined, long term focus on developing Kuveyt Türk's operations and a proven track record in growing Kuveyt Türk's operations and profitably in a competitive market. Kuveyt Türk's management team has over 90 years of combined experience in top managerial and operational positions in the interest-free banking sector. Senior Management believe that the combined experience of Kuveyt Türk's management team will support its ongoing strategy.

Growing and attractive interest-free banking market: The Turkish banking sector has been one of the fastest growing in the Middle East and North Africa region. Between 2003 and 2008, the Turkish banking sector grew by approximately 40 per cent. annually in terms of loan volume. With the global economic crisis, the growth slowed down to 7 per cent. in 2009, but returned to a similar level (34 per cent.) in 2010. Senior Management expect that the banking sector will continue to grow, driven by the expected strong economic growth in Turkey, which is supported by, among other factors, lower inflation, a relatively stable currency, positive demographics (for example, the third largest population in Europe (approximately 74 million) with a relatively low median age of 29 years), low interest rates and a relatively sophisticated regulatory environment which was tested in the final financial crises. Market data also indicates that the participation bank segment of the Turkish banking sector is growing at a faster rate than conventional banks in terms of assets, and Kuveyt Türk believes that the participation of the banking sector has significant growth potential given its current low share of total banking assets in Turkey (approximately 4.3 per cent. as at 31 December 2010). In addition, Senior Management believe that there is a growing demand for interest-free banking products not only in Turkey but also from the Turkish and other Muslim populations living outside Turkey. To access this demand, Kuveyt Türk has an off-shore branch in Bahrain and a financial services branch in Germany, a subsidiary in Dubai and a representative office in Kazakhstan. Senior Management believe that the breadth of its current and future product and service offerings, its experience and its significant and expanding branch network that is supported by Kuveyt Türk's alternative distribution channels and advanced Information Technology (**IT**) systems, make it well positioned to take advantage of this growth and support in becoming the leading participation bank in Turkey.

Strong balance sheet and extensive customer deposit base with well-functioning and diversified funding base: Through the expansion of its branch network, Senior Management believe that Kuveyt Türk has a strong and diversified deposit base. Kuveyt Türk has a track record of increasing customer deposits and reducing the costs of deposits and actively endeavours to diversify its funding base through the establishment of international branches, which, together with its relationship with KFH, provides Kuveyt Türk with access to financing in the GCC. Access to international financing, through its Bahrain branch, has also provided it with additional long term funding and allowed it to enhance its asset-liability management. In addition,

Kuveyt Türk's access to foreign investors has allowed it to develop new ways to raise financing. For example, Kuveyt Türk was the first participation bank in Turkey to execute a Murabaha syndication in 2004 for a customer, was the first participation bank in Turkey to obtain financing through an internationally syndicated U.S.\$200 million commodity Murabaha facility in 2006 (which was renewed in the amount of U.S.\$115 million in 2009 and repaid in full in April 2010) and issued the first Sukuk originating from Turkey in 2010. Senior Management believe that Kuveyt Türk's subsidiary in Dubai will provide it with additional opportunity to expand and source funding as well as capturing trade flows from Turkish companies.

A strong track record in innovation of interest-free products and services: Kuveyt Türk provides a wide range of innovative and tailor-made products for both Retail Banking and Corporate and Commercial Banking customers allowing it to best meet the developing needs of its diverse client base. Throughout Kuveyt Türk's operating history, it has been an innovator among participation banks in product development, while remaining committed to the principles of interest-free banking.

Kuveyt Türk was the first participation bank to offer retail banking services in Turkey when it established its dedicated Retail Banking department in 2000. Senior Management believe that this "first mover" position has been an important factor behind the substantial market share of 26.5 per cent. Kuveyt Türk had in individual credits of total individual credits issued by participation banks as at 31 December 2010.

Kuveyt Türk has also introduced a number of pioneering products in Turkey in the area of structured trade finance through its investment banking products. Senior Management believe that Kuveyt Türk's strong position in the interest-free retail banking segment and culture of innovation, combined with the loyalty of its customers provides it with a strong platform for future growth, particularly in retail banking.

High asset quality, prudent risk management and solid credit policies and procedures: Kuveyt Türk has a diverse loan portfolio and has achieved strong loan portfolio growth over the last three years which it expects to maintain, while adhering to solid credit approval processes and concentration limits.

Senior Management believe that proper assessment and control of risk is critical to Kuveyt Türk's success. Therefore, Kuveyt Türk has strengthened its balance sheet by diversifying its asset base and decreasing credit concentration in its cash and non-cash portfolios. Kuveyt Türk has also focused on building a stable pool of deposits with high retention rates and developed risk management platforms to enable it to identify and closely measure, monitor and manage the various risks arising from its operations. Kuveyt Türk has, for example, centralised the registration of all collateral using its document management system, and all collaterals taken from customers are registered and approved at its head office. Kuveyt Türk's risk management policies are constantly being revised and updated based on its analysis of new market trends and risks.

Well established strategy for improving service quality and customer oriented business: Kuveyt Türk continues to emphasise the importance of high quality service and customer satisfaction in all its operations and at all levels in its organisation. Senior Management consider Kuveyt Türk's customer oriented marketing approach to be one of the primary strengths of Kuveyt Türk and improving service quality is defined as one of the key factors of strength. This established service culture, together with its energetic, well educated and incentivised employee base, has been important in maintaining Kuveyt Türk's high customer satisfaction levels. Senior Management believe that Kuveyt Türk's ability to offer high quality service and cultivate focused relationships with its retail and corporate and commercial customers lies at the core of its success and benefits all aspects of its operations, including deposit collection and credit quality which, in turn, will assist Kuveyt Türk to achieve further growth, profitability and efficiency.

Flexibility of Kuveyt Türk's operating model: As a participation bank, Kuveyt Türk benefits from certain advantages with respect to risk management not generally experienced by conventional banks. For example, because of the profit sharing principles underlying its customer accounts, there is no promised rate of return to account holders. Instead, the performance of the return on the accounts is linked to the performance of Kuveyt Türk's investment pools. In this context, revenues are derived primarily from the income generated through utilising funds for various interest-free financing products, trade finance and service charges. Due to the short term nature of the funds collected in Turkey, Kuveyt Türk has generally opted for short term lending instruments such as Murabaha to overcome any maturity mismatch. Finally, the monthly principal repayment

structure of its credits gives Kuveyt Türk the opportunity to have more predictable month-to-month cash inflow than conventional banks. On the other hand, as part of the liquidity management policies, Kuveyt Türk places some of its idle funds in Murabaha investments in commodity markets or swap facilities for the short term, through correspondent banks with which it has established business lines. In compliance with its well-established business strategies, Kuveyt Türk does not work with a speculative line in treasury transactions, preferring to keep a square position in foreign currencies. As a consequence, Kuveyt Türk tends to be less exposed to foreign currency risk than some conventional banks since its policy is to maintain a balanced position by matching foreign currency deposits and foreign currency credits. Senior Management believe that this access to funds affords it greater flexibility in fixing its mark-up rates to the market and channelling its resources into better performing sectors.

Risk Management

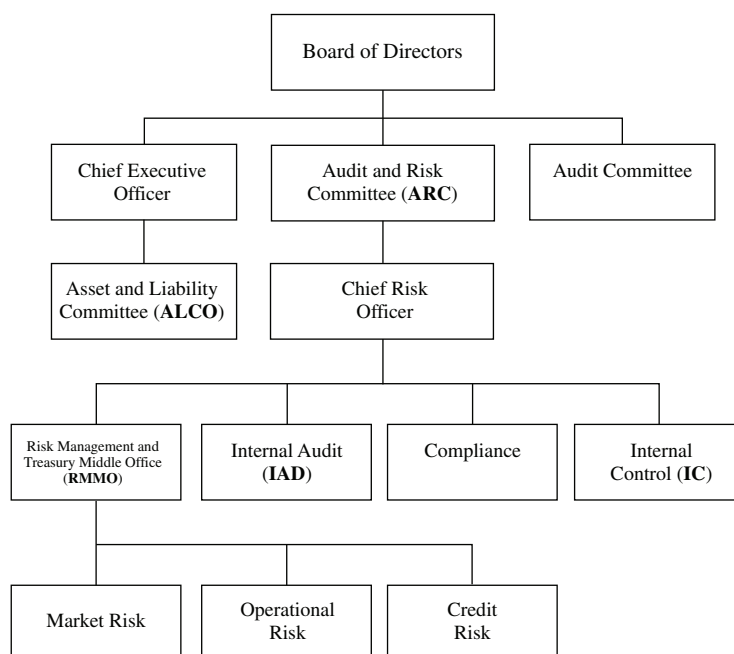
Kuveyt Türk's risk management philosophy is focused on identifying, measuring, monitoring, mitigating and managing various dimensions of business risks. It also aims to ensure that the key risks inherent in its business are minimised and asset values and income streams are protected so that the interests of Kuveyt Türk's depositors are protected, while still maximising returns for the shareholders. Kuveyt Türk continues to maintain and develop its risk management systems, both to meet Kuveyt Türk's on-going internal risk management needs and to comply with all legal and regulatory requirements in the banking sector, including the Basel II criteria and the BRSA regulations. Senior Management has identified the following key risks inherent in the business:

- (i) credit risk;
- (ii) funding and liquidity risk;
- (iii) market risk (including pricing, foreign exchange and interest rate risk); and
- (iv) operational risk (including strategic and reputation risks).

Kuveyt Türk's risk management policy is determined by the Board. In this capacity, the Board approves general principles of risk control and risk management limits for all relevant risks and procedures in order to control and manage risk. Kuveyt Türk's system of risk control and risk management is reviewed frequently and modified as necessary to ensure that all legal and regulatory requirements are complied with. Additionally, Kuveyt Türk's risk management function includes providing all employees training and making them aware of inherent risks and the importance of risk controls.

Risk Management Structure

Kuveyt Türk's risk management structure is headed by its Board of Directors (the **Board**) and is organised as set out below:



Risk Committees

Audit Committee

The Audit Committee consists of two directors who oversee and are responsible for: (i) the adequacy and efficiency of Kuveyt Türk's internal systems; (ii) the functioning of these systems (including the accounting and reporting systems within the framework of the Banking Law and the relevant regulations; and (iii) the integrity of the information generated. The committee's duties also include internal audit plans and conducting preliminary evaluations for the selection of Kuveyt Türk's external independent auditing firms and the rating agencies. The Audit Committee is also responsible for continuously monitoring the auditing firms after they are appointed by the Board and monitoring its relationships with rating agencies. The Audit Committee meets six times a year, and more frequently if required.

Asset and Liability Committee (ALCO)

The ALCO's role is to develop, monitor and review Kuveyt Türk's implementation of its asset and liability management strategy. The ALCO is responsible for actively monitoring and measuring all areas relating to risk positions of Kuveyt Türk including Kuveyt Türk's profit rate and liquidity risks, its position on interest sensitive assets and liabilities, maturity gaps, conditions of foreign currency and the financial markets. The ALCO meets on a weekly basis and reports to the Board. In each case, the ALCO undertakes a profitability/risk analysis of each position.

The ALCO's responsibilities also include:

- developing and reviewing all policies and procedures relating to credit, market and operational risk;
- making weekly decisions on the overall funding structure as well as regularly determining the amount of resources available to the business segments;
- establishing risk concentration limits, economic sectoral limits and portfolio diversification tools and processes for managing risks;
- managing Kuveyt Türk's balance sheet and establishing contingency procedures in respect of liquidity risk;

- managing liquidity policies;
- developing and monitoring business continuity and disaster recovery planning;
- developing and monitoring Kuveyt Türk's expense management policy as well as its authorisation and empowerment policy guidelines; and
- making decisions regarding maturities and pricing of assets and liabilities as well as the buying and selling of securities to manage Kuveyt Türk's position.

The ALCO has nine members: Kuveyt Türk's CEO, the Chief Financial Officer (**CFO**), the Chief Audit and Risk Officer (**CRO**), the Chief Operating Officer (**COO**), the Assistant General Managers of Retail Banking and SME Business, Corporate and Commercial Banking, Treasury and International and Investment Banking, Operations and Technology and Risk Follow-Up Department (**RFD**) and Legal Affairs.

Audit and Risk Committee (ARC)

The ARC, which consists of four non-executive directors, oversees, develops and monitors all of Kuveyt Türk's risk management and internal systems, policies and guidelines as well as managing the scope and structure of Kuveyt Türk's overall risk management organisation and activities (the **Internal Systems Regulations and Risk Management Policies**). The Internal Systems Regulations and Risk Management Policies were approved for the first time in 2002 and are regularly updated and published by the Board. The ARC is also responsible for coordinating the work of Kuveyt Türk's Internal Audit Department and providing information to the Board about any non-compliance with the relevant regulations and deficiencies in Kuveyt Türk's internal controls, including those highlighted by the BRSA or by Kuveyt Türk's auditors. The ARC meets six times a year, and more frequently if required.

The ARC is responsible for the following four departments:

Internal Control (IC) Department

Kuveyt Türk established the IC Department to design, implement, manage and monitor internal control activities and to report the results to ARC to ensure that Kuveyt Türk undertakes all its activities in compliance with all applicable internal and external regulations. The IC Department comprises of 10 employees.

Pursuant to Kuveyt Türk's strategy of branch network expansion (see "*Strategy — Growing local customer base through expansion of branch network and alternative distribution channels*" for further details) the IC Department undertakes its obligations through three groups:

- ***On-Site control*** - this group exercises on-site control of the various departments, units, branches and processes insuring compliance with internal regulations by using control services in relation to each sector at the regional office level and the head office level;
- ***Central control and monitoring*** - this group exercises the central control and monitoring services to monitor and control bank wide transactions through the application of the Audit Command Language software; and
- ***Information systems and internal control systems*** – designing, developing, implementing and evaluating the various products in relation to Kuveyt Türk's internal control system.

Compliance Department

The Compliance Department operates to ensure the effective, efficient and proper operation of Kuveyt Türk's compliance policy (**Compliance Policy**) and to ensure that the head office, the branches, representative offices and subsidiaries conform to Kuveyt Türk's Compliance Policy. The department is also responsible for maintaining and improving Kuveyt Türk's Compliance Policy and for ensuring compliance controls issued by the BRSA are met. In accordance with Kuveyt Türk's internal anti-money laundering (**AML**) policy and

regulatory requirements, the head of the Compliance Department has been appointed as the Money Laundering Reporting Officer (**MLRO**) (see “*Anti-Money Laundering and Client Identification*” for further details).

In addition to the compliance function, the Compliance Department is also responsible for tracking regulatory changes and advising branches and head office on legal and regulatory issues. The Compliance Department reports directly to the ARC and consists of six employees.

Internal Audit Department (IAD)

The IAD is responsible for the internal financial, operational and managerial auditing of Kuveyt Türk’s operations in accordance with the rules and regulations set out by the BRSA and consists of 36 employees. The department provides the following services:

- **Assurance services:** studies the findings from audits objectively in order to evaluate Kuveyt Türk’s risk management, control and governance processes independently and, within this context, evaluates the level of compliance of Kuveyt Türk’s operations with the relevant regulations, the security of IT systems and operational performance of the organisation;
- **Consulting services:** cooperates with Kuveyt Türk’s management to enhance the performance of its operations and the quality of its services; and
- **Inquiry and investigation activities:** carries out these activities at the request of Kuveyt Türk’s management in order to assess whether there are any deficiencies in Kuveyt Türk’s control systems.

The IAD is responsible for reporting any financial, administrative or penal cases that may represent a risk for the shareholders, depositors and/or the employees of Kuveyt Türk. The IAD also works closely with the IC Department. Members of the IAD audit the branches’ corporate and retail credits, accounting methods, international operations, banking services, payment systems and alternative distribution channels. On average, each branch is subject to at least one audit per year. Kuveyt Türk’s various departments within head office are also subject to periodic audits by the IAD. In this regard, close attention is given to how each department coordinates its activities with the branches as well as its operational procedures. In addition to these planned audits, spontaneous, un-announced audits may be conducted when deemed necessary by the IAD.

Audit reports are prepared and presented to Kuveyt Türk’s management and the ARC. Activity reports are presented to the Board and Audit Committee on a quarterly basis. These reports include a summary of the activities of the IAD. Any significant audit findings and the results of audits conducted in relation to Kuveyt Türk’s IT systems are also reported to the Board and the BRSA in the annual activity reports. The IAD is also involved in the assessment of all control policies and procedures by operational staff members and internal control personnel.

Risk Management and Treasury Middle Office Department (RMMO)

Kuveyt Türk’s Internal Systems Regulations and Risk Management Policies established by the ARC are implemented and executed by the RMMO Department, Audit Committee, Compliance Department and IC Department. The primary objectives of the RMMO Department are to: (i) coordinate the integration of the Internal Systems Regulations and Risk Management Policies among Kuveyt Türk’s various business departments; and (ii) to assess and analyse the risks associated with new products, business processes and key performance indicators.

This risk assessment is carried by the credit risk, operational risk and market risk groups that are supported by Treasury which is responsible for (among other things), monitoring Kuveyt Türk’s treasury operations and analysing the reasonableness of Kuveyt Türk’s mark-up rates compared to relevant market rates. The credit risk, operational risk and market risk groups all fall under the purview of the RMMO Department (which consists of six employees) and is managed by the Head of the RMMO Department. Kuveyt Türk’s internal systems, which comprise the RMMO Department, Audit Committee, Compliance Department and IC

Department, are overseen by the CRO (who reports directly to the ARC and coordinates all communications, reporting and monitoring between the ARC and the RMMO Department).

The RMMO also controls reports, pricing and activities of the Treasury Department; is responsible for ensuring that transactions comply with the limits assigned by the Board to the dealers and Kuveyt Türk; contributes in designing new products developed by Treasury; and monitors market risks and provides the Treasury with reports accordingly. The RMMO Department consists of six employees.

Credit Risk

Credit risk refers to the potential risk of financial loss if Kuveyt Türk's customer or counterparty fails to meet its commitments in accordance with the agreed terms. Kuveyt Türk is exposed to credit risk: (i) through its lending, trading, treasury and investing activities; (ii) when it acts as an intermediary on behalf of its customers or third parties; and (iii) when it issues guarantees.

Kuveyt Türk controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of these counterparties. Kuveyt Türk limits the levels of credit risk it undertakes by diversifying credit allocations among different sectors of the economy. This means that limits are placed on the amount of risk accepted in relation to one customer or counterparty, or groups of customers, and to industry and geographical areas. Kuveyt Türk places a strong emphasis on obtaining sufficient collateral from customers including, wherever possible, security over other assets.

Related departments prepare periodic reports that show the distribution of performing and non-performing loans across sectors, maturity dates, currency distribution of loans, the break-down of loans in terms of customer segmentation, sectors, sensitivity of the corporate loan portfolio in terms of liquidity, management, default, commodity, country, market and investment risks. The control and management of Kuveyt Türk's credit risk is based on a number of principles and policies, as well as a range of procedures, systems and processes including Kuveyt Türk's credit policies and procedures. Kuveyt Türk's principal country, industry, bank and customer risk limits are set out in the credit policy and are subject to regular review.

Credit Approval Policies and Procedures

Kuveyt Türk operates a centralised approach in relation to credit applications, with authority for approval resting with credit committees and joint authorities. Authority for extending new loans is delegated across different hierarchical levels (see "*Credit Risk*") within Kuveyt Türk and is dependent upon a number of factors including the internal rating of the customers, the amount of the proposed loan and the type of collateral available. Every product (whether retail or corporate) is supported by defined policy guidelines and processes for credit risk management (i.e. credit appraisal, approval, monitoring and administration). Particular focus is directed on sustained growth and optimum usage of resources without compromising Kuveyt Türk's asset quality and which are approved by the Board. Kuveyt Türk's approval process is based on the Banking Law and various internal procedures established by the Board.

Collateral

Kuveyt Türk's current credit policy is to obtain adequate collateral, to substantially reduce credit risk wherever feasible.

The credit policy of Kuveyt Türk provides guidelines to credit officers in respect of the appropriate level of collateral to support credit exposure, the ratio of collateral to loan value and the threshold levels for top-up of collateral. Where expert reports are required in relation to collateral to be given (such as for real estate), this is controlled by the Credit Risk Monitoring Department (**CRMD**). Kuveyt Türk obtains insurance against collateral (at the borrower's cost) which is undertaken by Kuveyt Türk's Credit Operations Department.

Kuveyt Türk generally has a first charge over collateral on an event of default. Acceptable forms of collateral include (amongst other things) real estate, mortgages, vehicle pledges and other property pledges, cheques, bills of exchange, cash collateral, assignment of receivables, personal guarantees and similar items. Kuveyt

Türk considers other forms of collateral on a case-by-case basis when supported by acceptable business reasons. Kuveyt Türk generally obtains collateral with a minimum value of 100 per cent. of the approved credit facility. Exceptions from standard collateral requirements are reviewed and sanctioned by the Board or the relevant credit committee in exceptional cases with respect to clients who have high creditworthiness.

As at 31 December 2010, the total gross maximum exposure of cash credit risk was TL6,956 million and the total gross non-cash credit risk was TL5,015 million, totalling TL11,971 million. As at 31 December 2009, the total gross maximum exposure of cash credit risk was TL4,640 million and the total gross non-cash credit risk was TL5,255 million, totalling TL9,895 million. Approximately 83 per cent. of credit risk was collateralised and the quality of such collateral is periodically monitored and assessed.

Financing

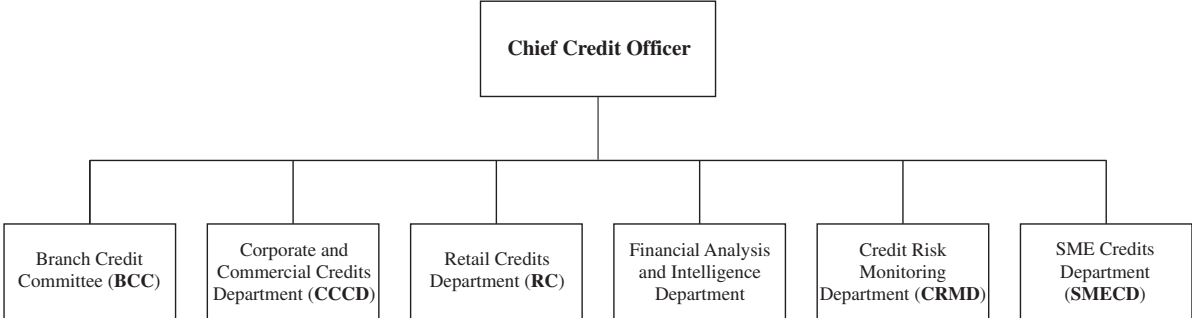
The main objectives of Kuveyt Türk’s lending policies are ensuring:

- the business subject to finance is compliant with key interest-free banking principles;
- that credits remain performing;
- sound credit risk management by adopting efficient credit allocation procedures (which includes a balanced risk allocation with significant sector diversification) and a successful monitoring system;
- the loan portfolio is diversified;
- profitability, efficiency and liquidity are closely monitored; and
- profitable deployment of resources balanced against asset to liability matching.

In accordance with the Banking Law and Kuveyt Türk’s internal policy, Kuveyt Türk has implemented a defined process of delegation of lending powers. Senior Management believe this tiered approval system assists in effectively controlling Kuveyt Türk’s credit exposure to individual counterparties or groups of counterparties.

The following chart sets out the structure of Kuveyt Türk’s credit organisation.

Chief Credit Officer



The Banking Law limits the exposure to any single borrower or group of borrowers to 25 per cent. of a bank’s total shareholders’ equity. Kuveyt Türk’s internal credit approval procedures further limit such exposure to 10 per cent. of its shareholders’ equity. This limit may not be exceeded without the prior approval of the Board.

The approval process consists of six stages:

- Stage 1:** The relevant business units within the branches solicit clients, prepare a financial analysis and intelligence report (see “ *Credit Risk—RCD, SMECD and CCCD*” for details).
- Stage 2:** The branch management provides an initial decision or requests further information. Once complete, the credit proposal is submitted to the Branch Credit Committee (BCC), the Retail

Credits Department (**RCD**) or Corporate and Commercial Credits Department (**CCCD**) for authorisation by the relevant credit committees.

