SERIAL NO:

STRICTLY PRIVATE AND CONFIDENTIAL

INFORMATION MEMORANDUM

KT Kira Sertifikaları Varlık Kiralama A.Ş.

(Trade Registration Number: 881355)

(incorporated in the Republic of Turkey in the form of a joint stock company and with limited liability)

PROPOSED ISSUE OF, OFFER FOR SUBSCRIPTION OR PURCHASE OF, OR INVITATION TO SUBSCRIBE FOR OR PURCHASE ISLAMIC MEDIUM TERM NOTES ("SUKUK WAKALAH") BASED ON THE SHARIAH PRINCIPLE OF WAKALAH PURSUANT TO A SUKUK WAKALAH PROGRAMME OF UP TO RM2.0 BILLION IN NOMINAL VALUE ("SUKUK WAKALAH PROGRAMME")

Joint Lead Arrangers/Joint Lead Managers

CIMB INVESTMENT BANK BERHAD
(Company No. 18417-M)

KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD
(Company No. 672174-T)

MAYBANK INVESTMENT BANK BERHAD
(Company No. 15938-H)

Global Coordinator

KUWAIT FINANCE HOUSE INVESTMENT CO. K.S.C.C
(Registration No. 325676)

This Information Memorandum is dated 11 February 2015

IMPORTANT NOTICE

RESPONSIBILITY STATEMENT

This Information Memorandum has been approved by the board of directors of KT Kira Sertifikaları Varlık Kiralama A.Ş., a company incorporated in the Republic of Turkey (Registration Number. 881355) (the "**Issuer**") and by Kuveyt Türk Katilim Bankasi A.Ş. (Registration Number. 250489/0) ("**Kuveyt Türk**" or the "**Obligor**") respectively and each of the Issuer, Kuveyt Türk and their respective boards of directors accepts full responsibility for the accuracy of the information contained in this Information Memorandum. The Issuer and Kuveyt Türk confirm to the best of their knowledge and belief after having made all enquiries as were reasonable in the circumstances, that (a) this Information Memorandum contains all information with respect to the Issuer and Kuveyt Türk which is material in the context thereof; and (b) there is no material omission nor are there any false or misleading statements in this Information Memorandum or other facts the omission of which would make any statement in this Information Memorandum false or misleading in the context of the issue, offer, sale or invitation to subscribe or purchase of the Islamic medium term notes ("**Sukuk Wakalah**") under an Islamic medium term note programme of up to Ringgit Malaysia Two Billion (RM2,000,000,000) in aggregate nominal value with a maximum tenure of ten (10) years under the Shariah principle of Wakalah ("**Sukuk Wakalah Programme**"). The opinions and the intentions expressed in this Information Memorandum in relation to the Issuer, Kuveyt Türk and its consolidated subsidiaries taken as a whole (the "**Group**") are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumption(s) after having made enquiries as were reasonable in the circumstances to ascertain such facts and to verify the accuracy of all such information and statements. No representation or warranty, expressed or implied, is made such that the information remains unchanged in any respect as of any date or dates after those stated herein, with respect to any matter concerning the Issuer, Kuveyt Türk or any statement made in this Information Memorandum. In the context of the above, each of the Issuer, Kuveyt Türk and their respective board of directors accepts full responsibility for the information contained in this Information Memorandum. Where the information has been sourced or extracted from third parties, the Issuer and Kuveyt Türk confirm that