- Stage 3:** The BCC, RCD, SMECD or CCCD independently reviews and evaluates the credit proposals and accordingly the relevant department decides whether or not to reject or submit the credit proposal to the relevant credit committees (see “*Credit Risk—RCD, SMECD and CCCD*” for further details).
- Stage 4:** The relevant credit committee or the Board of Directors makes the final decision.
- Stage 5:** The BCC, RCD, SMECD or CCCD insert the agreed limits into the limits management system and notify the relevant branches.
- Stage 6:** The relevant branch completes the necessary documentation based on condition precedent documents and in accordance with the required and set collaterals, following which the operations team disburses the facility(ies) to the customer.

BCC

The BCC is responsible for the credit approval process of Kuveyt Türk’s retail credits up to a maximum level, as set out in the table below. If the credit limit of the borrower exceeds the BCC’s authority, applications are passed to the RCD. Credit approval at the BCC level is subject to the “Branch Retail Credit Classification” model. The model has two main criteria: (i) outstanding risk balance volume; and (ii) delinquency ratio. These criteria are calculated for each branch and based on the type of product (for example real estate, vehicle and other products) for both individual and SME sectors.

Branches are ranked as follows according to the “Branch Retail Credit Classification” model as set out below:

- “**A, B, and C-class**”: Branches have authority to grant limits for individual and Retail SMEs;
- “**D-Class**”: Branches have authority to grant limits for customers and transactions based on credits for Retail SMEs; and
- “**E-class**”: Branches have no authority and must revert to the RCD for approvals.

The below table sets out the maximum limits in U.S. Dollars allocated to each branch class for product and collateral types.

AUTHORIZATION TABLE	SME & Individual Credits (MAX-1)		SME				Individual		
	Real Estate	Vehicle	Other Credits		Bid Bonds		Other Credits		
	Mortgage	Pledge	Mortgage (Max-2)	Cheque*	Signature*	Signature*	Mortgage (Max-3)	Signature*	
Branch	A	300,000	100,000	300,000	200,000	50,000	150,000	150,000	50,000
Credit Class	B	225,000	75,000	200,000	100,000	30,000	100,000	100,000	30,000
	C	150,000	50,000	100,000	30,000	10,000	50,000	75,000	10,000
	D	100,000	30,000						
	E								

MAX-1 = The maximum limit that can be granted in total for different products (Vehicle, Real Estate, Other) of Individual and Small Business Loans.

MAX-2 = Maximum total amount of loan to be granted to Small Business for other products

MAX-3 = Maximum total amount of loan to be granted to Individual for other products.

* – Limits for signature and cheque are deducted from mortgage limits.

RCD

The RCD is responsible for the credit approval process of Kuveyt Türk’s retail credits, including individual credits and credit card limits. RCD’s credit approval philosophy incorporates a medium-risk appetite, active monitoring of asset quality and maintenance of balance between risk and reward.

If the credit limit of applicants exceeds the BCC’s authority or conflicts with Kuveyt Türk’s retail credit policy, applications are sent to the RCD. After the RCD finalises the credit evaluation process, credit files are presented to the “Retail Credit Allocation” and “Retail Allocation Upper” committees to assess credit limits.

RCD’s organisation structure consists of three units:

1. Credit Units for Individual and credit cards

The unit is responsible for the appraisal process for credits provided to individuals up to U.S.\$2,000,000.

1.1 Individual Credit Allocation Unit

All applications for individual credits must be submitted to Kuveyt Türk’s branches on standard forms along with supporting documentation. Following the receipt of the application, Kuveyt Türk collects additional information concerning the applicant, such as information regarding the applicant’s occupation, income, credit repayment history, unpaid debts and any past fraud claims.

Kuveyt Türk’s main sources of information are:

- (i) the records held by the CBT;
- (ii) the *Kredi Kayıt Bürosu A.Ş. (KKB)*, a private Turkish credit bureau, which collects credit information from all Turkish banks and provides access to up to 10 years of the applicants’ credit history; and
- (iii) SABAS (the central fraud information system).

As part of the review process, Kuveyt Türk also analyses the value and ownership history of the product or real estate the applicant is planning to purchase, and the value of the available security. Additionally, Kuveyt Türk uses data obtained from *Sosyal Güvenlik Kurumu (SGK)* (the national social security agency) to compare the income information given by the applicant to the income registered in the SSK system. Kuveyt Türk also calculates the applicant’s debt versus income ratio to assess the applicant’s ability to repay the credit. The loan to value ratios (**LTVs**) are set out as follows:

<u>Product</u>	<u>LTVs expressed as percentages</u>
Real Estate	75
New Vehicles	80
Used Vehicles	75

Kuveyt Türk has a scoring model for its individual applicants. The model consists of demographic parameters, credit bureau parameters and past credit repayment history of the applicant.

1.2 Credit Card Allocation Unit

All limit applications for credit cards must be submitted to Kuveyt Türk’s branches on standard forms along with supporting documentation. Applications are sent to the Data Entry Unit within the Alternative Distribution Channels Department (**ADCD**). The ADCD enters the relevant data from the forms submitted on to the Kuveyt Türk system. Thereafter, applications are automatically forwarded to the Intelligence Unit within the ADCD for investigation and checks on the applicant. The approved applications from the Intelligence Unit are forwarded to Credit Card Allocation unit. The credit card allocation unit handles applications in similar way to the Individual Credit Allocation Unit.

2. Projects Unit for buildings under construction

Some consumers buy real estate from ongoing construction projects in Turkey. This unit is responsible for the evaluation of the constructors of the real estate to be purchased. According to the Turkish consumer law, banks are responsible for the principal amount of credit advanced to customers until construction of the

property is completed. Therefore, constructors and their projects are evaluated by civil engineers within this unit before applicants are able to obtain credit from Kuveyt Türk. As at 30 June 2011, 17.4 per cent. of total housing loans were made to such ongoing construction projects.

3. Information & Decision Systems Management Unit

This unit's main duties include: (i) establishing and maintaining the scoring system for individual and Retail SME credits; (ii) managing the branch Retail Credit Classification System; (iii) analysing and improving IT infrastructure for the retail credit process; (iv) generating report for retail credits; and (v) data mining and improving.

SMECD

Retail SMEs with annual revenues of under TL5,000,000 fall under the supervision of the SMECD provided that the credit that has been applied for is under U.S.\$500,000. As with individual credits, applications for SME credits must be submitted to Kuveyt Türk's branches on standard forms along with supporting documentation. As part of Kuveyt Türk's appraisal process, Kuveyt Türk also collects and analyses additional information concerning the applicant. In the case of SMEs, this information comprises the applicant's financial statements, records held by the central chamber of commerce and the shareholder structure of the applicant. Kuveyt Türk uses this information to assess the applicant's ability to repay the credit. Kuveyt Türk also expects the applicant to have at least three years of business experience within the industry sector.

Kuveyt Türk's main sources of information are:

- (i) the information systems maintained by the CBT; and
- (ii) the KKB.

Kuveyt Türk applies a scoring model similar to the one used by the Individual Credit Allocation Unit. The Branch Retail Credit Classification table given under the heading "BCC" also applies to the SMECD (see "Credit Risk RCD" for further details).

CCCD

Credit applications by Kuveyt Türk's corporate and commercial customers must be submitted to branches on standard forms with the related ancillary documents, including audited financial statements. A credit file is established by the branch office for each applicant which includes publicly available information from the CBT, such as dishonoured cheques and protested bills.

Since 2006, Kuveyt Türk has applied a company rating system for its corporate and commercial customers. The rating process comprises three main stages: (i) financial analysis of the applicant's historical balance sheets, income statements and other available financial documents of the applicant; (ii) inquiries through other banks and financial institutions and through information sources in relation to the relevant sector in which the company operates; and (iii) on-site visits and interviews, including collection of additional information concerning the applicant such as information regarding the applicant's business type, capital structure, shareholders, managerial staff, and market share as well as data regarding competitors.

Kuveyt Türk's rating system comprises a total of 38 main criteria and 227 sub-criteria, both quantitative and qualitative, which are assessed and divided into various grades to determine the customer's creditworthiness. The weight of the financial analysis stage in the scoring system is 60 per cent. and the weight of the inquiries and site visits is 40 per cent. On finalisation of the rating process, Kuveyt Türk gives the customer a credit rating using a range of 0 to 100, the latter being the best score. There are four sub-categories of that rating system. The first category (with the highest rating) is the most favourable one while the last one is automatically rejected. The remaining two categories are assessed case by case with respect to the proposed security structure and other terms and conditions of the requested financings.

CRMD

The CRMD monitors performing loans based on regular review of customer's loan files. The monitoring of the loans is based on various risk related circumstances as stated in the early warning signals. This allows the CRMD to anticipate the bad debts before the defaults occur and coordinates with the relevant departments and branches in order to take the necessary actions. This allows Kuveyt Türk to minimize the credit risk of the Bank by increasing the asset quality.

The CRMD applies a wide variety of monitoring tools to ensure that the loans remain performing whilst at all times maintaining a prudent early warning signal system. The following are some of the key monitoring functions in relation performing loans and overdue loans up to 30 days undertaken by the CRMD:

- monitoring the repayment performance of standard loans and ensures that appropriate monitoring activities are performed by the relevant branches. It also performs the activities related to the collection and recovery of loans for retail, SME and corporate credits up to 30 days overdue. Branches and regional offices are responsible for the close monitoring of principal, profit share, commission and other related payments, financial status, Central Bank records, operations, intra-group relations and collaterals against the loans. Branches and regional offices are required to take the necessary actions based on the early warning signals and inform the relevant departments to undertake the necessary actions;
- sending reports to CBT including limits and risks the Bank is exposed to in relation to its customers. The CBT makes consolidated reports by collecting limits and risks in relation to the relevant borrower from all banks, leasing and factoring companies. The CRMD reviews and monitors the consolidated reports of the CBT and determines the Bank's level of risk exposure to the particular borrower. This monitoring allows the Bank to review borrowers whose credit exposure are increasing or limits are fully used or where existing limits are substantially decreasing as well as ascertain any defaults and sharp interest reductions if debts are being granted to the borrower;
- preparing a collateral gap report or disparity report by monitoring limits, outstanding risks and collaterals of the borrower. Companies are watched closely according to the monthly collateral gap reports in case of a substantial mismatch;
- tracing the firms according to the reports of internal control and auditing and reviewing where limits are misused or collaterals are insufficient;
- close examination in case an inquiry is made about present customers' written out cheques, execution records, tax liabilities, negative market intelligence and news in press and any infirmity caused by several reasons;
- all types of requests of the branches about to release the collaterals of the active all corporate and commercial, small business and retail credits are evaluated in order to approve or reject them;
- all retail, SME and corporate and commercial credits are classified on a quarterly basis based on risk related circumstances as stated in the early warning signals and according to guidelines of the BRSA; and
- obtains the latest financial analysis and bank and market enquiries from the Financial Analysis and Intelligence Department for Kuveyt Türk's riskier borrowers.

After the occurrence of a default, the RFD assumes responsibility for following-up the relevant credit balances.

Credit Classification and Provisioning Policy

General

Senior Management is responsible for establishing allowances and provisions in relation to Kuveyt Türk's credit portfolio. In order to establish adequate allowances and provisions, Kuveyt Türk classifies credits by

their perceived risk criteria in accordance with the requirements of IFRS and also the provisioning guidelines under the Banking Law.

Classification and Provisioning Guidelines

In accordance with the applicable BRSA regulations, Kuveyt Türk makes an allowance for possible credit losses. This allowance must be increased proportionally at relevant time periods in the provisioning guidelines so that the allowance reaches a ceiling level of between 20 per cent. and 100 per cent. of the particular non-performing credit, depending on the type of collateral securing such credit and the due date of the credit. A credit is categorised as non-performing when mark-up, fees or principal remain unpaid for 90 days after the due date. In the event that legal proceedings have been initiated, the credit is categorised as non-performing immediately, without requiring the expiry of the 90 days after the due date.

The following table sets out an analysis of Kuveyt Türk's provisions (based on IFRS) for cash credits in arrears for the periods indicated.

	As at 31 December	
	2010	2009
	<i>(TL in thousands, except ratios)</i> <i>(audited)</i>	
Balance at beginning of period	182,150	157,668
Additions in the current period/year	95,803	115,777
Recoveries	(50,557)	(14,279)
Write-offs	(25,184)	(77,016)
Impairment allowance	202,212	182,150
Collective Reserve	20,294	20,919
Non-performing loans ratio	3.64%	6.40%

The following table indicates certain information relating to Kuveyt Türk's credits in arrears and related provisions (according to Turkish GAAP).

	As at 31 December					
	2010			2009		
Risk Category	Credits in arrears	Total provision	% Reserved	Credits in arrears	Total provision	% Reserved
	<i>(TL in thousands, except percentages)</i> <i>(audited)</i>					
Provisional rates:						
Doubtful	33,494	19,003	56.73	72,199	24,464	33.88
Substantial	33,202	18,067	54.42	74,879	35,154	46.95
Loss	167,646	126,973	75.74	151,131	87,993	58.22
Total credits classified as credits in arrears.....	234,342	164,043	70.00	298,209	147,611	49.49

IFRS/BRSA Provisioning

The provisioning policy used in the preparation of Kuveyt Türk's IFRS financial statements (including the IFRS Accounts) differs from that required by the Banking Law. Under Turkish GAAP, provisioning is based on the length of the period of default whereas, under IFRS, provisioning is based on an evaluation made by management. BRSA regulations require that credits that have been in default for 90 days are classified as

non-performing credits. After 90 days, 20 per cent. of the total credit of the defaulting customer (after deducting collateral, if any) must be provisioned. After 180 days, the required provision increases to 50 per cent. (after deducting collateral, if any) and, after 360 days, to 100 per cent. of the total credit of the defaulting customer (after deducting collateral, if any). Kuveyt Türk also makes allowance at a special rate specified in the provisioning guidelines for non-cash loans such as letter of guarantees, bill of guarantee and sureties, each cheque leaf of the cheque books and other non-cash loans.

Under IFRS, based upon its evaluation of credits granted, management estimates the total credit risk provision that it believes is adequate to cover uncollectible amounts in Kuveyt Türk's credit and lease portfolio, and losses under guarantees and commitments. Kuveyt Türk reviews its financial assets at each balance sheet date to determine whether there is objective evidence of impairment. If there is objective evidence that Kuveyt Türk will not be able to collect all amounts due (both principal and mark-up) according to the original contractual term of the cash credits, such cash credits are considered impaired and classified as "funds in arrears" in Kuveyt Türk's IFRS financial statements. For non-collateralised cash credits the allowance is measured as the difference between the carrying amount of the credits or lease and the present value of expected future cash flows (excluding future credit losses that have not been incurred) discounted at the original mark-up rate of the credit or lease, as the case may be. For collateralised cash credits, the allowance is measured as the difference between the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral. Losses on cash credits which are financed by Kuveyt Türk's equity or current accounts are recognised in Kuveyt Türk's income statement as provision expenses. Losses on cash credits which are financed through its participation and investment accounts are recognised in Kuveyt Türk's income statement, to the extent of Kuveyt Türk's participation shares. The remaining portion of the allowance is reflected in customers' accounts as a loss incurred in the respective investment account.

These allowances involve significant estimates and are regularly evaluated by Kuveyt Türk for adequacy. The allowances are based on Kuveyt Türk's own loss experiences and management's judgement of the level of losses that will most likely be recognised from assets in each credit risk category, by reference to both the debt service capability and repayment history of the borrower. The allowances for possible cash credit losses in Kuveyt Türk's IFRS financial statements have been determined on the basis of existing economic and political conditions at the time.

Accordingly, Kuveyt Türk classifies credits as non-performing if:

- the payment of mark-ups, fees or principal is unpaid 90 days after the due date; or
- the likelihood of payment by the customer is unlikely due to the value/lack of asset; or
- the likelihood of payment by the customer is unlikely due to the poor commercial status of the customer; or
- the likelihood of payment by the customer is unlikely due to a lack of equity and/or capital.

In the event that a customer has more than one credit extended by Kuveyt Türk, all credit advanced by Kuveyt Türk to the particular customer is classified as non-performing credit after the 90 day period from the initial default. If a credit payment is considered doubtful or if a credit is otherwise classified as a non-performing credit, its mark-up is placed on a non-accrual status.

Once a credit is classified as non-performing it may be reclassified as performing if 15 per cent. of the outstanding credit is paid within six months of Kuveyt Türk's due date. As at the date of this Prospectus, approximately 10 per cent. of the current performing loans were previously non-performing.

Portfolio Concentrations

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or in activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the counterparties' performance to developments affecting a particular industry or geographic location.

Kuveyt Türk's credit policies are structured to ensure that Kuveyt Türk is not over-exposed to a given client, industry or geographic area through diversification of financing and investment activities. Accordingly, Kuveyt Türk actively tries to reduce the credit risk caused by customer concentration by expanding its customer base of Retail SMEs and broadening its industry diversification. Recently, Kuveyt Türk has focused its efforts primarily on Retail SMEs.

Concentration of risk is managed by counterparty and by industry sector. The maximum cash credit exposure to any counterparty other than the Central Bank as at 31 December 2010 was TL145,418 thousand (31 December 2009—TL89,956 thousand) and non cash credit exposure as at 31 December 2010 was TL148,663 thousand (31 December, 2009—TL144,788 thousand), before taking account of collateral or other credit enhancements.

An industry sector analysis of Kuveyt Türk's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	2010	2009
	Gross exposure	Gross exposure
	<i>(TL in thousands)</i>	
	<i>(audited)</i>	
Construction and materials	3,970,832	2,598,052
Financial services	3,063,621	3,302,596
Manufacturing	1,377,026	747,025
General retailers.....	2,071,096	836,214
Mining operations	515,067	535,504
Electricity.....	426,899	229,971
Telecommunications	25,301	215,597
Health care and social services	378,077	265,292
Forestry	93,984	70,614
Food and beverages	447,936	51,505
Real estate	22,572	28,455
Other	1,320,660	2,517,596
Total.....	13,713,071	11,398,421

The following table sets out Kuveyt Türk's retail cash credits as at the dates indicated (according to Turkish GAAP).

	As at 31 December			
	2010		2009	
	Amount	% of total	Amount	% of total
	<i>(TL in thousands, except percentages)</i>			
	<i>(audited)</i>			
Real estate	1,086,121	42	806,635	54
Credit cards	74,044	3	96,900	6
Vehicles	537,465	21	285,342	19
Other	861,113	34	309,225	21
Total	2,558,743	100	1,498,102	100

The following table sets out Kuveyt Türk's cash credits (excluding financial leases), non-cash credits and cheque book and credit card commitments made to its commercial customers by sector as at the dates indicated (according to Turkish GAAP).

	As at 31 December							
	2010				2009			
	Cash credits		Non-cash credits		Cash credits		Non-cash credits	
Amount	%	Amount	%	Amount	%	Amount	%	
<i>(TL in thousands)</i>								
<i>(audited)</i>								
Agriculture	157,389	2.3	21,387	0.1	121,260	2.7	15,842	0.3
Industry	2,050,738	29.7	808,953	2.7	1,038,753	23.1	462,957	8.8
Construction	947,519	13.7	1,848,497	6.1	782,399	17.3	1,802,262	34.3
Services	2,187,897	31.7	969,023	3.2	1,091,334	24.3	930,732	17.7
Other	1,557,685	22.6	82,348	0.3	1,467,104	32.6	118,838	2.3
Commitments	0	0	26,784,903	87.8	–	–	1,924,469	36.6
Total	6,901,228	100	30,515,111	100	4,500,850	100	5,255,100	100

Proprietary Investments

Kuveyt Türk's investments held under the "Available-for-Sale" and "Held-for-Trading" categories are marked to market on a monthly basis. Any permanent diminution in the value of investments in the "Held-to-Maturity" category are written down.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, information technology systems, work flows (including new product design and implementation risk) or from external events. This definition includes legal risk but excludes strategic and reputational risk. Although strategic and reputational risks are not included in the capital measurement calculations for Basel II purposes, assessment and monitoring of these risks also fall under the purview of the RMMO. Examples of events that are included under this definition of operational risk include losses from fraud, computer systems failures, settlement errors, model errors and natural disasters. Kuveyt Türk also maintains an operational loss database in order to quantify and monitor operational risks. See "*Risks relating to Kuveyt Türk – Risks relating to Kuveyt Türk's Business*" for further details.

Kuveyt Türk's operational risk issues are actively managed by regular monitoring of Kuveyt Türk's activities. This allows Kuveyt Türk to quickly detect and correct deficiencies in its policies and procedures for managing operational risks. By promptly detecting and addressing these deficiencies, Kuveyt Türk can substantially reduce the frequency or severity of a loss (or potential loss) event. The RMMO makes specific proposals to the head of the ARC whenever it determines that existing operational risks warrant changes to Kuveyt Türk's existing Internal Systems Regulations and Risk Management Policies. The operational risk reports are periodically submitted to Kuveyt Türk's Senior Management.

Operational risk is managed by a dedicated two-member team within Kuveyt Türk. Business risk officers have been identified in each functional area to identify the events and evaluate the incidence of risk, probable losses and frequency thereof, in each functional area. Kuveyt Türk's Operational Risk team reviews the identified risks, controls and residual gaps and monitors the time lines for closing such gaps. The Audit Committee validates the identified risk and the prevailing gaps. Evaluating the operational risk areas is an ongoing process and the procedures and policies are updated accordingly.

Legal Risk

Kuveyt Türk has a full-time legal team which deals with both routine and more complex legal issues. Situations of a particular complexity and sensitivity are referred to external firms of lawyers, either in Turkey

or overseas, as appropriate. Kuveyt Türk also seeks to mitigate legal risk through the use of properly reviewed standard documentation and appropriate legal advice in relation to its non-standard documentation.

Market Risk

Market risk is the risk of loss to future earnings, values of assets and liabilities or to future cash flows that may result from changes in the price of a financial instrument (for example, as a result of changes in foreign currency exchange rates, interest/profit rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments). Market risk is attributed to all market risk sensitive financial instruments, including credits, deposits and borrowings. The primary market risks faced by Kuveyt Türk are the indirect effects of interest rate fluctuation and the direct effects of exchange rate fluctuation (see “*Risks relating to Kuveyt Türk – Risks relating to Kuveyt Türk’s Business*” and “*Foreign Exchange Risk*” below).

The RMMO measures and monitors the market risk exposure to the value of the financial instruments held by Kuveyt Türk that may result from any number of market pressures. To measure market risk, Kuveyt Türk has adopted globally accepted and widely implemented risk management techniques. Kuveyt Türk calculates and reports market risk according to a standardised methodology. It manages market risk on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends, and management’s estimate of long-and short-term changes in fair value.

Market risk also includes price risks. Kuveyt Türk only has positions in equities and commodities for investment or investment-related purposes. It manages price risks relating to such securities by using position limits, which are monitored by the RMMO. Foreign currency transactions, both with customers and as part of Kuveyt Türk’s proprietary trading, usually generate foreign currency positions. Kuveyt Türk hedges these positions within set intra-day and/or overnight limits and executes transactions only in major convertible foreign currencies.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of Kuveyt Türk’s financial instruments. In a conventional bank, interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the re-pricing characteristics of assets and liabilities. As Kuveyt Türk does not have financial assets that are sensitive to interest rate movements (such as government bonds) and because Kuveyt Türk does not guarantee depositors a fixed rate of return, Senior Management believe that Kuveyt Türk has lower interest rate risk than conventional banks. The principal objective of Kuveyt Türk’s interest rate risk management activities is to enhance profitability by limiting the effect of adverse interest rate movements in the banking sector and increasing mark-up income by managing mark-up rate exposure. Kuveyt Türk monitors interest rate sensitivity by analysing the composition of its assets and liabilities and off-balance sheet financial instruments (see “*Risks relating to Kuveyt Türk – Risks relating to Kuveyt Türk’s Business*” for further details).

The table below sets out Kuveyt Türk's exposure to interest rate risks for the periods indicated. Included in the table are Kuveyt Türk's assets and liabilities shown at carrying amounts classified in terms of periods remaining to contractual re-pricing dates.

Financial liabilities

	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<i>(TL in thousands)</i> <i>(audited)</i>						
As at 31 December 2010						
Due to other financial institutions and banks	–	121,245	368,170	–	–	489,415
Sukuk Issued.....	–	–	–	179,314	–	179,314
Derivative financial instruments(*).....	–	1,020,224	398,645	1,500	–	1,420,369
Current accounts.....	1,751,681	–	–	–	–	1,751,681
Profit and loss sharing accounts(**)	–	4,509,914	629,429	588,260	–	5,727,603
Other financial liabilities	–	–	–	–	–	–
Total undiscounted financial liabilities.....	1,751,681	5,651,383	1,396,244	769,074	–	9,568,382
As at 31 December 2009						
Due to other financial institutions and banks	–	79,952	303,216	5,654	–	388,822
Derivative financial instruments	–	846,977	21,269	–	–	868,246
Current accounts.....	1,300,992	–	–	–	–	1,300,992
Profit and loss sharing accounts	–	3,340,726	437,210	466,273	–	4,244,209
Other financial liabilities	–	1	2	–	–	3
Total undiscounted financial liabilities.....	1,300,992	4,267,656	761,697	471,927	–	6,802,272

(*) As such derivatives will be settled in gross amounts, notional amounts have been disclosed.

(**) Customers have choice of demanding their accounts anytime by abandoning profit share income.

Foreign Exchange Rate Risk

As a participation bank, Senior Management believe its foreign currency risks are somewhat lower than many conventional banks, because its foreign currency participation and investment accounts are generally matched directly to its foreign currency credits. Kuveyt Türk is, however, subject to foreign exchange rate risk due to adverse movements in currency exchange rates in the currencies in which it maintains assets and liabilities. Changes in foreign exchange rates have an impact on Kuveyt Türk's income and expenses in line with the magnitude of such changes and the current volume of its foreign exchange position. The RMMO monitors the foreign exchange rates closely and ensures that cash and non-cash foreign currency commitments can be covered by foreign currency denominated assets to the extent possible. Kuveyt Türk seeks to maintain an even foreign exchange position policy to minimise its currency risk. Kuveyt Türk however, experiences from time to time net short positions in foreign currencies, which may require it to convert Turkish lira at times at unfavourable exchange rates (see "Risks relating to Kuveyt Türk – Risks relating to Kuveyt Türk's Business" for further details).

31 December 2009	EUR	USD	Other	Precious Metals	TL	Total
			<i>(TL in thousands) (audited)</i>			
Cash and balances with the Central bank	8,685	14,152	777	–	215,476	239,090
Deposits with other banks and financial institutions.....	374,739	371,209	15,096	–	142,274	903,318
Reserve deposits at the Central Bank	–	216,694	–	–	1,995	218,689
Financial assets – available-for-sale.....	–	714	–	–	3,806	4,520
Financial assets – held for trading	–	–	–	–	27	27
Financial assets – held to maturity.....	–	7,529	–	–	–	7,529
Investment in an associate	–	–	–	–	12,315	12,315
Due from financing activities, net	493,378	1,465,610	–	–	2,627,798	4,586,786
Minimum finance lease payments receivable, net.....	10,860	14,309	–	–	28,343	53,512
Derivative financial instruments	245	1,165	–	–	8,515	9,925
Precious Metals	–	–	–	409,584	–	409,584
Other assets.....	–	–	–	–	180,637	180,637
Construction projects, net.....	–	–	–	–	3,025	3,025
Investment properties, net.....	–	–	–	–	47,207	47,207
Assets held for sale and disposal of group, net	–	–	–	–	9,547	9,547
Property and equipment, net..	–	4	–	–	108,176	108,180
Intangible assets, net.....	–	–	–	–	8,256	8,256
Deferred tax assets	–	–	–	–	12,750	12,750
Total assets.....	887,907	2,091,386	15,873	409,584	3,410,147	6,814,897
Due to other financial institutions and banks	–	383,681	–	–	–	383,681
Current and profit / loss sharing investors' accounts ..	844,982	1,342,250	1,611	181,999	3,174,359	5,545,201
Other liabilities	4,159	21,588	246	–	23,429	49,422
Provisions	–	–	–	–	7,107	7,107
Income taxes payable	–	–	–	–	5,774	5,774
Derivative financial instruments	134	5,225	–	–	872	6,231
Liabilities directly associated with assets classified as held for sale, net	–	–	–	–	–	–
Equity	–	–	–	–	817,481	817,481
Total liabilities and equity ..	849,275	1,752,744	1,857	181,999	4,029,022	6,814,897
Net balance sheet position ..	38,632	338,642	14,016	27,585	(618,875)	–
Net off-balance sheet position.....	(27,220)	(388,809)	(60,568)	(175,065)	651,662	–

Profit Rate Risk

Profit rate risk arises from the possibility that changes in conventional interest rates will affect the future profitability or the fair value of financial instruments. Kuveyt Türk is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities and off-balance sheet instruments that mature or re-price during a given period. The impact of possible changes in the profit rates is measured and the profit rate gaps are reviewed to initiate corrective action in Kuveyt Türk's funding profile to ensure that the overall profit rate risk remains within acceptable tolerances. By taking such action Kuveyt Türk seeks to match profit-related assets and liabilities and, accordingly, minimise the effect of profit rate risk on its net profit (see "*Risks relating to Kuveyt Türk – Risks relating to Kuveyt Türk's Business*" for further details).

Funding and Liquidity Risk

Kuveyt Türk's funding and liquidity management policy seeks to ensure that, even in adverse conditions, Kuveyt Türk maintains sufficient funds to meet its operational needs (including maturing liabilities), and to ensure compliance with BRSA regulations. Funding and liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments and the risk of being unable to liquidate a position in a timely manner and at a reasonable price. The risk arises in the general funding of Kuveyt Türk's financing activities and in the management of its positions.

To meet its funding needs, Kuveyt Türk has principally relied on current accounts and participation accounts. Historically, when growth in cash credits has been greater than Kuveyt Türk's growth in participation accounts, it has bridged most of this gap through use of some current accounts and shareholders' equity and by increasing capital or retaining profits. Kuveyt Türk also utilised the U.S.\$200 million syndicated interest-free commodity Murabaha facility obtained in 2006 to balance its liquidity needs. In 2010, Kuveyt Türk also issued U.S.\$100 million Trust Certificates due 2013 as part of managing its funding requirements.

In order to manage funding and liquidity risk, the RMMO monitors funding and liquidity risk, market conditions, composition of participation funds with respect to different currencies, maturity structures, costs and future expected cash flow commitments, in particular those related to large deposits. Liquidity gap analysis reports are generated by the budgeting and reporting department on a weekly basis and monitored by the ALCO. In addition, the department also develops forecasts of Kuveyt Türk's likely liquidity requirements in the event of emergencies and, based on these forecasts, develops contingency plans. The RMMO monitors the limits set by the Board on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of funding that should be in place to cover withdrawals at unexpected levels of demand. Treasury manages funding and liquidity risk to avoid under-concentration of funding requirements at any point in time or from any particular source, and provides regular updates on Kuveyt Türk's liquidity position to the ALCO. The budgeting and reporting department also monitors Kuveyt Türk's funding and liquidity risk and prepares weekly reports to the ALCO. The RMMO reports on a monthly basis to the ARC.

The following table sets out certain information as to Kuveyt Türk's liquidity as at the dates indicated:

	As at 31 December	
	2010	2009
	%	%
Net cash credits/asset	72	68
Net cash credits/deposits	92	83
Net cash credits/shareholders' equity	538	561
Liquid assets ⁽¹⁾ /total assets	14	17
Liquid assets/deposits ⁽²⁾	17	20

(1) Liquid assets comprise cash and cash equivalents (not including Kuveyt Türk's reserves with the Central Bank) and financial investments (excluding held-to-maturity investments).

(2) Includes funds borrowed.

The following table summarises Kuveyt Türk's estimated maturity analysis for certain assets and liabilities as at 31 December 2010 and contains certain information regarding Kuveyt Türk's funding and liquidity risk (according to Turkish GAAP).

	Call	Less than one month	1 to 3 months	3 to 12 months	More than one year	Unallocated (*)	Total
<i>(TL in thousands)</i> <i>(audited)</i>							
31 December 2010							
Assets							
Cash and balances with Central Bank	1,252,870	–	–	–	–	–	1,252,870
Deposits with other banks and financial Institutions	463,338	453,021	–	–	–	–	916,359
Financial assets at fair value through profit or loss	4,231	6,892	1,328	20,260	–	–	32,711
Receivables from money market	–	–	–	–	–	–	–
Financial assets available-for-sale	–	–	–	–	–	4,548	4,548
Due from financing activities, net	–	856,144	1,120,426	2,470,946	2,537,473	–	6,984,989
Financial assets held to maturity	–	–	–	–	–	–	–
Other assets ⁽¹⁾	4,777	106,821	43,026	37,100	8,470	335,446	535,640
Total Assets	1,725,216	1,422,878	1,164,780	2,528,306	2,545,943	339,994	9,727,117
Liabilities							
Due to banks	5,558	–	86,033	151,297	23,552	–	266,440
Other special current and profit/loss sharing investors' accounts	1,691,047	568,578	3,824,910	478,132	552,366	–	7,115,033
Due to other financial institutions	–	83,967	37,278	360,726	157,434	–	639,405
Payables to money market	–	–	–	–	–	–	–
Securities issued	–	–	–	–	156,433	–	156,433
Other financial liabilities	43,762	13,267	–	–	–	–	57,029
Other liabilities ⁽¹⁾	–	236,770	42,768	768	–	1,368,904	1,649,210
Total Liabilities	1,740,367	902,582	3,990,989	990,923	733,352	1,368,904	9,727,117
Net balance sheet							
liquidity gap	(15,151)	520,296	(2,826,209)	1,537,383	1,812,591	(1,028,910)	–
31 December 2009							
Total Assets	1,398,623	1,105,026	748,732	1,719,540	1,561,843	370,762	
Total Liabilities	1,254,796	314,044	3,167,788	806,186	471,569	890,143	
Net balance sheet liquidity gap	143,827	(790,982)	(2,419,056)	913,354	1,090,274	(519,381)	

(1) Unallocated other assets column represents property and equipment, subsidiaries and affiliates, pre-paid expenses and non-liquid other assets.

(2) Unallocated other liabilities column represents total shareholders' equity and provisions.

As a participation bank, Kuveyt Türk is less sensitive to certain funding and liquidity risks than conventional banks may be. The performance of, and return on, Kuveyt Türk's customers' participation accounts are

directly tied to the performance of, and return on, Kuveyt Türk's credit portfolio, thus limiting negative liquidity effects during periods of market fluctuations. Moreover, because of the monthly principal repayment schedule for commercial credits (Kuveyt Türk does not offer the equivalent of interest only or "balloon" credits) it has more predictable month-to-month cash inflows. Senior Management believe that this more predictable access to funds gives it additional flexibility in managing funding and liquidity risk exposure. Kuveyt Türk continually assesses its funding and liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of its overall strategy.

The matching and controlled mismatching of the maturities and profit sharing rates or mark-up rates of assets and liabilities is fundamental to the management of Kuveyt Türk's business. It is unusual for these to be completely matched as transacted business is often of uncertain term and of different types. Furthermore, due to the short term maturity nature of deposits in Turkey, maturity mismatches are a common problem for Turkish banks. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace them, at an acceptable cost, are important factors in assessing Kuveyt Türk's liquidity and its exposure to changes in interest/profit or mark-up rates and exchange rates. Liquidity requirements to support calls under letters of guarantee, letters of credit and other non-cash credits are considerably less than the amount of the commitment.

Because Kuveyt Türk is a participation bank, certain alternative sources of funding typically used by conventional banks (such as interest-bearing facilities and securities portfolios) are not available to it and its ability to develop new sources may be limited or slowed by the approval process to which it subjects its financing and banking products (see "*Risks relating to Kuveyt Türk – Risks relating to Kuveyt Türk's Business*" for further details).

Capital Adequacy

Kuveyt Türk calculates its capital adequacy ratio in accordance with guidelines promulgated by the BRSA, which are based on the standards established by Kuveyt Türk for international settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposure. In accordance with these guidelines, Kuveyt Türk had to maintain a minimum capital adequacy ratio of 12 per cent. throughout 2010. Kuveyt Türk currently calculates its capital adequacy ratio requirements by applying a combination of Basel II standard weighted methodology and Basel I methodology. Senior Management are in the process of adopting the standard weighted methodology entirely based on Basel II.

As at 31 December 2010, Kuveyt Türk's capital adequacy ratio was 17.05 per cent. and 14.56 per cent. as at 31 December 2009 (see "*Risks relating to Kuveyt Türk – Risks relating to Kuveyt Türk's Business*" for further details).

The table below sets out Kuveyt Türk's regulatory capital as at 31 December 2010 and 2009.

	As at 31 December			
	2010		2009	
	<i>(TL in thousands)</i>			
	<i>(audited)</i>			
Tier 1 capital	1,221,964		785,364	
Tier 2 capital	43,047		32,100	
Deductions from capital	(2,382)		(21,715)	
Total capital	1,262,629		795,749	
Risk weighted assets amount subject to market, operational and credit risk.....	7,406,214		5,465,599	
	Actual	Required	Actual	Required
Tier 1 capital ratio	16.48%		14.37%	–
Total capital ratio.....	17.05%	12%	14.56%	12%

Information Technology

Kuveyt Türk is committed to maintaining an IT infrastructure that supports its growth while minimising operational risks and business interruptions. Kuveyt Türk has made significant investments during the past three years on developing its IT infrastructure, improving the efficiency of its IT processes and growing its IT personnel.

Kuveyt Türk's core banking systems run on Microsoft Windows Systems infrastructure and core databases are hosted on Microsoft SQL 2008 servers. The core banking system used within Kuveyt Türk is an in-house developed bespoke system. The system is continuously developed and enhanced in accordance with the business strategies and requirements of Kuveyt Türk. The system includes modules to support all main functions of Kuveyt Türk, such as accounting, customer relations, money transfers, deposits, loans, trade finance, treasury, etc. These systems also have the features to easily integrate with third party systems such as VISA, MasterCard, SWIFT and utility payment systems.

Kuveyt Türk's IT system utilises other proprietary software solutions with proven record of stability and performance in order to support business activities. Kuveyt Türk relies on availability of IT systems to continue its banking operations and maintaining accessibility of IT systems during disaster situations constitutes a significant part of business continuity arrangements. Thus, Kuveyt Türk makes significant investment on IT disaster recovery systems and maintains a Disaster Recovery Plan for ten years, which includes operating a Disaster Recovery Centre (the **DRC**) for such a period.

In 2010, the DRC was established at the Türk Telecom Data Centre in Ankara, approximately 450 kilometres from İstanbul. An online backup system is used to transfer system data to the DRC. Maintaining online backup of this data at the DRC enables all clients at branches and other remote locations to divert their connections to the DRC from the main system in headquarters with minimum loss of service time in case main IT systems in İstanbul become inoperable.

Kuveyt Türk's DRC includes systems that are required to communicate with external organisations such as the CBT for cheque clearance and EFTs as well as the international SWIFT network. In order to ensure full functionality of the DRC, the systems are fully tested once a year in accordance with a disaster scenario.

Kuveyt Türk has initiated the Core Banking Systems Transformation Project (the **Project**) in order to support business strategies and continuous growth opportunities for Kuveyt Türk through utilising the most recent technologies. It has a budgeted capital expenditure of TL19,030,887 for 2011 compared to budgeted capital expenditure of TL11,195,000 in 2010. The Project is scheduled for completion in 2013 and includes complete transformation of all banking systems.

Kuveyt Türk's IT systems are audited by an independent auditing firm that performs two different audits periodically-an application controls audit and an IT audit based on Control Objectives for Information and Related Technology (**COBIT**). The application controls audit is performed once a year with the focus of ensuring that Kuveyt Türk's core banking system, consisting of different banking modules, has adequate application controls to produce reliable, accurate and consistent financial information on banking activities. The IT audit based on COBIT is carried out every two years. The purpose of this audit is to make sure that Kuveyt Türk's IT processes have appropriate controls to fulfil requirements of COBIT. These audits are required by the BRSA and audit results are reported to the BRSA by the independent auditing firm.

Kuveyt Türk has established a research and development centre (**R&D Centre**) accredited by the Ministry of Industry and Trade which will be operational by December 2011. The R&D Centre will aim to help sustain Kuveyt Türk's competitiveness by contributing towards the production of new information technology through systematic and scientific researches.

Intellectual Property

Kuveyt Türk's operations are not, to any significant extent (other than for the purposes of brand recognition and value), dependent on any specific intellectual property right. Kuveyt Türk seeks to protect the trademarks and trade names that it deems necessary for its operations and it takes necessary measures to ensure that these rights are adequately protected. Kuveyt Türk owns a total of 39 trademarks in Turkey, including those

relating to the “Kuveyt Türk Sağlam Bankacılık”, “Kuveyt Türk Katılım Bankası A.Ş. Bankacılıkta Çözüm Ortakiniz”, “Kuveyt Türk aile”, “Kuveyt Türk Altın”, “Kuveyt Türk Duyarlı Kazanç”, “Kuveyt Türk Duyunet”, “Kuveyt Türk Evkaf”, “Kuveyt Türk Gold”, “Gold Plus” and “Kuveyt Türk Gümüş” brands. In addition, Kuveyt Türk licences the “Visa®” mark from Visa International Service Association and the “MasterCard®”, “Maestro®” and “Cirrus®” marks from MasterCard International Incorporated.

Insurance

Kuveyt Türk maintains insurance in respect of its buildings, inventory, plant and equipment. These policies are maintained with Turkish insurance companies which, in turn, generally reinsure their risks in the international markets. Kuveyt Türk’s insurance policies cover damages to its property, including its IT systems and data archives resulting from office fire, burglary, and malfunctioning electronic devices. Operational risk insurances such as Director’s Office of Liability, Banker’s Blanket Bond, Electronic Crime and Professional Indemnity are also covered by insurance.

Kuveyt Türk maintains earthquake insurance as part of its property insurance. The real estate mortgages and other credit collateral are insured as well Kuveyt Türk’s belongings. The insurance companies with which Kuveyt Türk has executed agreements are mostly Neova, Günes, Sigorta A.S., Axa Sigorta A.S., and Ergo Sigorta A.Ş. Kuveyt Türk has not experienced any material disputes with its insurance companies in respect of insurance claims which Kuveyt Türk has made.

Anti-Money Laundering and Combating the Finance of Terrorism (AML/CFT) and Client Identification

As the Financial Intelligence Unit of Turkey, the Financial Crimes Investigation Board laws and regulations with respect to AML/CFT are applicable to Kuveyt Türk. Kuveyt Türk is committed to ensuring adherence to AML/CFT regulations at all times. Kuveyt Türk has strict client identification policies and product teams are precluded from establishing new business relationships until all relevant parties to the relationship have been identified and the nature of the business they expect to conduct has been established. Furthermore, Kuveyt Türk is committed to preventing the provision of its financial services for the purposes of money laundering or terrorist financing activity. In line with Kuveyt Türk’s AML/CFT and Combating the Financing of Terrorism Policy (**AML & CRT**) all employees, regardless of their role in Kuveyt Türk, are trained in Kuveyt Türk’s AML/CFT and anti-terrorism financing policies on an annual basis.

Kuveyt Türk has appointed a Money Laundering Responsibility Officer (a **MLRO**) who is responsible for supervising Kuveyt Türk’s AML/CFT activities and for maintaining appropriate and effective systems, controls and records to ensure compliance with local AML/CFT regulations and the provisions of Kuveyt Türk’s AML/CFT manual. The MLRO is also responsible for reviewing and reporting any suspicious transactions/activities concerning a client or an account to the respective regulator.

In order not to be unknowingly used as an intermediary in money laundering or terrorist financing, Kuveyt Türk implemented comprehensive AML and know-your-customer policies and procedures to comply with Turkish and international anti-money laundering rules and regulations. These policies and procedures apply to all local and international operations and transactions and include customer identification verification, retention of customer-related documentation and reporting of suspicious transactions to the authorities. Additionally, Kuveyt Türk requires that all its correspondent banks meet the requirements set forth in its AML policies.

The MLRO’s responsibilities include formulating, issuing and implementing Kuveyt Türk’s AML/CFT strategies and policies on an ongoing basis, overseeing the provision of appropriate AML/CFT training to all relevant staff, supervising and coordinating the activities of Kuveyt Türk’s business, including the principal activities and reporting to the Turkish Financial Intelligence Unit of the Financial Crimes Investigation Board, regarding any suspicious activities.

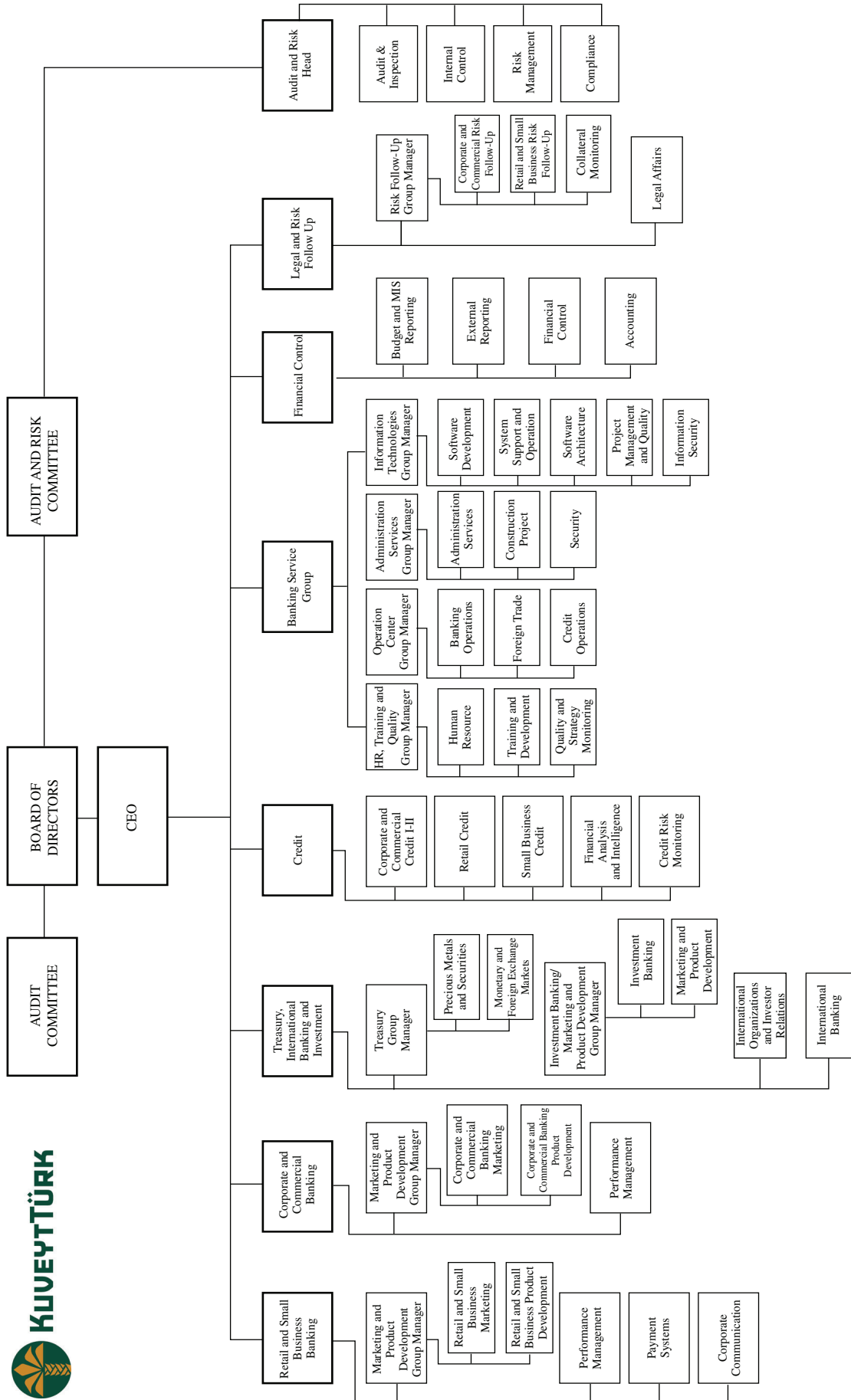
Legal Proceedings

Kuveyt Türk is not currently, and has not been in the last 12 months, involved in any governmental, legal or arbitration proceedings and no such proceedings are pending or so far as it is aware threatened, which may have, or have had, a significant effect on its financial position or profitability.

Related Party Transactions

Kuveyt Türk's related parties include its shareholders, directors and management, as well as entities owned and controlled by its key management. Kuveyt Türk enters into transactions with its related parties in the normal course of its business. See the relevant notes to the IFRS Accounts for further information in relation to Kuveyt Türk's related party transactions.

Kuveyt Turk – Organisational Management Chart



Management

Board of Directors

As at the date of this Prospectus, the Board comprised of nine directors (**Directors**) under the chairmanship of Mohammad S.A.L. Alomar. Members of the Board are appointed by Kuveyt Türk's shareholders. Kuveyt Türk's chief executive officer also sits as a member of the Board as required by the Banking Law. Each Director is appointed for a term of three years and the Board meets six times annually. The business address of each member of the Board is Büyükdere Caddesi, No: 129, 34394 Esentepe, İstanbul, Turkey. No member of the Board has any actual or potential conflict of interest between his duties to Kuveyt Türk and his private interests and/or other duties.

Under Turkish law, directors are required to own at least one share in order to serve on the board of directors. Accordingly, the chairman and members of the Board own 0.18 per cent. of Kuveyt Türk's share capital.

The members of the Board are:

<u>Name</u>	<u>Year of birth</u>	<u>Position</u>	<u>Year first elected to position</u>
Mohammad S.A.I. Alomar	1959	Chairman	2000
Abdullah Tivnikli	1959	Vice Chairman	2001
Dr. Adnan Ertem.....	1965	Director	2002
Azfar Hussain Qarni.....	1956	Director	2003
Fawaz KH E Al Saleh.....	1963	Director	2006
Nadir Alpaslan	1966	Director	2011
Khaled Nasser Abdulaziz Al Fouzan	1954	Director	2006
Shaheen Hamad Abdulwahab Al Ghanem	1968	Director	2006
Ufuk Uyan	1958	Director, Chief Executive Officer	1999

Mohammad S.A.I. Alomar—*Chairman*

Mr. Alomar obtained a bachelor's degree from the Chapman University Department of Economics in California in 1986. Mr. Alomar graduated from İstanbul Technical University, Department of Mechanical Engineering in 1981 and received a master's degree from the School of Business Administration of the same university.

Mr. Alomar has been a member of the Board of Directors of Kuveyt Türk since 1988 and was appointed vice chairman of the Board of Directors in 2001. In addition to his responsibilities in the participation banking sector, Mr. Alomar is a Member of the Board of Directors at Türk Telekom and serves in the management of Eksim Group. Mr. Alomar's family business, Eksim Group, is active in the grain products trading, energy, food and mining industries.

Abdullah Tivnikli—*Vice Chairman*

Mr. Tivnikli graduated from the Mechanical Engineering Department of İstanbul Technical University in 1981. Thereafter, he received his master's degree from the School of Business Administration of İstanbul Technical University in 1983.

Mr. Tivnikli has been Kuveyt Türk's vice chairman since 2001. He also serves as a member of Kuveyt Türk's Executive Committee and Credit Committee. Mr. Tivnikli served in management positions in several private sector companies before assuming the office of manager of the project and financing department at Albaraka Türk Katılım Bankası A.S., another participation bank established in Turkey, in 1988. He is also the chairman of the boards of Körfez, Karadeniz Elektrik Yatırım Sanayi ve Ticaret A.S., Atlas Enerji Elektrik Üretim Sanayi A.S., Iltek İletişim Teknolojileri A.S., Eksim Enerji A.S., and Sinangil Gıda Sanayi Ticaret ve Pazarlama A.S., the vice chairman of the board of directors of Tam Enerji Yatırım Sanayi ve Ticaret A.S., and a member of the board of directors of PHS Film Prodüksiyon A.S.

Dr Adnan Ertem—Director

Dr. Ertem received a bachelor's degree from the School of Political Science, Public Administration Department of İstanbul University in 1987. In 1990, he received his master's degree from the Institute of Social Sciences of Political Science Department of İstanbul University. He was awarded a doctor of philosophy degree in Social Sciences from the same university in 1998.

Dr Ertem has been a member of Kuveyt Türk's board of directors since 2002. He also serves as a member of Kuveyt Türk's Corporate Governance Committee and Audit and Risk Committee. He was appointed as the İstanbul Regional Director of Foundations in 2002 after serving in various positions within the same organisation. He currently serves as deputy secretary at the Prime Ministry of Turkey.

Azfar Hussain Qarni—Director

Mr. Qarni received a bachelor's degree from the Chemical Engineering Department of Ned University in 1980. In 1981, he received his master's degree from the Business Administration Department of the Karachi University School of Business Administration and Economics.

Mr Qarni has been a member of Kuveyt Türk's board of directors since 2003. He also serves as a member of Kuveyt Türk's Audit Committee and Audit and Risk Committee. He served at various levels in the National Development Finance Corporation of Pakistan and was eventually promoted to vice president in 1995. Mr. Qarni was appointed as the Project Capital Officer of the Islamic Development Bank in 1996.

Fawaz KH E Al Saleh—Director

Mr. Al Saleh received his bachelor's degree from the Business Administration and Economics Department of Macalester College in the United States in 1987.

Mr. Al Saleh has been a member of Kuveyt Türk's Board of Directors since 2006. He currently also heads the Turkish office of Kuwait Finance House. He was an auditor and supervisor at Ernst & Young between 1987 and 1992. Mr. Al Saleh joined Kuveyt Türk in 1996, as a manager in the Fund Management department and, between 1999 and 2001, as the general manager of the Fund Management department. Thereafter, he served as the deputy general manager of Kuveyt Türk between 2001 and 2006. He is currently the chairman of the board of directors of Auto Land and the vice chairman of the board of directors of Körfez and Baytik Capital Holding.

Nadir Alpaslan—Director

Mr. Alpaslan received a bachelor's degree from Faculty of Political Sciences in İstanbul University in 1983.

Mr. Alpaslan has been a member of the Bank's board of directors since June 2011. His career started at the Ministry of Tourism as ministerial adviser in 1999 and subsequently at the Ministry of Education as human resources director and thereafter he joined the Ministry of Culture and Tourism until 2007. Since 2007 to May 2011 he served at the general secretariat of the President.

Khaled Nasser Abdulaziz Al Fouzan—Director

Mr. Al Fouzan received a bachelor's degree from the Business Administration Department of Kuwait University in 1978.

Mr. Al Fouzan has been a member of Kuveyt Türk's board of directors since August 2006. He also serves as a member of Kuveyt Türk's Audit and Risk Committee. In 2004, he was appointed as the assistant general manager of Finance & Management Department of the Kuwait Social Security Institution and as the manager of the Banking Department in 1984. Prior to this, he was appointed as the Director of Participations at the Kuwait Social Security Institution in 1978. Mr. Al Fouzan started his professional career at Kuwait Commercial Bank in the same year.

Shaheen Hamad Abdulwahab Al Ghanem—Director

Mr. Al Ghanem received a bachelor's degree from the Department of Economic and Political Sciences of Kuwait University in 1994.

Mr. Al Ghanem has been a member of Kuveyt Türk's board of directors since 2006. He also serves as a member of Kuveyt Türk's Corporate Governance Committee, Audit Committee and Audit and Risk Committee. He was appointed manager of the Financial Control Department at Kuwait Finance House in 2001. Mr. Al Ghanem started his professional career as the chief accountant of the Kuwait National Gas Company in 1989.

Ufuk Uyan—Director and Chief Executive Officer

Mr. Uyan received his bachelor's degree in Economics from Bosphorus University in 1981 and obtained a master's degree from the same university in 1983.

Mr. Uyan has been a member of Kuveyt Türk's board of directors since 1999. He also serves as a member of Kuveyt Türk's Executive Committee. He worked as a research assistant at Bosphorus University between 1981 and 1982, and in 1982 he joined Türkiye Sınai Kalkınma Bankası A.S., as a research analyst in the department of private investigations. In 1985, he became an assistant project manager at Albaraka Türk Katılım Bankası A.S. He was appointed as the manager of projects and investments at Kuveyt Türk in 1989. In 1993, he was promoted to deputy general manager and in 1999 he was appointed as Kuveyt Türk's Chief Executive Officer.

Senior Management

Kuveyt Türk's Senior Management is responsible for the day-to-day management of Kuveyt Türk in accordance with the instructions, policies and operating guidelines set by the Board.

The business address of each member of Kuveyt Türk's Senior Management is Büyükdere Caddesi, No: 129, 34394 Esentepe, İstanbul, Turkey. No officer or senior manager of Kuveyt Türk has any actual or potential conflict of interest between his duties to Kuveyt Türk and his private interests and/or other duties.

The names and title of each member of Kuveyt Türk's Senior Management are set out in the table below

Name	Year of birth	Position	Year first appointed to position
Ufuk Uyan	1958	Chief Executive Officer	1999
Ahmet Karaca	1970	Chief Financial Officer (Financial Affairs)	2006
Ahmet Süleyman Karakaya....	1953	Executive Vice President (Corporate and Commercial Banking)	2003
Bilal Sayın	1966	Executive Vice President (Credits)	2003
Hüseyin Cevdet Yılmaz	1966	Chief Audit and Risk Officer (Audit and Risk)	2002
İrfan Yılmaz.....	1970	Executive Vice President (Retail and Small Business Banking)	2005
Nurettin Kolaç	1966	Executive Vice President (Risk Follow-up and Legal Affairs)	2010
Murat Çetinkaya	1976	Executive Vice President (International Banking, Investment Banking, Treasury and International Organisation and Investor Relations)	2008
Rusen Ahmet Albayrak	1966	Executive Vice President (Banking Services Group)	2005

Ufuk Uyan—*Director and Chief Executive Officer*

Mr. Uyan received his bachelor's degree in Economics from Bosphorus University in 1981 and obtained a master's degree from the same university in 1983.

Mr. Uyan has been a member of Kuveyt Türk's board of directors since 1999. He also serves as a member of Kuveyt Türk's Executive Committee. He worked as a research assistant at Bosphorus University between 1981 and 1982, and in 1982 he joined Türkiye Sınai Kalkınma Bankası A.S., as a research analyst in the department of private investigations. In 1985, he became an assistant project manager at Albaraka Türk Katılım Bankası A.S. He was appointed as the manager of projects and investments at Kuveyt Türk in 1989. In 1993, he was promoted to deputy general manager and in 1999 he was appointed as Kuveyt Türk's Chief Executive Officer.

Ahmet Karaca—*Chief Financial Officer (Financial Affairs)*

Mr. Karaca received a bachelor's degree from the Department of Public Administration of Ankara University in 1990. He completed his masters degree in Economics at the State University of New York in 2006.

Mr Karaca has been Executive Vice President in charge of Kuveyt Türk's Financial Affairs since 2006. Between 2002 and 2003, he worked as the vice chairman of the board of directors of Sworn Bank Auditors. In 1992, he was an on-site bank examiner at the Treasury and was appointed as a sworn bank auditor in 1995.

Ahmet Süleyman Karakaya—*Executive Vice President (Corporate and Commercial Banking)*

Mr. Karakaya received a bachelor's degree in Business and Finance from İstanbul University in 1979.

Mr. Karakaya has been Executive Vice President in charge of Kuveyt Türk's Corporate and Commercial Banking Group since 2003. Before joining Kuveyt Türk, he worked at the Risk Management, Credits and District Management departments of Türkiye Garanti Bankası A.S., between 1981 and 2003. Mr. Karakaya also served as an inspector at Türkiye Garanti Bankası A.S. between 1981 and 1985.

Bilal Sayın—*Executive Vice President (Credits)*

Mr. Sayın received a bachelor's degree in Public Administration from Orta Doğu Teknik Üniversitesi in 1990.

Mr Sayın has been Executive Vice President in charge of Kuveyt Türk's Credits since 2003. In 1999, he was appointed as manager of Kuveyt Türk's Commercial Fund Allotment department. Mr. Sayın joined Kuveyt Türk in 1995 as specialist of the Projects and Investment department and he began his banking career in 1990 at Albaraka Türk Katılım Bankası A.S.

Hüseyin Cevdet Yılmaz—*Chief Audit and Risk Officer (Internal Audit and Risk Management Systems)*

Mr. Yılmaz received a bachelor's degree from the Business School of Bosphorus University in 1989.

Mr Yılmaz has been the Chief Audit and Risk Officer in charge of Kuveyt Türk's Internal Audit and Risk Management Systems since 2002. In 2002 he joined Kuveyt Türk as president of the Inspection Board. He began his banking career in 1991 at Esbank A.S. as an assistant inspector in the Inspection department.

İrfan Yılmaz—*Executive Vice President (Retail and Small Business Banking)*

Mr. Yılmaz received a bachelor's degree in Business Engineering from İstanbul Technical University in 1989.

Mr. Yılmaz has been Executive Vice President in charge of Kuveyt Türk's Retail and Small Business Banking department since 2005. Prior to this, he served as a manager in the Retail Banking department in 2000. In 1996, he joined Kuveyt Türk's Inspection Board and became its chairman in 1998. He began his banking career in 1990 at Kuveyt Türk spending six years in the Financial Control department as officer.

Nurettin Kolaç—*Assistant General Manager (Risk Follow-up, Legal Affairs)*

Mr. Kolaç received a bachelor's degree in Law from Marmara University in 1988.

Mr. Kolaç worked for Türkiye Halk Bank A.S., and its subsidiaries as an attorney at law between 1989 and 2004. He started his career at the BRSA in 2007 and became the Head of Legal Affairs in 2007. Mr. Kolaç joined Kuveyt Türk on April 2010 and has been appointed as Executive Vice President responsible for legal affairs and risk follow-up.

Murat Çetinkaya—*Executive Vice President (International Banking and Investment Banking and Treasury, International Organisation and Investor Relations)*

Mr. Çetinkaya received a bachelor's degree from the Bosphorus University Faculty of Economics and Administrative Sciences, Department of Political Science in 1988 and also holds a bachelor's degree from Bosphorus University Faculty of Arts and Sciences Department of Sociology as a second major program in 1998. He received his master's degree in social sciences from Bosphorus University Institute of Social Sciences in 2003 and is currently pursuing his PhD studies on International Finance/Economics-Politics at the same university.

Mr. Çetinkaya has been Executive Vice President in charge of Kuveyt Türk's International Banking, Treasury and International Organisation and Investor Relations since January 2008. Prior to this, Mr. Çetinkaya was responsible for International Banking and International Organisation and Investor Relations in Halkbank in 2007, prior to which he held various managerial positions at Halkbank between 2003 and 2007. He began his career in 1998 at Albaraka Türk Katılım Bankası A.S. where he served in several departments including Foreign Operations, Treasury and Financial Institutions.

Dr. Rusen Ahmet Albayrak—*Executive Vice President (Banking Services Group)*

Dr. Albayrak received a bachelor's degree in Industrial Engineering from İstanbul Technical University in 1988 and completed his doctor of philosophy degree at İstanbul Technical University in Business Management in 2007. He received his masters degree in Organizational Leadership and Management from University of North Carolina in 1993.

Dr. Albayrak has been Executive Vice President in charge of Kuveyt Türk's Banking Services Group since 2005. He was appointed as Kuveyt Türk's assistant general manager in charge of Branches in 2003 and was in charge of setting up the Retail Banking Sales department at Kuveyt Türk in 2002. Mr. Albayrak joined Kuveyt Türk as an assistant manager in the Financial Analysis and Marketing Department in 1994. Prior to this, he worked as a project leader of Performance Management Consultancy Limited between 1996 and 1997. He began his banking career at Albaraka Türk Katılım Bankası A.S. in 1988.

Board and Management Committees

Kuveyt Türk has established several management committees responsible for various aspects of Kuveyt Türk's operations. The committees are the Internal Audit Committee, the Audit and Risk Committee, the Credit Committee (see "*Risk Management*" for further details), the Executive Committee and the Basel II Steering Committee.

Executive Committee

The Executive Committee is responsible for exercising the powers of the Board (save for those which the Board expressly reserves for itself) in the management of the business and affairs of Kuveyt Türk as directed by the Board.

Basel II Steering Committee

The Basel II Steering Committee closely monitors Kuveyt Türk's compliance with Basel II developments. The committee also communicates and meets with the BRSA in connection with BRSA's monitoring of the implementation of Basel II by the Turkish banking industry in general.

Corporate Governance

There are no mandatory corporate governance rules in Turkey. However, in 2003, the CMB issued a set of recommended principles for public companies (the **Corporate Governance Principles**). The Corporate Governance Principles can be categorised into four groups: (i) principles relating to investor relations; (ii) principles relating to public disclosure and transparency; (iii) principles relating to shareholders; and (iv) principles relating to management. Although implementation of the Corporate Governance Principles is not currently mandatory, the CMB requires public companies to disclose the extent to which they have been implemented and, if they have not been fully implemented, to explain the reasons therefore. The CMB may decide to make such principles mandatory for public companies in the future. Annual reports filed by public companies must disclose contingency plans for dealing with any conflicts that may arise in the future and the implementation of the Corporate Governance Principles. In order to support implementation of the new Corporate Governance Principles, the CMB issued a rating communiqué which enables rating agencies to rate companies on the basis of their compliance with the principles.

Kuveyt Türk introduced its Code of Ethics guidelines in 2003 and established its Corporate Governance Committee in July 2007 which ensures that Kuveyt Türk operates within the Corporate Governance Principles.

Employees

As at 31 December 2010, Kuveyt Türk employed 2,837 full-time employees. As at 31 December 2010, the average age of Kuveyt Türk's employees was approximately 31 years of age and approximately 81 per cent. of Kuveyt Türk's professional staff were university graduates. The following table sets forth the average number of employees of Kuveyt Türk and its subsidiaries for the periods indicated.

	For the years ended 31 December	
	2010	2009
Kuveyt Türk	2,837	2,425
Körfez Gayrimenkul İnşaat Taahhüt Tic. A.Ş.	5	6
Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İşletmeciliği A.Ş.	12	13
KT Dubai	2	2
Total	2,854	2,444

Training

Kuveyt Türk believes that its interests are aligned with the interests of its employees in terms of training and career development. Accordingly Kuveyt Türk has developed a carefully devised training and career development strategy for its personnel, which also takes into account its growth plans and continuous need for new qualified employees. Kuveyt Türk offers its employees a comprehensive training framework that covers core banking training, career development training and executive development programs. In addition to the centralised training, at local branch levels Kuveyt Türk offers selected employees training opportunities abroad. Kuveyt Türk was the first Turkish participation bank to develop an on-line training programme for employees. Kuveyt Türk currently provides approximately 70 per cent. of all training in-house and each employee attends on average six days of training each year.

Compensation

Kuveyt Türk's strategy is to offer its employees a comprehensive and competitive compensation package. Kuveyt Türk provides private health insurance for its employees at no cost and a private group pension plan for employees. If the employee pays two per cent. (minimum TL40) of monthly gross salary into the pension plan, Kuveyt Türk matches that payment. Kuveyt Türk offers its employees a selection of other benefits based on their seniority including car allowances, cell phone allowances, lunch benefits, clothing allowances, education allowances, language allowances, transportation and other social contributions such as health, marriage, birth and death contributions. In addition to their base salaries, Kuveyt Türk also pays employees annual performance bonuses based on the individual employee's performance as well as Kuveyt Türk's overall financial performance. The total bonus pool generally ranges from eight per cent. to 15 per cent. of Kuveyt Türk's annual net profit in the event at least 80 per cent. of the targeted annual net profit is reached. If the annual net profit exceeds over 15 per cent. of the targeted annual net profit, the bonus pool is increased to 20 per cent. of the amount exceeding annual net profit. On average, these performance bonuses have been approximately two and a half times the employee's monthly salary.

Advisory Board

The Advisory Board comprises Islamic scholars of good repute and with extensive experience in law, economics and banking systems. The Advisory Board is appointed by the Board. Its responsibilities include directing, reviewing and supervising the activities of Kuveyt Türk in order to ensure that they are in compliance with Islamic rules and principles including, but not limited to, supervising the development and creation of innovative interest-free products, issuing fatwas on any matter proposed to it by business units of Kuveyt Türk, ensuring that transactions are carried out in compliance with interest-free banking principles and analysing contracts and agreements concerning Kuveyt Türk's transactions.

The following table sets out the names of the current members of the Advisory Board:

<u>Name</u>	<u>Position</u>
Associate Professor Anwar Shuaib Abdulsalam	Chairman
Sheikh Shefik Karanfil	Member
Associate Professor Yusuf Bayindir	Member
Associate Professor Abdullah Durmus	Member
Dr. Ertugrul Boynukalin	Member

There are no potential conflicts of interest between the private interests or other duties of the Advisory board members listed above and their duties to Kuveyt Türk.

OVERVIEW OF THE TURKISH BANKING SECTOR AND REGULATIONS

Summary

The Turkish financial sector has gone through major structural changes as a result of the financial liberalisation programme that started in the early 1980s. The abolition of directed credit policies, the liberalisation of deposit and credit interest rates and liberal exchange rate policies as well as the adoption of international best standard banking regulations have accelerated the structural transformation of the Turkish banking sector. Since the 1980s, the Turkish banking sector has experienced a significant expansion and development in the number of banks, employment in the sector, diversification of services and technological infrastructure. The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001 this resulted in the collapse of several institutions, including a participation bank. The banking sector also experienced a sharp reduction in shareholders' equity in 2001, with the capital of the 22 private sector banks declining to U.S.\$4,916 million at the end of 2001 from U.S.\$8,056 million for 28 banks at the end of 2000, according to the Turkish Banking Association.

The Turkish money markets and foreign exchange markets have stabilised since 2001, in large part due to regulatory reform and other governmental actions (including a three-part audit undertaken in 2001 and 2002, after which all private commercial banks were either found to be in compliance with the 8.0 per cent. minimum capital requirement, transferred to the Savings Deposits Insurance Fund (**SDIF**) or asked to increase their capital level). The transparency of the system was improved along with the establishment of an independent supervisory and regulatory framework and new disclosure requirements. Unfair competition from state banks was reduced while the efficiency of the system increased in general as a result of consolidation. According to the SDIF's official data, since 1994, a total of 25 private banks have been transferred to the SDIF due to, among other things, weakened financial stability and liquidity and efforts are continuing on the resolution of the SDIF banks while restructuring and privatisation of the state banks is progressing.

In August 2004, in an attempt to reduce the regulatory costs inherent in the Turkish banking system, the government reduced the rate of the Resource Utilisation Support Fund (**RUSF**) applicable on short-term foreign currency commercial loans lent by banks domiciled in Turkey to zero. However, the 3.0 per cent. RUSF charge for some types of loans provided by banks outside of Turkey with an average repayment term of less than one year remains valid. The government also increased the RUSF charged on interest of foreign currency-denominated retail loans from 10 per cent. to 15 per cent. in order to curb domestic demand fuelled by credit, which was in turn perceived to be adversely affecting Turkey's current account balance. The RUSF charged on consumer credits to be utilised by real persons (for non-commercial utilisation) is 15 per cent.

In addition, there have been significant changes to Turkish banking legislation over the last few years.

The Banks Act No. 4839 (as amended by Laws No. 4491, 4672, 4684, 4743, 4842, 5020, 5189 and 5228) was replaced by the Banking Law No. 5411 on 1 November 2005 (the **Banking Law**). The Banking Law governs the activities conducted by commercial banks as well as participation banks. For further details please see—*Types of Banks in Turkey* below.

Regulatory Environment

Regulatory responsibility in the Turkish banking sector is split between the BRSA, the CBT and SDIF. The BRSA regulates and monitors the application of the Banking Law and other relevant regulations to ensure a disciplined and efficient banking sector within Turkey. The CBT is the entity responsible for the Government's fiscal and monetary policies. The SDIF's role is to insure the savings deposits and participation funds held with banks. In the event of financial instability within a bank, the SDIF may take measures to restructure such a bank to strengthen its fiscal structure.

The Role of the BRSA

The BRSA is an independent body authorised under Articles 82 to 110 of the Banking Law and has the status of a public legal entity with administrative and financial autonomy. It is the sole regulatory and supervisory authority for the Turkish banking sector. The BRSA's role is to protect the rights and benefits of depositors and to establish a competitive, disciplined and efficient banking and financial sector within Turkey. Accordingly, the BRSA is authorised to undertake all necessary steps to ensure it effectively monitors and regulates the Turkish banking sector.

The BRSA sets mandatory reserve levels and liquidity ratios. All banks operating within Turkey must provide to the BRSA, on a regular and timely basis, information adequate to permit off-site analysis by the BRSA of such banks' financial performance, including balance sheets, profit and loss amounts, board of directors' reports and auditors' reports.

The BRSA conducts on-site and off-site supervision of banks' internal controls, internal audit systems, risk management systems and banks' general financial integrity.

The BRSA's on-site supervision is conducted through a team of sworn bank auditors and other experts who are part of the BRSA. In addition, the chairman of the BRSA has the authority to commission independent audit teams to examine specific matters within any bank that the chairman deems appropriate.

In addition to the above-mentioned requirements, all banks are obliged to have an internal control system and an audit committee, which must include non-executive members of the board of directors. The audit committee prepares reports at least once every six months with respect to a bank's compliance with the Banking Law and other relevant legislation. Such reports are required to be presented to the board of directors of the bank as well as to the BRSA.

The Role of the CBT

The CBT was founded in 1930 in order to provide financing mainly for the Government and public sector agencies. The CBT exercises its powers independently and is responsible for its affairs within the bounds of the Government's defined policies.

Currently, the CBT is the sole regulator of the volume and circulation of the national currency. It has responsibility for developing and implementing the Government's monetary policy, as well as managing and controlling official gold and foreign exchange reserves. The CBT also acts as the Government's treasurer, financial agent and economic adviser. The CBT uses various monetary tools to implement its functions, including open market operations, setting reserve and liquidity ratios, determining discount rates and controlling short term interest rates. The CBT monitors a centralised risk valuation system in an effort to better supervise the banking system in collaboration with the Undersecretariat of Treasury for Turkey (the **Treasury**).

Finally, the Participation Banks Association of Turkey acts as an organisation with limited supervision and coordination in respect of participation banks. All participation banks in Turkey are obliged to become members of this association. As the representative body of the participation banking sector, the association aims to examine, protect and promote its members' professional interests. However, despite its regulatory and disciplinary functions, it does not possess any of the powers to regulate participation banking as the BRSA does.

The Role of the SDIF

The SDIF is a public legal entity, set up to insure savings deposits and participation funds held with banks. The SDIF is responsible for, and authorised to take measures in relation to, restructuring, transfer of title to third parties and strengthening the fiscal structures of banks. It is able to complement these measures provided the management and control of the bank has been transferred to the SDIF in accordance with Article 71 of the Banking Law.

Pursuant to Article 63 of the Banking Law, the savings deposits and participation funds belonging to real persons in credit institutions are insured by the SDIF. The coverage and amount of the savings deposits and participation funds belonging to real persons which will be subject to insurance is set by the SDIF upon the approval of the CBT, the BRSA and the Treasury. According to the Banking Law, the risk-based insurance premium rate cannot exceed 20/1000 of the deposits and participation funds subject to insurance on an annual basis. The tariff, collection time, method and other conditions of the risk-based insurance premium is set by the SDIF after consultation with the BRSA. Pursuant to the Regulation on Saving Deposits and Participation Funds subject to Insurance and Premiums to be collected by the SDIF, the insurance premium rate to be paid by Kuveyt Türk as of the date of this Prospectus is 15/10,000 of the deposits and participation funds subject to insurance. The SDIF may apply to the Treasury to borrow funds and/or securities from the Treasury in circumstances where SDIF deems it necessary to make such application. The principles and procedures regarding government securities including their interest rates and terms and conditions of repayments to the Treasury are determined collectively by the Treasury and the SDIF.

Where the resources of the SDIF do not match its needs, the CBT may advance funds to the SDIF upon the request by the SDIF. The maturity, amounts, repayment conditions, interest rates and other conditions of the advance will be determined by the CBT upon consultation with the SDIF.

As at the date of this Prospectus, Birleşik Fon Bankası (BFB) is the only bank under the supervision and administration of the SDIF. BFB has been incorporated by the SDIF by merging the assets of Egebank A.Ş., Etibank A.Ş., İktisat Bankası T.A.Ş., Interbank A.Ş., Esbank A.Ş., EGSSBank A.Ş., Kentbank A.Ş. and Toprakbank A.Ş. into Bayındırbank A.Ş. and by converting the latter into Birleşik Fon Bankası A.Ş.

Types of Banks in Turkey

Banks in Turkey are classified as public sector commercial banks; private sector commercial banks; foreign commercial banks; development and investment banks; participation banks and banks under the control of the SDIF.

The following table sets out certain statistical information for the Turkish banking sector as at 30 June 2011 under BRSA accounting principles.

	Public Sector Banks	Private Sector Banks	Foreign Banks	Development and Investment Banks	Participation Banks	Total
<i>(TL in thousands)</i>						
Total assets.....	341,974,391	575,350,384	144,661,099	33,988,369	48,281,760	1,144,256,003
Total loans, net.....	172,738,489	110,383,071	86,985,462	22,302,475	34,315,490	426,724,987
Total deposits	245,776,994	328,303,164	85,942,004	–	34,749,450	694,777,162
Total equity	29,434,334	70,556,333	17,349,153	14,843,308	5,763,910	139,947,038
Net income.....	2,704,763	5,841,435	992,190	469,688	358,500	10,393,576
Number of branches	2,855	4,928	1,885	43	643	10,354
Number of employees	49,423	88,951	42,013	5,235	13,035	198,657
Number of banks	3	11	16	13	4	48

Source: *The Banks Association of Turkey, BRSA, Unconsolidated Financial Statements.*

Note: *Banks controlled by the SDIF are not included in these figures.*

The public and private sector commercial banks form the majority of the Turkish banking sector in terms of assets and operations. The three public sector banks, which all have large branch networks, were originally established with social rather than profit objectives, principally to provide services to certain sectors of the working population. Private sector commercial banks are comprised of full-service banks and corporate/trade finance-orientated banks. The four largest private commercial banks are Türkiye İş Bankası A.Ş., Akbank T.A.Ş. (**Akbank**), Türkiye Garanti Bankası A.Ş. (**Garanti Bankası**) and Yapı Kredi Bankası A.Ş. These banks provide a large proportion of retail banking services and related financial products to the Turkish population in addition to providing large Turkish corporations and Turkish subsidiaries of large foreign companies with corporate and foreign trade related banking services.

In recent years, the liberalisation of the Turkish economy has resulted in an increase in the number of foreign banks operating in Turkey, either as locally incorporated banks, branches or joint ventures with domestic banks. For example, BNP Paribas acquired 50.0 per cent. of the shares of TEB Mali Yatirimlar A.Ş. which owns 84.3 per cent. of the shares of TEB A.Ş. in February 2005. In September 2005, Koç Finansal Hizmetler A.Ş., (50.0 per cent. of which is owned by UniCredito Italiano) acquired 57.4 per cent. of Yapi ve. Kredi Bankası. In July 2005, Fortis Bank acquired 83.9 per cent. of Türk Diş Ticaret Bankası A.Ş. In August 2005, General Electric Financial Services purchased 25.5 per cent. of Garanti Bankasi. In September 2005, Bank Hapoalim BM acquired Bank Pozitif ve Kalkinma Bankası for U.S.\$113.0 million. In May 2006, Tekfenbank was acquired by EFG Eurobank Ergasias SA for U.S.\$182.0 million. In June 2006, TuranAlem Securities of Kazakhstan, a wholly owned subsidiary of BTA Bank, acquired 34.0 per cent. of Şekerbank's shares. NBG acquired from Fiba Holding and affiliates a 46.0 per cent. stake in the ordinary shares of Finansbank and 100 per cent. of the founder shares for a total consideration of U.S.\$2.8 billion in August 2006. In January 2007, NBG acquired a further 43.4 per cent. of Finansbank's publicly held outstanding ordinary shares. Denizbank was acquired in October 2006 from Zorlu Group by Dexia for U.S.\$2.4 billion. On January 2007, Citi Group acquired a 20 per cent. equity stake in Akbank. In July 2007, Turkishbank was acquired by National Bank of Kuwait for U.S.\$160 million. ING acquired Oyakbank for U.S.\$2.7 billion in 2007. In December 2010, Credit Europe Bank NV acquired a 95 per cent. stake in Turkey-based millennium Bank A.Ş., a subsidiary of Banco Comercial Português S.A., for a total adjusted price of EUR 58.9 million. On 22 March 2011, General Electric Co. and Doğuş Holding A.Ş. sold their 18.6 per cent. and 6.3 per cent. stakes, respectively in Garanti Bank to Banco Bilbao Vizcaya Argentaria S.A. (BBVA) for U.S.\$3.8 billion and US\$2 billion, respectively. BBVA currently holds 25.01 per cent. of the shares.

Development banks are funded by international banks and institutions such as the World Bank. Their objective is to provide medium and long-term financing to Turkish companies that cannot raise such funding easily through the market. These banks do not accept customer deposits.

The Banking Law permits commercial banks to engage in all areas of financial activities including deposit taking, corporate and consumer lending, foreign exchange transactions, certain capital markets activities, securities trading and investment banking (except collecting participation funds and financial leasing activities). The Banking Law permits participation banks to engage in all areas of financial activities (other than accepting deposits).

Public Sector Commercial Banks

There are three public sector commercial banks within Turkey, each of which is owned or controlled by state entities. They generally have large branch networks and were originally established for development purposes, such as for agriculture, housing or foundations, rather than for profit motives.

Through their broad branch networks and ownership structures, these banks have traditionally been able to collect a substantial amount of deposits and thereby access cost-efficient funding sources.

The following table sets out the three state-owned commercial banks in Turkey, ranked for size of assets as at 30 June 2011 under Turkish GAAP accounting principles (the latest date for which such figures are available).

Bank	Specialisation	Total Assets	Number of branches
		<i>(TL in thousands)</i>	
Vakifbank	Retail	86,319,132	671
Halk Bankası	General	85,561,530	756
T.C. Ziraat Bankası.....	Agriculture	170,093,736	1,428

Source: *The Banks Association of Turkey Unconsolidated Financial Statements.*

According to the Banks Association of Turkey, total loans provided by these banks as at 30 June 2011 were TL172,738,389 million. Through their broad branch networks and ownership structures, these banks have traditionally been able to collect deposits and thereby access cost-efficient funding sources.

Private Sector Commercial Banks

Private sector commercial banks comprise full-service banks and corporate/trade finance-oriented banks. Private sector commercial banks can be divided into large and small branch network commercial banks. Most private sector banks belong to large industrial groups, which may provide additional support to the banks.

The following table ranks the larger branch network private sector commercial banks by asset size as at 30 June 2011, under BRSA accounting principles.

Bank	Ownership	Total Assets	Number of branches
		<i>(TL in thousands)</i>	
Türkiye İş Bankası.....	Bank Pension Fund; Treasury; RPP	147,890,876	1,169
Türkiye Garanti Bankası	Doğuş Group and BBVA	140,588,690	890
Akbank	Sabancı Group and Citibank	122,432,085	905
Yapı ve Kredi Bankası.....	Koç Financial Services	99,037,987	887
Türk Ekonomi Bankası ⁽¹⁾	TEB Mali Yatırımlar A.Ş. and BNP Paribas	36,660,838	602
Şekerbank	Employee Pension Funds and BTA	14,127,874	266

Source: *The Banks Association of Turkey Unconsolidated Financial Statements*.

(1) In June 2010, Türk Ekonomi Bankası's main partners announced their agreement to merge with Fortis Bank under the auspices of Türk Ekonomi Bankası. The merger was completed in March 2011.

The following table ranks the small branch network private sector commercial banks by asset size as at 30 June 2011 (the latest date for which such figures are available).

Bank	Ownership	Total Assets	Number of branches
		<i>(TL in thousands)</i>	
Anadolubank	Habaş Group	5,211,078	86
Alternatif Bank	Anadolu Endüstri Group	5,507,176	57
Tekstilbank	Akin Group	2,975,537	44
Turkish Bank	Özyol Group	887,393	21

Source: *The Banks Association of Turkey Unconsolidated Financial Statements*.

Despite significant growth in the number of small commercial banks, larger commercial banks (both private and public) continue to dominate the banking sector. As at the date of this Prospectus, out of 11 privately owned commercial banks, apart from the four largest banks, there are seven medium sized privately owned commercial banks. The remaining two private sector commercial banks are smaller banks, which have, in aggregate, relatively negligible banking market share (i.e. having less than U.S.\$1 billion in total assets).

Foreign Commercial Banks

The strengthening of regulations and the transparency of the Turkish economy over the past decade has resulted in an increase in the number of foreign commercial banks operating in Turkey. As at the date of this Prospectus there are 16 foreign banks in total, 10 of which are locally incorporated banks and six of which are branches of foreign banks.

The table below indicates certain information regarding foreign commercial banks in Turkey, together with their asset size, under Turkish GAAP accounting principles as at 30 June 2011 (the latest date for which such figures are available).

Bank	Ownership	Total Assets	Number of branches
Local Incorporated Banks			
		<i>(TL in thousands)</i>	
Finansbank.....	NBG Group	43,998,689	512
Denizbank	Dexia Group	31,157,525	540
ING Bank	ING	20,697,841	327
HSBC Bank	HSBC	22,038,871	333
Citibank	Citi Group	6,503,628	37
Eurobank Tekfen	Eurobank EFG; Tekfen Holding	4,645,940	57
Arap Türk Bankası	IS Bankasi; Emlak Bankasi; Libyan Arab Foreign Bank	2,291,206	6
Deutsche Bank.....	DBAG	2,561,340	1
Türkland Bank.....	Arap Bank; BankMed	1,811,596	27
Fibabank A.Ş	Fiba Holding	1,690,647	20
Branches of Foreign Bank			
Bank Mellat	Iran	3,605,563	3
JP Morgan Chase Bank	United States	832,404	1
The Royal Bank of Scotland ..	Scotland	1,007,032	3
WestLB AG	Germany	653,963	1
Société Générale	France	1,093,381	16
Habib Bank	Pakistan	71,473	1

Source: *The Banks Association of Turkey Unconsolidated Financial Statements.*

Development and Investment Banks

Development banks are funded by the CBT, international banks and institutions such as the World Bank, the European Investment Bank and various export credit agencies. Their objective is to provide medium and long-term financing to large and medium sized companies on a project basis. Development banks do not accept deposits and are also active in foreign exchange and securities transactions. These banks are not subject to the Banking Law.

There are three state-owned, six privately-owned and four foreign development and investment banks in Turkey. The following table indicates these banks and their assets and number of branches as at 30 June 2011 (the latest date for which such figures are available).

<u>Bank</u>	<u>Total Assets</u>	<u>Number of branches</u>
	<i>(TL in thousands)</i>	
<i>State-owned Development Banks</i>		
İller Bankası	10,307,387	19
Türk Exim Bank.....	6,391,495	2
Türkiye Kalkınma Bankası	1,999,383	1
<i>Privately-owned Development and Investment Banks</i>		
Türkiye Sınayi Kalkınma Bankası	8,500,683	4
İMKB Takas ve Saklama Bankası	1,734,538	1
Aktif Yatırım Bankası.....	2,375,321	7
Nurol Yatırım Bankası	193,966	2
GSD Yatırım Bankası	125,023	1
Diler Yatırım Bankası.....	102,967	1
<i>Foreign Development and Investment Banks</i>		
BankPozitif Kredi ve Kalkınma Bankası.....	1,943,617	2
Merrill Lynch Yatırım Bankası.....	223,494	1
Credit Agricole Yatırım Bankası Türk	69,065	1
Taib Yatırım Bankası	21,430	1

Source: *The Banks Association of Turkey Unconsolidated Financial Statements.*

Participation Banks

Participation banks structure their products and provide services on an interest-free basis. Participation banks are subject to the Banking Law and are permitted to engage in financial activities other than accepting deposits. As at the date of this Prospectus, there were four participation banks, and each of these participation banks is a member of The Participation Banks Association of Turkey, a cooperative organisation of Turkish participation banks.

The table below sets out the four participation banks in Turkey, ranked by size of assets as at 30 June 2011 under Turkish GAAP accounting principles.

<u>Bank</u>	<u>Total Assets</u>	<u>Number of branches</u>
	<i>(TL in thousands)</i>	
Bank Asya	15,757,175	186
Türkiye Finans	12,315,355	182
Kuveyt Türk	11,657,266	161
Al Baraka Türk	8,685,201	113

Source: *Banks' Financial Statements.*

Key Regulatory Characteristics of the Turkish Banking System

Collection of Funds and Financing Activities of Participation Banks

Participation banks may collect funds in two ways: (i) “special current accounts” (an account that consists of funds that can be partially or fully withdrawn by a depositor. No payment of interest or income is made to the account holder); and (ii) “participation accounts” (an account that consists of funds that yield a participation in the loss or profit arising from their use by the relevant financial institutions. Such accounts do not require payments of pre-determined return).

Participation banks may designate special fund pools exclusively for the financing of pre-determined projects and other investments; such funds are utilised in separate pools as per their maturities and are segregated from other pools of accounts. The BRSA must be informed within 15 days of the formation of special fund pools and must be updated as to the status of such pools at three-month intervals. Such special fund pools must remain open for a minimum of three months and must be liquidated at the end of the financing period.

Shareholding

The direct or indirect acquisition by a person of shares that represent 10 per cent. or more of the share capital of any bank, or the direct or indirect acquisition or disposal of such shares by a person if the total number of shares held by such shareholder increases above or falls below 10 per cent., 20 per cent., 33 per cent. or 50 per cent. of the share capital in that bank, requires the permission of the BRSA in order to preserve full voting and other shareholders’ rights associated with such shares. In addition, irrespective of the above thresholds, an assignment and transfer of (i) preference shares to which attach the right to nominate a member to the board of directors or audit committee; or (ii) issuance of new shares with such preferences is also subject to the authorisation of the BRSA. In the absence of such authorisation, a holder of such thresholds of shares cannot be registered in the share register, which effectively deprives such shareholder of the ability to participate in shareholder meetings or to exercise voting or other shareholders’ rights with respect to the shares, but not of the right to collect dividends declared on such shares.

The board of directors of a bank is responsible for ensuring that shareholders attending general assemblies have obtained the applicable authorisations from the BRSA. If the BRSA determines that a shareholder has exercised voting or other shareholder’s rights (other than the right to collect dividends) without due authorisation as described in the preceding paragraph, then it is authorised to direct the board of directors of a bank to cancel any applicable general assembly resolutions (including by way of taking any necessary precautions concerning such banks within its authority under the Banking Law). If the shares are obtained on the stock exchange, then the BRSA may also impose administrative fines on shareholders who exercise their rights or acquire or transfer shares as described in the preceding paragraph without BRSA authorisation. Unless and until a shareholder obtains the necessary share transfer approvals from the BRSA, the SDIF has the authority to exercise such voting and other shareholders’ rights (other than the right to collect dividends and priority rights) attributable to such shareholder.

Lending Limits

The Banking Law restricts the total financial exposure (including extension of credits, issuance of guarantees, etc.) that a bank may have to any one customer or risk group (risk groups include an individual, his or her spouse and children, and partnerships in which any one of such persons is a member of the board of directors or a general manager or partnerships that are directly or indirectly controlled by any one of such persons or a legal person either individually or jointly with third parties or partnerships in which any one of such persons participate with unlimited liability) directly or indirectly to 25 per cent. of its equity. Furthermore, the total financial exposure that a bank (which includes the bank and its qualified shareholders, members of the board of directors and general manager or the partnerships in which such persons, together or individually, directly or indirectly, have control or participate with unlimited liability, or of which such person is a member of the board of directors or general manager) may have to any risk group cannot exceed 20 per cent. of its equity. Banks are obliged to regularly report to the BRSA any loans extended to persons who are in their risk groups. The banks are obliged to liquidate loans that are made in violation of applicable regulations by no later than six months after being so requested. Loans made available to a bank’s

shareholders holding more than one per cent. of the share capital of the bank, as well as individuals who would constitute risk groups together with such shareholders may not exceed 50 per cent. of the bank's equity.

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

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

- transactions against cash, cash-like assets and accounts and precious metals;
- transactions carried out with the Treasury, the CBT, the Privatisation Administration and the Mass Housing Administration, as well as the transactions carried out against bills, bonds and similar securities issued or guaranteed by these institutions;
- transactions carried out in legally organised money markets;
- in case of new credit allocations, valuations prompted by the changes in currency rates in credits denominated or indexed to foreign currencies, and interests, profit shares and other such issues accrued on overdue credits;
- bonus shares (scrip issues) received as a result of capital increases, and any increase in the value of shares not requiring any fund outflow;
- interbank operations within the framework of the principles set out by the BRSA;
- shares acquired within the framework of underwriting services for public offering activities provided that such shares are disposed of in the time and manner determined by the BRSA;
- transactions considered as “deductibles” in the shareholders’ equity account; and
- other transactions to be determined by the board of the BRSA (the **BRSB**).

Loan Loss Reserves

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

1. *Standard Loans and Other Receivables*: This group involves loans and other receivables:
 - (a) that have been disbursed to natural persons and legal entities with financial creditworthiness;
 - (b) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor;
 - (c) the reimbursement of which has been made within specified periods, for which no reimbursement problems are expected in the future and which can be fully collected; and
 - (d) for which no weakening of the creditworthiness of the debtor concerned has been found.

The terms of a bank's loans and receivables which have been classified into this group may be modified provided they continue to meet the classification requirements for this group. However, in the event that such modification relates to the extension of the initial payment plan under the loan or receivable, a general loan provision, not being less than five times the sum of one per cent. of the cash loan portfolio plus 0.2 per cent. of the non-cash loan portfolio (for example, letters of guarantee,

acceptance credits, letters of credit undertakings and endorsements), is required to be set aside and such modifications are required to be disclosed in the financial reports which are disclosed to the public. This ratio is required to be at least 2.5 times the Consumer Loans Provisions (as defined below) for amended consumer loan agreements (other than auto and housing loans).

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

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

3. *Loans and Other Receivables with Limited Collection Ability*: This group involves loans and other receivables:
 - (a) with limited collectability due to the resources of, or the securities furnished by, the debtor being found insufficient to meet the debt on the due date, and where if the problems observed are not eliminated, they are likely to give rise to loss;
 - (b) the credibility of whose debtor has weakened and where the loan is deemed to have weakened;
 - (c) collection of whose principal and interest or both has been delayed for more than 90 days but not more than 180 days from the due date; or
 - (d) in connection with which the bank is of the opinion the principal or interest of the loan or both will be delayed for more than 90 days from the due date owing to reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity.
4. *Loans and Other Receivables with Remote Collection Ability*: This group involves loans and other receivables:
 - (a) that seem unlikely to be repaid or liquidated under existing conditions;

- (b) in connection with which there is a strong likelihood that the bank will not be able to collect the full loan amount that has become due or payable under the terms stated in the loan agreement;
 - (c) where the debtor's creditworthiness is deemed to have significantly weakened but which are not considered as an actual loss due to such factors as a merger, the possibility of finding new financing or a capital increase; or
 - (d) there is a delay of more than 180 days but not more than one year from the due date in the collection of the principal or interest or both.
5. *Loans and Other Receivables Considered as Losses:* This group involves loans and other receivables:
- (a) that are deemed to be uncollectable;
 - (b) collection of whose principal or interest or both has been delayed by one year or more from the due date; or
 - (c) for which, although carrying the characteristics stated in groups 3 or 4 above, the bank is of the opinion that they have become weakened and that the debtor has lost his creditworthiness due to the strong possibility that it will not be possible to fully collect the amounts that have become due and payable within a period of over one year.

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

Turkish law also requires Turkish banks to provide a general reserve calculated at one per cent. of the cash loan portfolio plus 0.2 per cent. of the non-cash loan portfolio (letters of guarantee, acceptance credits, letters of credit undertakings and endorsements) for standard loans; and a general reserve calculated at 2 per cent. of the cash loan portfolio plus 0.4 per cent. of the non-cash loan portfolio for closely-monitored loans. In addition, 25 per cent. of the above-mentioned rates will be applied for each check that remains uncollected for a period of five years after issuance.

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

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

The banks should also set aside general provisions for the amounts monitored under the accounts of "Receivables from Derivative Financial Instruments" on the basis of the sums to be computed by multiplying

them by the rates of conversion into credit indicated in Article 12 of the “Regulation on Loan Transactions of Banks” by applying the general provision rate applicable for cash loans. Apart from the general provisions, special provisions must be set aside for the loans and receivables in groups 3, 4 and 5 described above in the amounts of 20 per cent., 50 per cent. and 100 per cent., respectively.

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

Pursuant to Article 14/4 of the Regulation on the Principles and Procedures Related to the Determination of Qualifications of the Loans and other Receivables by Banks and the Provisions to be Set Aside, the term “interest” refers to “share of profit” in respect of the funds extended by the participation banks.

Pursuant to Articles 14/1, 2 and 3 of the Regulation, the general and special provisions set aside for the funds and other receivables extended from participation accounts are required to be reflected in the expense accounts and participation accounts according to the rate of participation in loss to be determined in accordance with the relevant regulation. The participation banks are entitled to reflect the portion corresponding to the participation accounts, in their expense accounts provided that they obtain the approval of their shareholders’ general assembly. Additionally, provided that the participation account agreements permit them, the participation banks are also entitled to set aside: (i) a portion of up to 5 per cent. of the profit amount to be distributed to participation accounts, (ii) collections from the written off loans arising from participation accounts; and (iii) cancellations of participation share of the general and special provisions, as provisions to be utilised to meet the general and special provisions and the SDIF premium.

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

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

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

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

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

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

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

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

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

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

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

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

Exchange Rate Exposure

According to the Calculation of the Standard Ratio of the Net Short Foreign Currency Position to the Capital Base on a Consolidated and an Unconsolidated Basis by the Banks and its Implementation (the **Calculation Regulation**), banks are obliged to calculate the standard ratio of their net short foreign currency position to their capital base daily in accordance with the criteria on the declaration forms to be sent to the BRSA by the banks. The weekly average of the absolute values of the standard ratios of a bank's net short foreign currency position to its capital base, calculated over the working days in that week, cannot exceed 20 per cent., based on both consolidated and non-consolidated financials.

Capital Adequacy

The CBT observes the recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision (**Basel II**). Basel II refers to revised regulations on bank supervision and contains rules purporting to protect the equity positions of financial service institutions. Basel II was made binding in corresponding EU directives (bank directive 2006/48/EC and the capital adequacy directive 2006/49/EC) for EU member states as of 2007.

Basel II accord members are representatives of central banks and supervisory authorities from over 25 countries, including the CBT. Basel II introduces stricter capital requirements for financial institutions and rests on three pillars, namely: (i) minimum capital requirements (**Pillar 1**); (ii) examination procedures of risk assessment (**Pillar 2**); and, (iii) disclosure obligations (**Pillar 3**). Pillar 1 introduces rules for determining minimum equity requirements to manage bank default risks. Pillar 2 deals with the examination of bank credit-assessment procedures and contains corresponding rules on the auditing process of bank supervision. Pillar 3 imposes disclosure obligations on banks not only on the capital necessary for risk provisioning but also on the quality of bank investment, credit portfolios and bank systems for risk measurement and management.

Kuveyt Türk underwent transition in 2007 to meet Basel II standards which included technology implementation to meet risk management requirements (for more on Kuveyt Türk and Basel II, see *Business Description of Kuveyt Türk—Funding and Liquidity Risk—Capital Adequacy*).

In December 2009, the Basel Committee published a draft proposal of a new regulatory regime for capital and liquidity standards for banks (**Basel III**). A comprehensive quantitative impact study was conducted by banks during the Spring of 2010 based on the Basel III draft proposal, and the Basel Committee issued a final comprehensive framework in December 2010. The trading and securitisation reforms included in the framework are due to be implemented by the end of 2011 to the extent they have not already become effective. In Turkey, the majority of the other Basel III requirements are expected to be implemented between 1 January 2013 and 1 January 2019.

The Basel III framework includes several key initiatives, which change the Basel II framework. The key changes are, among others:

- The quality, consistency and transparency of the capital base are increased. In the new framework, the regulatory deductions should mainly be applied to the common equity component of the capital base. Further, to be eligible as Tier I and Tier II capital, instruments would need to meet more stringent requirements.
- The risk coverage is further strengthened, which impacts the calculations of risk-weighted assets. These changes concern increased capital requirements for trading book and re-securitisation activities, and the changes are expected to be implemented in December 2011 throughout Europe. Further changes, to be implemented from 2013, are proposed under the Basel III framework for counterparty credit risk in OTC instruments and exposures to banks and other financial intermediaries. In particular, a new capital requirement is proposed for risk of changes in the credit value adjustment (**CVA**).
- New minimum requirements and capital buffer requirements are increased. The Basel Committee had defined increased minimum thresholds that banks should at all times exceed, that is, minimum 4.5 per cent. common equity Tier I ratio, 6 per cent. Tier I ratio and 8 per cent. capital ratio. In addition, the

Basel III framework introduces a capital conservation buffer of 2.5 per cent. on top of these minimum thresholds. If banks do not need this buffer, constraints will be imposed on the bank's capital distribution, such as dividends. Also, in periods of excess growth, banks will be required to hold an additional countercyclical buffer of up to 2.5 per cent. in order not to face restrictions.

Kuveyt Türk expects that the impact of the Basel III framework on its capital base will be limited and believes that it is already in compliance with the future capital requirements set forth within the Basel III framework.

The Basel Committee has also proposed that the risk-sensitive capital framework should be supplemented with a non-risk-based measure, the leverage ratio. The leverage ratio will be calculated as the Tier I capital divided by the exposure (on and off-balance sheet exposures, with certain adjustments for selected items such a derivatives). A minimum leverage ratio of three per cent. will be evaluated during a parallel run period. Another new key component of the Basel III framework is the introduction of increased regulations for liquidity risks. The objective of the liquidity reform is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy. The Basel Committee has developed two new quantitative liquidity standards as part of the Basel III framework, which are the liquidity coverage ratio (**LCR**) and the net stable funding ratio (**NSFR**). The LCR aims to ensure that a bank maintains an adequate level of unencumbered, high-quality assets that can be converted into cash to meet its liquidity needs for a 30-day time horizon under an acute liquidity stress scenario. The NSFR, on the other hand, establishes a minimum acceptable amount of stable funding, based on the liquidity characteristics of an institution's assets and activities over a one-year horizon. These standards aim to set the minimum levels of liquidity for internationally active banks.

Pursuant to the Regulation on Measurement and Assessment of Capital Adequacy of Banks (the **Capital Adequacy Regulation**) which was published in the Official Gazette No. 26333 in November 2006, as well as Article 45 of the Banking Law, banks are required to maintain and report a minimum capital adequacy ratio of 8 per cent. (both on a consolidated and unconsolidated basis) whereas banks that have off-shore branches were required in 2009 to maintain a 12 per cent. capital adequacy ratio at minimum.

The BRSB is authorised to increase the minimum capital adequacy ratio, to set different ratios for each bank and to revise the risk weights of assets that are based upon participation accounts, but must consider each bank's internal systems as well as its asset and financial structures.

Reserves and Liquidity Reserve Requirement

The Banking Law requires Turkish banks to calculate, attain, maintain and report the minimum liquidity level in accordance with principles and procedures to be set out by the BRSB. Within this framework, a comprehensive liquidity arrangement was put into force by the BRSA, following consent of the CBT.

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

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

The reserve requirements regarding Turkish lira liabilities vary by category, as set out below.

<u>Category of Turkish Lira Liabilities</u>	<u>Required Reserve Ratio</u>
Demand deposits, notice deposits and private current accounts	16%
Deposits/participation accounts up to 1-month maturity (including 1-month)	16%
Deposits/participation accounts up to 3-month maturity (including 3-month)	12.5%
Deposits/participation accounts up to 6-month maturity (including 6-month)	9%
Deposits/participation accounts up to 1-year maturity	6%
Deposits/participation accounts up to 1-year and longer maturity and cumulative deposits/participation accounts	5%
Liabilities other than deposits/participation funds up to 1-year maturity (including 1-year)	11%
Liabilities other than deposits/participation funds up to 3-year maturity (including 3-year)	8%
Liabilities other than deposits/participation funds with longer than 3-year maturity	5%
Special fund pools	Ratios for corresponding maturities above.

The reserve requirements will also apply to gold deposit accounts. Furthermore, the banks are permitted to maintain (i) up to 20 per cent. of their Turkish Lira liabilities in US dollar and/or Euro, and (ii) the total amount of the reserve requirements applicable to precious metal deposit accounts and up to 10 per cent. of the reserve requirements applicable to foreign currency liabilities (other than precious metal deposit accounts) in standard gold.

Starting in September 2010, reserve accounts kept in Turkish lira became non-interest-bearing (reserve accounts in foreign currencies have not been interest-bearing since 2008). As at the date of this Prospectus, no interest is paid on Turkish lira or foreign currency liquidity reserve accounts by the CBT.

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

Audit of Banks

Under the Banking Law, banks' boards of directors are required to establish audit committees for the execution of audit and monitoring functions. Audit committees must consist of a minimum of two members and be appointed from among the members of the board of directors who do not have executive duties. The duties and responsibilities of the audit committee include: (i) the supervision of the efficiency and adequacy of the banks' internal control, risk management and internal audit systems, (ii) functioning of these systems and accounting and reporting systems within the framework of the Banking Law and other relevant legislation, (iii) integrity of the information produced, (iv) conducting the necessary preliminary evaluations for the selection of independent audit firms by the board of directors, (v) regularly monitoring the activities of independent audit firms selected by the board of directors; and, (vi) in the case of holding companies covered by the Banking Law, ensuring that the internal audit functions of the institutions that are subject to consolidation and operate in a coordinated manner, on behalf of the board of directors.

The BRSA, as the principal regulatory authority in the Turkish banking sector, has the right to monitor compliance by banks with the requirements relating to audit committees. As part of exercising this right, the BRSA review audit reports prepared for banks by their independent auditing firms. Banks are required to select an independent audit firm in accordance with the regulation of the BRSA related to the authorisation and activities of independent firms to perform auditing of banks. Furthermore, banks are required to

consolidate their financial statements on a quarterly basis in accordance with certain consolidation principles established by the BRSA. The year-end consolidated financial statements are required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms.

The reports prepared by independent audit firms are also filed with the CMB if the bank's shares are quoted on the ISE. The CMB has the right to inspect the accounts and transaction records of any publicly traded company. In addition, quarterly reports that are subject to limited review must also be filed with the CMB.

All banks (public and private) undergo an annual audit by certified bank auditors who have the authority to audit banks on behalf of the BRSA. Audits by certified bank auditors encompass all aspects of a bank's operations, its financial statements and other matters affecting the bank's financial position, including its domestic banking activities, foreign exchange transactions and tax liabilities. Additionally, such audits seek to ensure compliance with applicable laws and the constitutional documents of the bank. The results of such audits are reported to the Ministry of Finance, which has broad remedial powers. The CBT has the right to monitor compliance by banks with the CBT's regulations through off-site examinations.

Annual reporting

The Banking Law stipulates that banks are required to prepare an annual activity report that includes information about their status, management and organisation structures, human resources, activities, financial situations and assessment of the management and expectations, together with financial statements, summary of board of directors' report and independent audit report. The annual report is subject to the approval of the board of directors and must be published in printed form and on the internet by the end of May of each year.

Anti-Money Laundering and Combating the Finance of Terrorism (AML/CFT) Policies

The AML/CFT policies applicable to banks are defined under the Law No. 5549 on Prevention of Laundering Proceeds of Crime, the Anti-Money Laundering Law No. 4208, the Turkish Criminal Code No. 5237 and the Regulation on Program of Compliance with Obligations of Anti-Money Laundering and Combating the Finance of Terrorism and the Regulation on Measures Regarding Prevention of Laundering Proceeds of Crime and Financing of Terrorism and related Financial Crime Investigation Board Communiqués (together the **Anti-Money Laundering Laws**).

Pursuant to the Anti-Money Laundering Laws, banks are required to identify their customers and the persons carrying out transactions on behalf of, or on account of, their customers. In the event there is any information or concern that a transaction concluded by a customer is a suspicious transaction or there are reasonable grounds to suspect that the asset which is the subject of the transaction, carried out or attempted to be carried out within or through a bank, is acquired through illegal means or used for illegal purposes, such a transaction must be reported by the relevant bank to the Turkish Financial Crimes Investigation Board. The notifying bank cannot disclose such notification to third parties, including the parties to the suspicious transaction, other than to the investigators assigned to inspect the transaction and the competent courts during legal proceedings.

When requested by the Financial Crimes Investigation Board or the investigators thereof, banks are required to provide information relating to their customers and their transactions. Furthermore, banks are required to maintain all the documents, books and records of identification documents regarding all transactions for eight years starting from the transaction date, the last record date and the last transaction date.

Banks breaching any of the obligations set out in the Anti-Money Laundering Laws may be subject to an administrative fine of approximately TL15,000. Furthermore, real persons who are found not to have complied with their duty to notify suspicious transactions to the Financial Crimes Investigation Board may be imposed with imprisonment with terms ranging from one year to three years.

Cancellation of Banking Licence

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

- the assets of a bank are insufficient or are likely to become insufficient to cover its obligations as they become due;
- the bank is not complying with liquidity requirements;
- the bank's profitability is not sufficient to conduct its business in a secure manner due to disturbances in the relation and balance between the expenses and profit;
- the regulatory equity capital of such bank is not sufficient or is to likely to become insufficient;
- the quality of assets of such bank have been impaired in a manner potentially weakening its financial structure, the decisions, transactions or applications of such bank are in breach of the Banking Law, relevant regulations or the decisions of the BRSA;
- the by-laws and internal regulations of such bank are in breach of the Banking Law, relevant regulations or the decisions of the BRSA;
- such bank fails to establish internal audit, supervision and risk management systems or to effectively and sufficiently conduct such systems or any factor impedes the supervision of such systems, or any factor impedes the audit; or
- imprudent acts of such bank's managers materially increase or weaken the bank's financial structure,

then the BRSA may require the board of directors of such bank:

- to increase its equity capital;
- not to distribute dividends for a period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund;
- to increase its loan provisions;
- to stop extension of loans to its shareholders;
- to dispose of its assets in order to strengthen its liquidity;
- to limit or stop its new investments;
- to restrict payment of fees and other types of payments;
- to cease its long term investments;
- to comply with the relevant banking legislation;
- to cease its risky transactions, by re-evaluating its credit policy;
- to take all actions to decrease any maturity foreign exchange and interest rate risks; and/or
- to exercise other necessary actions to be determined by BRSA,

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

In the event the aforementioned actions are not taken (in whole or in part) by that bank or its financial structure cannot be strengthened despite its having taken such actions, or its financial structure has become so weak that it could not be strengthened, then the BRSA may require such bank:

- to strengthen its financial structure, to increase its liquidity and/or capital adequacy;

- to dispose of its fixed assets and long-term assets within a reasonable time determined by the BRSA;
- to decrease its operational and management costs;
- to postpone its payments under any name whatsoever, excluding the regular payments to be made to its members;
- to limit or prohibit extension of any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors;
- to convene an extraordinary general assembly in order to change the members of the board of directors or assign new member(s) to the board of directors, in the event any board member is responsible for incompliance with relevant legislation or increase of risks as stipulated above the failure to apply the aforementioned actions;
- to implement short-, medium- or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the bank; and/or
- to exercise other necessary actions to be determined by BRSA.

In the event the aforementioned actions are not (in whole or in part) taken by that bank or are not sufficient to cause such bank to continue its business in a secure manner, then the BRSA may require such bank:

- to limit or cease its business or its whole organisation by its field of activity for a temporary period as to include its relations with its local or foreign branches and correspondents;
- to apply various restrictions, including restrictions on rate ratio and maturity with respect to resource collection and utilisation;
- to remove from office (in whole or in part) its members of the board of directors, general manager and deputy general managers and department and branch managers and obtain approval from the BRSA as to the persons to be appointed to replace these;
- to make available long-term loans, provided that these will not exceed the amount of deposit or participation funds subject to insurance, and be served by the shares or other assets of the controlling shareholders;
- to limit or cease its non-performing operations and to dispose of its non-performing assets;
- to merge with one or more other banks;
- to provide new shareholders in order to increase its equity capital;
- to cover its losses with its equity capital; and/or
- to exercise other necessary actions to be determined by BRSA.

In the event: (a) the aforementioned actions are not (in whole or in part) taken by that bank within a period of time set forth by the BRSA or in any case within twelve months; (b) the financial structure of such bank cannot be strengthened despite its having taken such actions or the financial structure of such bank has become so weak that it could not be strengthened even if the actions were taken; (c) the continuation of the activities of such bank would jeopardise the rights of the depositors and the participation fund owners and the security and stability of the financial system; (d) such bank cannot cover its liabilities as they become due; (e) the total amount of the liabilities of such bank exceeds the total amount of its assets; or (f) the controlling shareholders of such bank are found to have made use of that bank's resources for their own interests, directly or indirectly or fraudulently, in a manner that jeopardised the secure functioning of the bank or caused such bank to sustain a loss as a result of such misuse, then the BRSA, with the affirmative vote of at least five of its board members, may revoke the licence of such bank to engage in banking operations and/or to accept deposits and transfer the management, supervision and control of the privileges of shareholders (excluding dividends) of such bank to the SDIF for the purpose of whole or partial transfer

or sale of such bank to third persons or merger thereof, provided that the loss is deducted from the share capital of current shareholders.

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

Annual Reporting

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

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

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

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

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

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

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

Financial Services Fees

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

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).

Purchase Agreement

The Purchase Agreement will be entered into on 31 October 2011 between KT Sukuk (in its capacity as Purchaser), Kuveyt Türk (in its capacity as Seller) and the Certificateholders' Representative and will be governed by English law. Pursuant to the Purchase Agreement, the Seller will sell to the Purchaser, and the Purchaser will buy from the Seller, the Assets Portfolio for U.S.\$350,000,000, free and clear of any encumbrance or other rights of third parties, payable on the Purchase Date (as defined in the Purchase Agreement). The Assets Portfolio comprises Real Estate Ijara Assets, Non-Real Estate Ijara Assets (together, the **Tangible Assets**) and Murabaha Assets, the details of which are set out in the schedules to the Purchase Agreement. The proportion of the Purchase Price payable in respect of each Real Estate Ijara Asset, Non-Real Estate Ijara Asset and Murabaha Asset shall be an amount in U.S. dollars equal to the value of such asset, which shall be determined by the Seller on the date of the Purchase Agreement (following conversion, if necessary, of any relevant amount(s) at the applicable exchange rate) as:

- (i) in the case of each Real Estate Ijara Asset, the Market Value of such Real Estate Asset;
- (ii) in the case of each Non-Real Estate Ijara Asset, the aggregate of all due and unpaid fixed rental instalment amounts payable by the relevant Non-Real Estate Ijara Lessee in the nature of capital or principal payments under the related Non-Real Estate Ijara Contract; and
- (iii) in the case of each Murabaha Asset, the outstanding amounts payable in respect of such Murabaha Assets, comprising the unpaid purchase price of the relevant assets and profit amount payable in relation thereto,

and the sum of the total amounts for (i) and (ii) above shall not be less than the amount equal to 51 per cent. of the aggregate face amount of the Certificates.

The Assets Portfolio includes any assets acquired by KT Sukuk on the Certificateholders' Agent's behalf and excludes any assets substituted, replaced, transferred to Kuveyt Türk or otherwise disposed of, in each case in accordance with the Management Agreement.

The provisions of the Purchase Agreement regarding the sale and transfer of Real Estate Ijara Assets are conditional upon perfection of the sale and transfer of such Real Estate Ijara Assets before the relevant land registry in Turkey. The Seller undertakes to indemnify the Purchaser in full for any failure to so perfect such sale and transfer, with the amount payable under any such indemnity claim to equal the Purchase Price of the relevant Real Estate Ijara Assets.

In respect of the sale, transfer and assignment of Non-Real Estate Ijara Assets under the Purchase Agreement, legal title to the Non-Real Estate Ijara Assets shall at all times remain with the Seller, which will hold such legal title on the Purchaser's behalf.

Lease Agreement

The Lease Agreement will be entered into on 31 October 2011 between Kuveyt Türk (in its capacity as Lessee), KT Sukuk (in its capacity as Lessor) and the Certificateholders' Representative and will be governed by English law.

Under the terms of the Lease Agreement, the Lessor has agreed to lease to the Lessee, and the Lessee has agreed to lease from the Lessor, the Real Estate Ijara Assets during renewable six month terms commencing on the Lease Commencement Date (as defined in the Lease Agreement) and extending to the Scheduled Termination Date.

The Lessee has agreed to use the Real Estate Ijara Assets at its own risk. Accordingly, the Lessee shall bear the entire risk of loss of or damage to the Real Estate Ijara Assets or any part thereof arising from the usage or operation thereof by the Lessee to the extent that such loss or damage has resulted from the Lessee's negligence, default or breach of its obligations under the Lease Agreement. In addition, the Lessor shall not be liable (and the Lessee has waived any claim or right, howsoever arising, to the contrary) for any indirect, consequential or other losses, howsoever arising, in connection with the Lessee's use or operation of the Real Estate Ijara Assets.

The Lessee shall, at its own cost and expense, be responsible for the performance of all Ordinary Maintenance and Repair required for the Real Estate Ijara Assets.

The Lessor shall be responsible for (i) the performance of all Major Maintenance and Structural Repair, (ii) the payment of any proprietorship or other relevant taxes and (iii) insuring the Real Estate Ijara Assets, and the Lessee has acknowledged that the Lessor may procure that the Managing Agent, in accordance with the terms and conditions set out in the Management Agreement, shall perform, or shall procure the performance of, the Major Maintenance and Structural Repair on behalf of the Lessor, the payment of such taxes and the insurance of the Real Estate Ijara Assets.

All payments by the Lessee to the Lessor under the Lease Agreement shall be paid in full without any deduction or withholding for or on account of any tax unless required by law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding, the Lessee shall pay all additional amounts as will result in the receipt by the Lessor of such net amounts as would have been received by it if no deduction or withholding had been made. The payment obligations of the Lessee under the Lease Agreement are and will be direct, unconditional, unsecured and general obligations of the Lessee and shall rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of the Lessee.

The rental payable under the Lease Agreement will equal the Periodic Distribution Amounts payable on the Periodic Distribution Dates. The Lessee will be obligated to pay such rentals on or before the 30th day of April and the 31st day of October in each year, commencing on 30 April 2012 and to and including 31 October 2016 or any earlier date on which the lease of the Real Estate Ijara Assets is terminated in accordance with the terms of the Lease Agreement.

The Lease Agreement provides that it shall automatically terminate, but without prejudice to any right or remedy the Lessor may have under any Transaction Document or by law, if a Total Loss Event occurs and, in such a case, the Lessor will be entitled to all insurance proceeds payable as a result of the Total Loss Event. If a Partial Loss Event occurs with respect to one or more, but not all, of the Real Estate Ijara Assets, the Managing Agent on behalf of the Lessor will be entitled to all insurance proceeds payable as a result of the Partial Loss Event and shall procure the replacement of such Real Estate Ijara Assets in accordance with the Management Agreement and on such replacement the Lease Agreement will be amended accordingly. There shall be no change to any Rental as a result of any Partial Loss Event.

Management Agreement

The Management Agreement will be entered into on 31 October 2011 between KT Sukuk (in its capacity as Issuer and as Certificateholders' Agent) and Kuveyt Türk (in its capacity as Managing Agent of the Assets Portfolio) and will be governed by English law.

Pursuant to the Management Agreement, the Certificateholders' Agent will appoint the Managing Agent to manage the Assets Portfolio.

Pursuant to the Management Agreement, the Managing Agent will be responsible, in respect of the Real Estate Ijara Assets, on behalf of the Lessor for carrying out all Major Maintenance and Structural Repair (as defined in the Lease Agreement), the payment of proprietorship taxes levied or imposed on the Real Estate Ijara Assets and for effecting all appropriate insurances in respect of the Real Estate Ijara Assets.

Notwithstanding the appointment of the Managing Agent, the Lessee shall, at its own cost and expense, be responsible for the performance of all Ordinary Maintenance and Repair required for the Lease Assets.

In respect of the Murabaha Assets and the Non-Real Estate Ijara Assets (together, the **Receivable Assets**), the Managing Agent will:

- (a) apply the Receivable Revenues (as defined below) and otherwise manage the Receivable Assets in accordance with the relevant provisions of the Management Agreement;
- (b) use its best endeavours to reinvest all Non-Real Estate Ijara Principal Revenues it receives in the acquisition, in its own name and on behalf of the Certificateholders' Agent, as soon as reasonably practicable of further Non-Real Estate Ijara Assets (i) the Value of which is equal to the consideration given for such assets and (ii) in respect of which the representations and warranties in respect of the Assets Portfolio contained in the Purchase Agreement can be given by Kuveyt Türk, such that the further Non-Real Estate Ijara Assets so acquired are included in the Assets Portfolio;
- (c) do all acts and things (including execution of such documents, issue of notices and commencement of any proceedings) that it reasonably considers necessary to ensure the assumption of, and compliance by each Receivable Obligor with, its covenants, undertakings or other obligations under the Receivable Contracts to which it is party in accordance with applicable law and the terms of the Receivable Contracts;
- (d) use all its reasonable endeavours to pay on behalf of the Certificateholders' Agent any costs, expenses, losses and taxes which would otherwise be payable by the Certificateholders' Agent as a result of the Certificateholders' Agent's ownership of the Receivable Assets;
- (e) ensure the timely receipt of all Receivable Revenues, investigate non-payment of Receivable Revenues and generally make all reasonable efforts to collect or enforce the collection of such Receivable Revenues under the relevant Receivable Contract as and when the same shall become due;
- (f) not agree to any reduction in any amount payable under any Receivable Contract or any postponement or other rescheduling of the due date for such payment;
- (g) on any failure by a Murabaha Obligor to make payment in full as and when due of any amount payable under a Murabaha Contract, demand immediate payment from Kuveyt Türk of such amount under the Murabaha Guarantee;
- (h) obtain all necessary authorisations in connection with any of the Receivable Assets and its obligations under or in connection with the Management Agreement;
- (i) ensure that each Non-Real Estate Ijara Lessee (in its relevant capacity other than as lessee) maintains industry standard insurances, and fulfils all structural repair and major maintenance obligations, in respect of the Non-Real Estate Ijara Assets in accordance with the terms of the Non-Real Estate Ijara Contracts; and
- (j) carry out any incidental matters relating to any of the above.

The Managing Agent will ensure at all times that the aggregate Value of the Tangible Assets is not less than the amount equal to 51 per cent. of the aggregate face amount of the outstanding Certificates (disregarding for these purposes any Real Estate Ijara Assets the subject of a Partial Loss Event and as if any Non-Real Estate Ijara Principal Revenues held by the Managing Agent at the relevant time had been reinvested in accordance with paragraph (b) above).

The Management Agreement includes provision for the acquisition of further assets by the Managing Agent on the Certificateholders' Agent's behalf, which assets will then become part of the Assets Portfolio, and the substitution or replacement by or transfer to Kuveyt Türk and other disposition of the assets comprised in the Assets Portfolio.

The Managing Agent shall perform its duties under the Management Agreement in accordance with all applicable laws and regulations and with the degree of skill and care that it would exercise in respect of its own assets.

Kuveyt Türk shall be entitled to receive a fee for acting as Managing Agent which will comprise a fixed fee of U.S.\$100.

The Managing Agent will maintain three ledger accounts (such accounts being referred to as the **Portfolio Revenue Account**, the **Non-Real Estate Ijara Principal Revenue Account** and the **Receivable Revenues Reserve Account**). All Portfolio Revenues shall be credited to the Portfolio Revenue Account and all Non-Real Estate Ijara Principal Revenues will be recorded to the Non-Real Estate Ijara Principal Revenue Account.

For these purposes:

Portfolio Revenues means any (i) amounts received in respect of any rental payable under the Lease Agreement, (ii) Non-Real Estate Ijara Income, (iii) Murabaha Collections to the extent that they comprise or correspond to the Value of the relevant Murabaha Assets, (iv) amounts received from Kuveyt Türk pursuant to the Murabaha Guarantee and (v) any insurance proceeds in the event of any Partial Loss Event or Total Loss Event occurring in respect of the Real Estate Ijara Assets;

Non-Real Estate Ijara Contracts means the non-real estate ijara contracts entered into by Kuveyt Türk or any person on its behalf in relation to the Non-Real Estate Ijara Assets, including any other contracts, agreements or documents associated with such contracts;

Non-Real Estate Ijara Income means all rental and other amounts payable, and all sale proceeds or consideration, damages, insurance proceeds, compensation or other sums, in each case as received by the Managing Agent in whatever currency in respect of or otherwise in connection with the Non-Real Estate Ijara Assets but excluding any Non-Real Estate Ijara Principal Revenues;

Non-Real Estate Ijara Lessee means any lessee under a Non-Real Estate Ijara Contract;

Non-Real Estate Ijara Principal Revenues means any amounts received in the nature of capital or principal payments in respect of the Non-Real Estate Ijara Assets;

Receivable Revenues means Non-Real Estate Ijara Income, Non-Real Estate Ijara Principal Revenues and Murabaha Collections;

Murabaha Collections means all amounts payable in respect of any Murabaha Assets including any proceeds from any sale of such assets; and

Value means, at any time, an amount in U.S.\$ (following conversion, if necessary, of any relevant amount(s) at the applicable exchange rate) equal to, (i) in the case of a Murabaha Asset, the outstanding amount(s) payable in respect of that Murabaha Asset, comprising the unpaid purchase price of the relevant assets and profit amount payable in relation thereto, (ii) in the case of a Non-Real Estate Ijara Asset, the aggregate of all outstanding fixed rental instalment amounts payable by the relevant Non-Real Estate Ijara Lessee (whether then due and unpaid or due and payable on or after such date) in the nature of capital or principal payments under the related Non-Real Estate Ijara Contract and, (iii) in the case of a Real Estate Ijara Asset, the value of that Real Estate Ijara Asset, in each case as determined by the Managing Agent.

On the Business Day immediately prior to (i) the Periodic Distribution Date falling immediately after the end of each Return Accumulation Period, the Managing Agent will pay an amount equal to the Portfolio Revenues credited to the Portfolio Revenue Account comprising amounts received in respect of any rental payable under the Lease Agreement and (ii) the final Periodic Distribution Date, the Managing Agent will pay all of the Portfolio Revenues credited to the Portfolio Revenue Account (other than any such Portfolio Revenues comprising amounts received in respect of Non-Real Estate Ijara Income) and any Non-Real Estate Ijara Principal Revenues credited to the Non-Real Estate Ijara Principal Revenue Account, in each case in cleared funds into the Transaction Account.

In conjunction with such payment, amounts received in respect of Non-Real Estate Ijara Income, net of any applicable Management Liabilities Amount, which have been credited to the Portfolio Revenue Account as Portfolio Revenues, will be debited by the Managing Agent from that account and credited to the Receivable Revenues Reserve Account. For these purposes, **Management Liabilities Amount** means the amount of any

claims, losses, costs and expenses properly incurred or suffered by the Managing Agent in providing the services relating to the Receivable Assets under the Management Agreement.

Amounts standing to the credit of the Receivable Revenues Reserve Account shall be applied in payment of any unpaid Management Liabilities Amounts and otherwise, after all amounts due and payable under the Certificates have been paid in full, may be paid to the Managing Agent by way of incentive fee for acting as Managing Agent. The Managing Agent shall be entitled from time to time to utilise for its own account amounts standing to the credit of Receivable Revenues Reserve Account and all amounts so utilised shall be treated as on account incentive fees. All such on account incentive fees shall be paid immediately into the Transaction Account on any demand for the same being made by the Certificateholders' Representative at any time prior to the date on which the Certificates are redeemed in full and, following receipt of written notification from the Principal Paying Agent to the Certificateholders' Representative of any shortfall in the amounts standing to the credit of the Transaction Account, on any date on which any amounts are due and payable under the Certificates.

In the event that Kuveyt Türk fails to pay the Exercise Price in accordance with the Purchase Undertaking, the Portfolio Revenues credited to the Portfolio Revenue Account (other than any such Portfolio Revenues comprising amounts received in respect of Non-Real Estate Ijara Income) for the period for which such Exercise Price remains unpaid will be paid by the Managing Agent in cleared funds (free and clear of any deductions or any set off or any counterclaim) when requested by the Certificateholders' Representative and otherwise as soon as practicable after their determination into the Transaction Account. In addition, upon the occurrence of a Termination Event or the giving by the Issuer of notice pursuant to Condition 9.2, all of the Portfolio Revenues credited to the Portfolio Revenue Account (other than any such Portfolio Revenues comprising amounts received in respect of Non-Real Estate Ijara Income) and Non-Real Estate Ijara Principal Revenues credited to the Non-Real Estate Ijara Principal Revenue Account will be paid immediately by the Managing Agent in cleared funds into the Transaction Account on or before the relevant Dissolution Date or Tax Redemption Date.

On the occurrence of a Partial Loss Event relating to Real Estate Ijara Assets, the Managing Agent will use its best endeavours to apply any insurance proceeds credited to the Portfolio Revenue Account towards the purchase on behalf of the Certificateholders' Agent of replacement real estate assets from Kuveyt Türk on the immediately following Periodic Distribution Date or if the Managing Agent and Kuveyt Türk, using best endeavours, are unable to identify and provide for the acquisition of such replacement assets by the Certificateholders' Agent by such Periodic Distribution Date, on the next following Periodic Distribution Date on which the Managing Agent and Kuveyt Türk are able to so identify and provide for the acquisition by the Certificateholders' Agent of such replacement assets.

The Managing Agent will agree in the Management Agreement that all payments by it under the Management Agreement will be made without any deduction or withholding for or on account of tax unless required by law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding, the Managing Agent shall pay all additional amounts as will result in the receipt by the Issuer of such net amounts as would have been received by it if no deduction or withholding had been made. The payment obligations of the Managing Agent under the Management Agreement are and will be direct, unconditional, unsecured and general obligations of the Managing Agent and shall rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of the Managing Agent.

Murabaha Guarantee

If any amounts payable by the Murabaha Obligors under the Murabaha Contracts are not paid in full as and when due the Guarantor will pay the amount of any shortfall to KT Sukuk in accordance with the terms of the Murabaha Guarantee.

The Declaration of Agency

The Declaration of Agency will be entered into on 31 October 2011 between Kuveyt Türk, the Issuer, the Certificateholders' Agent and the Certificateholders' Representative and will be governed by English law.

Pursuant to the Declaration of Agency, KT Sukuk will declare that it will hold in its own name and on behalf of the Certificateholders all of its rights, title, interest and benefit in, to and under the Assets Portfolio and the Transaction Documents, all moneys standing to the credit of the Transaction Account and all proceeds of the foregoing.

Pursuant to the Declaration of Agency, the Certificateholders' Agent will, in relation to the Certificates, *inter alia*:

- (a) hold the Agency Assets in its own name and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder; and
- (b) act as agent in respect of the Agency Assets, distribute the income from the Agency Assets and perform its duties in accordance with the provisions of the Declaration of Agency.

In the Declaration of Agency, the Certificateholders' Agent acknowledges the appointment of the Certificateholders' Representative as attorney of the Certificateholders to act in their name and on their behalf in respect of the Conditions, the Certificates, the Declaration of Agency and the other Transaction Documents. The Certificateholders' Agent shall further acknowledge the right, power and authority of the Certificateholders' Representative to require the Certificateholders' Agent to act at its direction and in accordance with its instructions (including in respect of the present and future duties, powers, authorities and discretions vested in the Certificateholders' Agent by the relevant provisions of the Declaration of Agency) and the Certificateholders' Agent shall irrevocably and unconditionally undertake to act in accordance with all directions and instructions so given. The appointment of the Certificateholders' Representative does not affect the Certificateholders' Agent's continuing role and obligations as agent.

The Certificateholders' Representative will undertake in the Declaration of Agency that, following it being notified in writing or otherwise upon having actual knowledge of the occurrence of a Termination Event in respect of any Certificates and subject to Condition 13, it shall (a) promptly notify the Certificateholders of the occurrence of such Termination Event, and (b) subject to being indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing, take all such steps as are necessary to enforce the obligations of Kuveyt Türk under the Declaration of Agency, the Purchase Undertaking and any other Transaction Document to which Kuveyt Türk is a party.

The Declaration of Agency specifies, *inter alia*, that:

- (i) following the distribution of the net proceeds of the Agency Assets in respect of the Certificates to the Certificateholders in accordance with the Conditions and the Declaration of Agency, neither the Certificateholders' Agent nor the Certificateholders' Representative shall be liable for any further sums and, accordingly, the Certificateholders may not take any action against the Certificateholders' Agent, the Certificateholders' Representative or any other person to recover any such sum in respect of the Certificates or the Agency Assets;
- (ii) no Certificateholder shall be entitled to proceed directly against the Issuer and/or Kuveyt Türk under any Transaction Document unless (i) the Certificateholders' Representative having become bound so to proceed, fails to do so within 30 days of becoming so bound and such failure is continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against the Issuer or Kuveyt Türk, as the case may be) holds at least 20 per cent. of the then aggregate outstanding face amount of the Certificates. Under no circumstances shall the Certificateholders' Representative or any Certificateholders have any right to cause the sale or other disposition of any of the Agency Assets, and the sole right of the Certificateholders' Representative and the Certificateholders against the Issuer and Kuveyt Türk shall be to enforce their respective obligations under the Transaction Documents;
- (iii) the Certificateholders' Representative shall not be bound in any circumstances to take any action to enforce or realise the Agency Assets or take any action against the Issuer and/or Kuveyt Türk under any Transaction Document unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least 20 per cent. of the then aggregate outstanding face amount

of the Certificates and in either case then only if it is indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing; and

- (iv) after enforcing or realising the Agency Assets and distributing the net proceeds of the Agency Assets in accordance with the terms of the Declaration of Agency, the obligations of the Certificateholders' Agent and the Certificateholders' Representative in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Certificateholders' Agent and the Certificateholders' Representative to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no holder of the Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of KT Sukuk.

Purchase Undertaking

The Purchase Undertaking will be executed as a deed on 31 October 2011 by Kuveyt Türk in favour of KT Sukuk, as Issuer and the Certificateholders' Agent, and the Certificateholders' Representative and will be governed by English law.

Kuveyt Türk will irrevocably grant to KT Sukuk and the Certificateholders' Representative the rights to (i) at any time prior to the Scheduled Dissolution Date and provided that a Termination Event has occurred and is continuing, require Kuveyt Türk to pay the Exercise Price to KT Sukuk on the Dissolution Date specified in the relevant Exercise Notice; (ii) on the occurrence of a Total Loss Event, on the Business Day prior to the date specified in the relevant Exercise Notice, require Kuveyt Türk to pay the Exercise Price to KT Sukuk; or (iii) require Kuveyt Türk, on the Business Day prior to the Scheduled Dissolution Date, to pay the Exercise Price, in each case by payment of the same into the Transaction Account on the relevant date.

The **Exercise Price** shall be an amount equal to the aggregate of (i) the outstanding face amount of the Certificates; (ii) all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates; and (iii) any Ijara Management Expenses in respect of which an appropriate rental payment has not been made in accordance with the Lease Agreement and Management Liabilities Amounts that have not been paid in accordance with the Management Agreement.

The proportion of the Exercise Price payable in respect of the (i) Murabaha Assets, shall be no more or less than the aggregate outstanding amounts payable in respect of the Murabaha Assets, comprising the unpaid purchase price of the relevant assets and profit amount payable in relation thereto; and (ii) Non-Real Estate Ijara Assets, shall be equal to the aggregate of all due and unpaid fixed rental instalment amounts payable by the Non-Real Estate Ijara Lessees in the nature of capital or principal repayments under the related Non-Real Estate Ijara Contracts, in each case expressed as an amount in U.S. dollars (following conversion, if necessary, if any relevant amount(s) at the applicable exchange rate) and, accordingly, on any purchase of the Murabaha Assets and Non-Real Estate Ijara Assets pursuant to the Purchase Undertaking on the occurrence of a Total Loss Event, the Exercise Price shall be an amount in U.S. dollars equal to the sum of such U.S. dollar amounts for (i) and (ii).

Following any exercise of such rights, Kuveyt Türk may complete the purchase of all of the Assets Portfolio or, on the occurrence of a Total Loss Event, the Receivable Assets, in which case the Exercise Price will represent the purchase price for such assets.

On any purchase of the Assets Portfolio or the Receivable Assets by Kuveyt Türk under the Purchase Undertaking, Kuveyt Türk will undertake that insofar as any such purchase involves a transfer of Real Estate Ijara Assets it will obtain any legally required approvals, consents or permits and do all acts or things as may be required to perfect the sale and transfer of such Real Estate Ijara Assets before the relevant land registry in Turkey in conjunction with the execution of the sale agreement regarding such Real Estate Ijara Assets and if it breaches such undertaking Kuveyt Türk shall fully indemnify KT Sukuk for the purpose of redemption in full of the Certificates and, accordingly, the amount payable under any such indemnity claim will equal the Exercise Price.

Kuveyt Türk will undertake in the Purchase Undertaking that, to the extent the sale and purchase or transfer or assignment of the Assets Portfolio or the Receivable Assets is not effective in any jurisdiction for any reason, Kuveyt Türk will make payment of an amount equal to the purchase price by way of restitution to KT Sukuk immediately upon request.

Kuveyt Türk will undertake in the Purchase Undertaking that if it fails to pay all or part of any Exercise Price when due (the **Outstanding Exercise Price**), it will automatically continue to lease the Relevant Lease Assets from KT Sukuk and act as managing agent in respect of the Relevant Ijara Assets and the Relevant Receivable Assets with effect from the date immediately following the due date for payment of the Outstanding Exercise Price until payment of the Exercise Price in full is made by it. For this purpose, **Relevant Ijara Assets** and **Relevant Receivable Assets** means the Real Estate Ijara Assets and, only if there are insufficient Real Estate Ijara Assets, Receivable Assets (or a part thereof) having a Value as near as possible to, but not less than, the amount in default.

Kuveyt Türk shall acknowledge and agree in the Purchase Undertaking that payment by it of the Exercise Price may be enforced by KT Sukuk and/or the Certificateholders' Representative as a separate and independent obligation of Kuveyt Türk under the Purchase Undertaking. Any purchase and sale of any interest in Real Estate Ijara Assets comprised in the Assets Portfolio is conditional upon perfection of such purchase and sale before the relevant land registry in Turkey and no right to or any interest in such Real Estate Ijara Assets is granted, transferred or otherwise arises pursuant to the Purchase Undertaking.

Kuveyt Türk will agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking will be made without any deduction or withholding for or on account of tax unless required by law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding, Kuveyt Türk shall pay all additional amounts as will result in the receipt by the Issuer of such net amounts as would have been received by it if no deduction or withholding had been made. The payment obligations of Kuveyt Türk under the Purchase Undertaking are and will be direct, unconditional, unsecured and general obligations of Kuveyt Türk and shall rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of Kuveyt Türk.

In the Purchase Undertaking, Kuveyt Türk will further undertake as follows.

Negative Pledge

Kuveyt Türk shall not create or permit to subsist any Security Interest, other than Permitted Security, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any of its Financial Indebtedness or any Guarantee of Financial Indebtedness given by Kuveyt Türk.

Maintenance of Authorisations

So long as any Certificates remain outstanding (as defined in the Declaration of Agency), Kuveyt Türk shall take all necessary action to maintain, obtain and promptly renew, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, permissions, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Republic of Turkey (including, for the avoidance of doubt, with the CMB and the BRSA) for (i) the execution, delivery or performance of the Transaction Documents or for the validity or enforceability thereof, or (ii) the conduct by it of the Permitted Business, save for any consents, permissions, licences, approvals, authorisations, registrations, recordings and filings (collectively, **Permissions**) which are immaterial in the conduct by Kuveyt Türk of the Permitted Business. For the avoidance of doubt, any Permissions relating to Kuveyt Türk's ability or capacity to undertake its banking or financial advisory functions shall not be deemed to be immaterial in the conduct by Kuveyt Türk of its Permitted Business.

Transactions with Affiliates

Kuveyt Türk shall not, and shall not permit any of its Subsidiaries to, in any twelve month period, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties, revenues or assets to, or

purchase any properties, revenues or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance, indemnity or guarantee (whether related or not) which has or in the aggregate have a value in excess of USD10,000,000 with or for the benefit of, any Affiliate (each, an **Affiliate Transaction**) unless (i) such Affiliate Transaction is on terms that are no less favourable to Kuveyt Türk or the relevant Subsidiary than those that would have been obtained in a comparable transaction by Kuveyt Türk or such Subsidiary with an unrelated Person, or (ii) such Affiliate Transaction is made pursuant to an Islamic financing structure, provided that the assets which are the subject of such financing structure cannot be ultimately sold or otherwise disposed of, except to Kuveyt Türk and no other person.

Financial Reporting

So long as the Certificates remain outstanding (as defined in the Declaration of Agency), Kuveyt Türk shall deliver to the Principal Paying Agent:

- (i) not later than six months after the end of Kuveyt Türk's financial year, copies of Kuveyt Türk's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding period, and all such annual financial statements of Kuveyt Türk shall be accompanied by the report of the auditors thereon; and
- (ii) not later than 120 days after the end of the first six months of each of Kuveyt Türk's financial years, copies of its unaudited consolidated financial statements for such six-month period, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding period.

Notification of Kuveyt Türk Events, and Potential Kuveyt Türk Events and Change of Control Events

Kuveyt Türk undertakes that it shall forthwith notify the Certificateholders' Representative of any (a) Change of Control Event, (b) Kuveyt Türk Event (and the steps, if any, being taken to remedy it) or (c) any Potential Kuveyt Türk Event, in each case promptly upon becoming aware of its occurrence. For these purposes:

Guarantee means, in relation to any Financial Indebtedness of any person, any obligation of another person to pay such following valid demand or claim on that person including (without limitation):

- (i) any obligation to purchase such Financial Indebtedness;
- (ii) any obligation to extend financing, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Financial Indebtedness;
- (iii) any indemnity against the consequences of a default in the payment of such Financial Indebtedness; and
- (iv) any other agreement to be responsible for such Financial Indebtedness.

Financial Indebtedness means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any amounts raised including (without limitation) deposits;
- (c) any amount raised by acceptance under my acceptance credit facility or dematerialised equivalent;
- (d) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (e) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with applicable law and generally accepted accounting standards or IFRS, be treated as a finance or capital lease;

- (f) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (g) any amount raised under any other transaction (including any forward sale or purchase agreement or Islamic financing transaction) having the commercial effect of a borrowing;
- (h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
- (i) (without double counting) the amount of any liability in respect of any Guarantee for any of the items referred to in paragraphs (a) to (h) above;

Permitted Security means:

- (a) any Security Interest arising in the ordinary course of Kuveyt Türk's business;
- (b) any Security Interest securing any Financial Indebtedness of Kuveyt Türk arising by operation of law, provided such Security Interest is discharged within 60 days of arising;
- (c) any Security Interest created by or arising out of title retention provisions in a vendor's or supplier's standard sale or supply terms and conditions and in the ordinary course of business;
- (d) any Security Interest arising in the ordinary course of banking arrangements or investment transactions (including, without limitation, sale, lease and repurchase transactions and any netting or set-off arrangements entered into in the ordinary course of Kuveyt Türk's banking arrangements for the purpose of netting debit and credit balances), provided that the Security Interest is limited to the assets which are the subject of the relevant transaction;
- (e) any Security Interest over or affecting any asset acquired by Kuveyt Türk after the Closing Date, if such Security Interest was created at the time of such acquisition to secure any Financial Indebtedness incurred for the purpose of financing such acquisition;
- (f) any Security Interest arising out of the refinancing, substitution, extension or renewal of any indebtedness secured by way of Security Interest permitted by paragraphs (d) and (e) above, except to the extent the principal amount secured by that Permitted Security exceeds, in the case of paragraph (e) above, the principal amount of the Financial Indebtedness incurred for the purpose of financing such acquisition;
- (g) any Security Interest created in connection with any Securitisation Indebtedness (as defined in the Purchase Undertaking);
- (h) any Security Interest arising in connection with any payment or close-out netting or set off arrangement pursuant to any hedging transaction entered into by Kuveyt Türk for the purpose of (i) hedging any risk to which it is exposed in its ordinary course of business or (ii) its profit rate or currency management operation which are carried out in the ordinary course of business and, in any case, for non-speculative purposes only and excluding, in each case, any Security Interest under a credit support arrangement in relation to a hedging transaction;
- (i) any Security Interest created or outstanding with the approval of an Extraordinary Resolution of the Certificateholders; and
- (j) any Security Interest not otherwise permitted by the above paragraphs securing Financial Indebtedness of Kuveyt Türk in an aggregate principal amount at any time outstanding not exceeding an amount equal to 20 per cent. of Kuveyt Türk's consolidated tangible net worth. For the purpose of this paragraph, Kuveyt Türk's "consolidated tangible net worth" means the amount equal to the aggregate of the fully paid and issued share capital, share capital premium, all reserves and retained earnings of the Group as shown in the then most recent consolidated annual financial statements of Kuveyt Türk prepared in accordance with IFRS;

Potential Kuveyt Türk Event means any condition, event or act which, with the making or giving of any notice, lapse of time, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition would constitute a Kuveyt Türk Event.

Security Interest means any mortgage, charge, lien, pledge, or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

Subsidiary means in relation to any company or corporation, a company or corporation:

- (a) which is controlled, directly or indirectly, by the first mentioned company or corporation; or
- (b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by the first mentioned company or corporation; or
- (c) which is a Subsidiary of another Subsidiary of the first mentioned company or corporation,

and, for these purposes, a company or corporation shall be treated as being **controlled** by the parent if the parent (whether directly or indirectly and whether by ownership of share capital, the possession of voting power, contract, trust or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of the company or otherwise controls, or has the power to control, the affairs and policies of the company.

In addition, Kuveyt Türk has agreed that each of the following events will constitute a **Kuveyt Türk Event**:

- (a) *Non-payment*: Kuveyt Türk fails to pay any amount due under any Transaction Document to which it is a party, and such default continues unremedied for a period of seven days;
- (b) *Breach of other obligations*: Kuveyt Türk does not perform or comply with any one or more of its other obligations or undertakings in any of the Transaction Documents to which it is a party which default is incapable of remedy or, if in the opinion of the Certificateholders' Agent capable of remedy, is not in the opinion of the Certificateholders' Agent remedied within 30 days of the earlier of the Certificateholders' Agent giving notice to Kuveyt Türk or Kuveyt Türk becoming aware of such default;
- (c) *Misrepresentation*: any representation or warranty made by Kuveyt Türk under any Transaction Document is or proves to have been incorrect or misleading in any material respect on or as of the date made;
- (d) *Cross-default*: (i) any Financial Indebtedness of Kuveyt Türk is not paid when due or, as the case may be, within any originally applicable grace period, or (ii) any Financial Indebtedness of Kuveyt Türk becomes due and payable prior to its stated maturity by reason of any non-payment event of default (howsoever described) or other event of default (howsoever described), or (iii) Kuveyt Türk fails to pay when due any amount payable by it under any Guarantee of any Financial Indebtedness, provided that the amount of the relevant Financial Indebtedness referred to in sub-paragraph (i) and/or (ii) above and/or the Financial Indebtedness guaranteed by the Guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds U.S.\$10,000,000 (or its equivalent in any other currency or currencies);
- (e) *Insolvency*: (i) Kuveyt Türk is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness; (ii) the value of the assets of Kuveyt Türk is less than its liabilities (taking into account contingent and prospective liabilities); or (iii) a moratorium is declared in respect of any indebtedness of Kuveyt Türk;
- (f) *Insolvency proceedings*: any corporate action, legal proceedings or other procedure or step is taken in relation to: (i) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of Kuveyt Türk; (ii) a composition, compromise, assignment or

arrangement with any creditor of Kuveyt Türk; (iii) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of Kuveyt Türk or any of its assets; or (iv) enforcement of any Security Interest over any assets of Kuveyt Türk (where the aggregated value of such assets is in excess of U.S.\$10,000,000 or its equivalent in another currency or currencies), or any analogous procedure or step is taken in any jurisdiction.

- (g) *Creditors' process*: any expropriation, attachment, sequestration, distress or execution affects any asset or assets of Kuveyt Türk if the aggregated value of such asset or assets is in excess of U.S.\$10,000,000 (or its equivalent in another currency or currencies) and is not, if contested in good faith by Kuveyt Türk, discharged or dismissed within 30 days of any of the same affecting such asset or assets;
- (h) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution of Kuveyt Türk, or Kuveyt Türk ceases or threatens to cease to carry on all or a substantial part of its business or operations, or enters into any amalgamation, demerger or merger, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or demerger or consolidation on terms approved by the Certificateholders' Representative or by an Extraordinary Resolution of the Certificateholders;
- (i) *Unlawfulness*: it is or becomes (at any time) unlawful for Kuveyt Türk to perform or comply with any or all of its obligations under any of the Transaction Documents;
- (j) *Repudiation*: Kuveyt Türk repudiates a Transaction Document or does or causes to be done any act or thing evidencing an intention to repudiate a Transaction Document;
- (k) *Banking licence*: the banking licence of Kuveyt Türk ceases to be effective or is revoked, suspended, withdrawn or not renewed;
- (l) *Material adverse change*: any event or series of events occurs which has or could reasonably be expected to have a Material Adverse Effect;
- (m) *Failure to pay final judgments*: Kuveyt Türk fails to comply with or pay any sum due from it under any final judgment or any final order made or given by a court or arbitral forum of competent jurisdiction;
- (n) *Authorisation and consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order to enable Kuveyt Türk lawfully to exercise its rights and perform and comply with its obligations is under or in respect to the Transaction Documents is not taken, fulfilled or done;
- (o) *Necessity to carry on business*: it is or becomes necessary under the laws of the Republic of Turkey: (i) in order to enable the Certificateholders' Representative to enforce its rights under the Transaction Documents; or (ii) by reason only of the execution, delivery and performance of the Transaction Documents, that the Certificateholders' Representative should be licensed, qualified or otherwise entitled to carry on business in the Republic of Turkey;
- (p) *Foreign currencies*: any restriction is imposed on the ability of Kuveyt Türk to hold and deal with any currency other than Turkish lira, which would make it impossible for Kuveyt Türk to perform its obligations under the Transaction Documents; or
- (r) *Nationalisation and expropriation*: all or any substantial part of the undertaking or assets of Kuveyt Türk shall be expropriated, nationalised, compulsorily acquired or taken into public ownership or Kuveyt Türk or shall cease to be able or entitled to exercise the rights of control or ownership of the same.

For the purposes:

Holding Company means, in relation to a company or corporation, any other company or corporation in respect of which Kuveyt Türk is a Subsidiary.

Material Adverse Effect means a material adverse effect on:

- (a) the business, operations, assets, condition (financial or otherwise), performance or prospects of Kuveyt Türk;
- (b) the ability of Kuveyt Türk to perform its obligations under the Transaction Documents to which it is party;
- (c) the countries (including, without limitation, the financial, political or economic conditions in the countries) in which Kuveyt Türk's assets and the Holding Company are located or in the markets for loans to debt securities of Turkey and Bahrain;
- (d) the legality, validity or enforceability of any Transaction Document; or
- (e) the rights or remedies of any other party under the Transaction Documents.

Sale Undertaking

The Sale Undertaking will be executed as a deed on 31 October 2011 by KT Sukuk as Issuer and Certificateholders' Agent in favour of Kuveyt Türk, and will be acknowledged by the Certificateholders' Representative and governed by English law.

Pursuant to the Sale Undertaking and subject to KT Sukuk being entitled to redeem the Certificates for tax reasons in accordance with Condition 9.2, Kuveyt Türk may, by exercising its right under the Sale Undertaking and serving notice on KT Sukuk no later than 45 days prior to the Tax Redemption Date, oblige KT Sukuk to sell all of the Assets Portfolio on the Tax Redemption Date at the Exercise Price. The proportion of the Exercise Price payable in respect of (i) the Murabaha Assets shall be no more or less than the aggregate amounts payable in respect of the Murabaha Assets, comprising the unpaid purchase price of the relevant assets and profit amount payable in relation thereto; and (ii) the Non-Real Estate Ijara Assets, shall be equal to the aggregate of all due and unpaid fixed rental instalment amounts payable by the Non-Real Estate Ijara Lessees in the nature of capital or principal repayments under the related Non-Real Estate Ijara Contracts, in each case expressed as an amount in U.S. dollars (following conversion, if necessary, of any relevant amount(s) at the applicable exchange rate).

TAXATION

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

Turkey

The information below is a general overview of some of the tax implications in relation to an individual or corporation, which is not resident in Turkey, investing in lease certificates issued by a Turkish company which have been issued abroad. The information is based on existing Turkish law which may be subject to change, possibly with retrospective effect. The information below only describes tax considerations in Turkey and is applicable to a non-resident who does not hold Certificates in connection with the conduct of a trade or business through a permanent establishment in Turkey. This information does not cover all the tax consequences regarding the disposition or acquisition of ownership of Certificates or which is necessary to make a decision to invest in the Certificates. Accordingly each investor should seek its own independent tax advice before making a decision to invest in the Certificates.

There are two main types of tax status: resident taxpayers, and non-resident taxpayers. Residents are taxed on their worldwide income, whereas, non-residents are taxed only on income from a Turkish source (**Turkish income**).

If an activity generating trading income is performed or recorded in the books in Turkey, whether the payment is made in Turkey or abroad, any capital gain is considered to be Turkish income. When principal is invested in Turkey, any income from capital investment is considered to be Turkish income.

Pursuant to Income Tax Law No.193, an individual is considered to be a resident individual if their legal residence is in Turkey or if they stay in Turkey for a continuous period of more than six months in a calendar year. An individual who does not have a residence in Turkey or does not reside in Turkey for more than six months in a calendar year is considered to be a non-resident individual. A resident individual is liable for Turkish taxes on his/her worldwide income, whereas a non-resident individual is liable for Turkish tax only on Turkish income.

Pursuant to the Corporate Tax Law No. 5520, corporations having their legal residence or business centre in Turkey are considered to be resident corporations and are taxed on their worldwide income. Corporations that do not have either a legal domicile or a business domicile in Turkey are considered to be non-resident corporations and are only taxed on trading income derived either through a fixed place of business or through a permanent representative which constitutes permanent establishment in Turkey.

A resident corporation is subject to 0 per cent. withholding tax on any capital gain derived from private sector bonds issued after 1 January 2006 and is subject to corporate tax. A non-resident corporation is also subject to 0 per cent. withholding tax and no further declaration is required for capital gains derived from private sector bonds issued after 1 January 2006.

Capital gains derived from private sector bonds issued after 1 January 2006 are also taxed through withholding tax for either resident or non-resident individuals at the rate of 10 per cent. The withholding taxation is the final tax burden for the individual (resident and non-resident) investors.

The Certificates are outside the scope of the temporary regime applicable under Income Tax Law Provisional Article 67 and therefore any capital gain sourced in Turkey with respect to the Certificates may be subject to declaration for non-resident legal entities operating without a permanent establishment in Turkey. However, pursuant to Law numbered 6111, special or separate tax returns will not be submitted for capital gains from lease certificates issued abroad by a Turkish corporate when the income is derived by a non-resident.

Therefore, no tax is levied on non-resident persons for capital gains arising from such certificates and no declaration is required.

There is no withholding tax charged on capital gains for both resident and non-resident individuals. Despite this, resident individuals have to declare capital gains which arise from private sector financial instruments, whereas non-resident individuals do not have to declare such capital gains.

According to Turkish law and regulations, periodic income payments on lease certificates by an issuer to a non-resident holder will be subject to withholding tax at a rate between 10 per cent. and 0 per cent. in Turkey. Withholding tax is applied by the issuer of lease certificates. If a double tax treaty is in effect between Turkey and the country of the non-resident corporation which holds lease certificates and the double tax treaty provides a lower withholding tax rate than the current rate applicable in Turkey, the lower rate may be applied by the issuer.

Income paid on lease certificates issued abroad by a Turkish corporate is subject to withholding tax. Through a Decree dated June 29, 2011, numbered 2011/1854, Turkish withholding tax rates are set according to the maturity of the lease certificates as follows:

- 10 per cent. withholding tax for lease certificates with a maturity of less than one year;
- 7 per cent. withholding tax for lease certificates with a maturity between 1 and less than 3 years;
- 3 per cent. withholding tax for lease certificates with a maturity between 3 and less than 5 years; and
- 0 per cent. withholding tax for lease certificates with a maturity of 5 years and more.

These withholding tax rates are applicable on periodic income payments made, and any gains derived at maturity, after June 29, 2011. Such withholding tax is the final tax for a non-resident individual and non-resident corporate and no further declaration is required. Any other Turkish income of a non-resident person that has not been subject to withholding tax will be subject to taxation and such person will need to make an appropriate declaration if they wish to rely on an exemption from tax. Tax treaties may also reduce the withholding tax rate on income.

A non-resident holder will not be liable for Turkish property, inheritance, stamp, registration or similar tax or duty with respect to its investment in the Certificates.

EU Savings Directive

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

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

SUBSCRIPTION AND SALE

Under the terms and conditions contained in a Subscription Agreement (the **Subscription Agreement**) dated 27 October 2011 between the Issuer, Kuveyt Türk, Abu Dhabi Islamic Bank PJSC, Commerzbank Aktiengesellschaft, HSBC Bank plc, Liquidity Management House for Investment Company K.S.C.C. and Standard Chartered Bank (together, the **Joint Lead Managers**), Bank Islam Brunei Darussalam Berhad, Kuwait Finance House (Malaysia) Berhad, Kuwait International Bank and Qatar Islamic Bank (together, the **Co-Managers** and, together with the Joint Lead Managers, the **Managers**), the Issuer has agreed to issue and sell to the Managers U.S.\$350,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Managers have jointly and severally agreed to subscribe for the Certificates.

The Subscription Agreement provides that the obligations of the Managers to pay for and accept delivery of the Certificates are subject to the approval of certain legal matters by their counsel and certain other conditions. Pursuant to the Subscription Agreement, the Managers will be paid certain commissions in respect of their services for managing the issue and sale of the Certificates. The Managers will also be reimbursed in respect of certain of their expenses, and each of the Issuer and Kuveyt Türk has agreed to indemnify the Managers against certain liabilities incurred in connection with the issue, offer and sale of the Certificates.

Selling Restrictions

United States

The Certificates have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to or for the account or benefit of, any U.S. person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager has represented, warranted and agreed that it has not offered or sold, and agreed that it will not offer or sell, any Certificates constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates, nor any persons acting on its behalf has engaged or will engage in any directed selling efforts with respect to the Certificates. Terms used in this paragraph have the meanings given to them by Regulation S.

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

United Kingdom

Each Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Certificate in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or Kuveyt Türk; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

Kingdom of Bahrain

Each Manager has represented, warranted and agreed that it has not offered, and will not offer, Certificates to (i) the public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001 of Bahrain) or (ii) any person in Bahrain who is not an “accredited investor”. For this purpose, an “accredited investor” means:

- (c) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more;

- (d) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (e) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

DIFC

Each Manager has represented, warranted and agreed that it has not offered and will not offer the Certificates to any person in the DIFC unless such offer is (a) deemed to be an “Exempt Offer” in accordance with the Offered Securities Rules of the DFSA; and (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Malaysia

Each Manager has represented, warranted and agreed that:

- (f) this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the CMSA; and
- (g) accordingly, the Certificates have not been and will not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under (i) Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b)) and (ii) Schedule 8 (or Section 257(3)) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

Qatar (excluding the Qatar Financial Centre)

Each Manager has represented, warranted and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, any Certificates in Qatar except (a) in compliance with all applicable laws and regulations of Qatar and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires Certificates pursuant to the offering should note that the offer of Certificates is an offer to “Sophisticated Investors” (as defined in Article 11 of the “Offer of Securities Regulations” as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the **KSA Regulations**)) for the purposes of Article 9 of the KSA Regulations. Each Manager has represented, warranted and agreed that the offer of the Certificates will only be directed at Sophisticated Investors.

The offer of Certificates shall not therefore constitute a “public offer” pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates as a Sophisticated Investor may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and (a) the Certificates are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds SR 1 million

or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (the **Securities and Futures Act**). Accordingly, each Manager has represented, warranted and agreed that it has not offered or sold and will not offer or sell any Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of any Certificates, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (ii) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (iii) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

The Republic of Turkey

Each of the Managers has represented, warranted and agreed that:

- (a) the offering of the Certificates has been authorised by the CMB for the purpose of the sale of the Certificates outside of Turkey only in accordance with Article 15(b) of Decree 32; and
- (b) the Certificates (or beneficial interest therein) shall not be offered or sold in Turkey in any circumstances which would constitute an offer to the public within the meaning of the Capital Markets Law and no prospectus, and other offering material related to the offering may be utilised in connection with any general offering to the public within Turkey for the purpose of any offer or sale of Certificates (or beneficial interest therein) without the prior approval of the CMB. Pursuant to Article 15(d) (ii) of Decree 32, residents of Turkey may purchase or sell the Certificates (or beneficial interests therein) in secondary markets, provided that (i) such Certificates are traded in financial markets outside of Turkey and (ii) such purchase is made through banks and/or licensed brokerage institutions in Turkey authorised pursuant to CMB regulations.

United Arab Emirates (excluding the DIFC)

Each Manager has represented, warranted and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Each Manager has also acknowledged and agreed that the information contained in this Prospectus does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1986 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Prospectus is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

General

Each Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Certificates or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, Kuveyt Türk, the Certificateholders' Agent, the Certificateholders' Representative and any other Manager shall have any responsibility therefor.

None of the Issuer, Kuveyt Türk, the Certificateholders' Agent, the Certificateholders' Representative and any of the Managers represents that the Certificates may at any time lawfully be sold in compliance with any

applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale. Persons into whose possession this Prospectus or any Certificates may come must inform themselves about, and observe any applicable restrictions on the distribution of this Prospectus and the offering and sale of the Certificates.

GENERAL INFORMATION

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Issuer dated 30 September 2011. The Issuer has obtained all necessary consents, approvals and authorisations in Turkey in connection with the issue and performance of the Certificates and the execution and performance of the Transaction Documents. The entry into the Transaction Documents has been duly authorised by a resolution of the Board of Directors of Kuveyt Türk on 6 September 2011.

Listing

Application has been made to the UK Listing Authority for the Certificates to be admitted to the Official List and to the London Stock Exchange for such Certificates to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Certificates is expected to be granted on or before 31 October 2011.

Documents Available

For so long as any Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the offices of the Issuer and the Principal Paying Agent in London:

- (a) the Transaction Documents;
- (b) the Articles of Association and Certificate of Activities of the Issuer;
- (c) the Articles of Association, Certificate of Activities and the Council of Ministers Decree approving the incorporation of Kuveyt Türk;
- (d) the IFRS Accounts; and
- (e) the Prospectus.

The Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The ISIN for the Certificates is XS0698260758. The Common Code for the Certificates is 069826075.

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

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the prospects of the Issuer, in each case, since the date of its incorporation.

There has been no significant change in the financial or trading position of Kuveyt Türk and its subsidiaries, taken as a whole, since 30 June 2011, and there has been no material adverse change in the prospects of Kuveyt Türk and its subsidiaries, taken as a whole, since 31 December 2010.

Litigation

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

The Group is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Group.

Auditors

The auditors of Kuveyt Türk are Ernst & Young, who have audited its accounts, without qualification, in accordance with International Standards on Auditing for each of the two financial years ended on 31 December 2009 and 31 December 2010. Ernst & Young is an institution authorised by the BRSA to conduct independent audit of banks in Turkey. The auditors of Kuveyt Türk have no material interest in Kuveyt Türk.

Expenses

The expenses relating to the issue of the Certificates are expected to amount to £4,200.

Sharia Advisory Boards

The transaction structure relating to the Certificates (as described in this Prospectus) has been reviewed by the HSBC Amanah Central Shari'a Committee, the Standard Chartered Shariah Supervisory Committee and the Liquidity Management House Committee. Prospective Certificateholders should not rely on the review referred to above in deciding whether to make an investment in the Certificates and should consult their own *Sharia* advisers as to whether the proposed transaction is in compliance with *Sharia* principles.

Managers transacting with Kuveyt Türk

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, Kuveyt Türk (and its affiliates) in the ordinary course of business.

ANNEX A - SUMMARY OF DIFFERENCES BETWEEN IFRS AND TURKISH GAAP

Turkish GAAP differs from IFRS. Such differences primarily relate to the format of presentation of financial statements, disclosure requirements (e.g. IFRS 7) and accounting policies. BRSA format and disclosure requirements are prescribed by relevant regulations and do not always meet IFRS or IAS 34 standards. Among the differences in accounting policies some of the most important are:

- *Consolidation.* Only financial sector subsidiaries and associates are consolidated under Turkish GAAP; others are carried at cost or at fair value. Turkish GAAP provides exemptions for consolidation based on certain materiality criteria whereas this is not applicable in the case of IFRS.
- *Associates.* The definitions of “associate” differ; under Turkish GAAP an “associate” is an entity in whose capital the parent bank participates and over which it has significant influence but no capital or management control, whose main operation is banking and which operates pursuant to special legislation with permission and a licence and is established abroad. The related associate is consolidated according to the equity method and materiality principle. According to Turkish GAAP, if the parent bank has 10 per cent. or more of the voting rights in the associate it is presumed to have significant influence on that associate unless proven otherwise, whereas according to IFRS the applicable rate of voting rights is 20 per cent. or more.
- *Specific provisioning for loan losses.* Turkish GAAP provisioning for loan losses is different from IAS 39 and is based on minimum percentages relating to the number of days overdue prescribed by relevant regulations, whereas the IFRS provisioning for loan losses is based on the present value of future cash flows discounted at original effective interest rates.
- *General loan loss provisioning.* This is required under Turkish GAAP. However, calculation of general loan loss provisioning in IFRS is different from under Turkish GAAP. IFRS require portfolio/collective provisioning for groups of loans and receivables sharing similar characteristics and not individually identified as impaired. Moreover, Turkish GAAP generic provisioning is based on minimum percentages defined in regulations for many asset classes (both on-balance and off-balance sheet), not only for loans, which is not the case with IFRS.
- *Investment property and assets held for sale.* Definitions and accounting treatment according to Turkish GAAP are different from those under IFRS (based on regulations prescribed by the BRSA). Under Turkish GAAP depreciation of assets held for sale is taken into account, whereas pursuant to IFRS it is carried at fair value.
- *Deferred taxation.* Certain differences exist in this area. According to the IAS 12 Income Taxes deferred taxation is calculated in full on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the group, whereas under Turkish GAAP there are some specific exemptions. For example, under Turkish GAAP there are some specific exemptions such as no deferred tax being computed in relation to general loan loss provisions.
- *Application period for hyperinflationary accounting.* Under Turkish GAAP, this period ends at 1 January 2005 whereas under IFRS it ends at 1 January 2006, constituting a one year difference between the two.

Similar differences with IFRS also exist in the accounting policies and disclosure requirements applied to consolidated subsidiaries, especially those providing life and non-life insurance services which are subject to Undersecretariat of Treasury policies/requirements and factoring and leasing services which are subject to specific BRSA policies/requirements.

ISSUER AND CERTIFICATEHOLDERS' AGENT

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KUVEYT TÜRK

Kuveyt Türk Katılım Bankası A.Ş.
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CERTIFICATEHOLDERS' REPRESENTATIVE

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PRINCIPAL PAYING AGENT, REGISTRAR AND TRANSFER AGENT

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To Kuveyt Türk and the Issuer

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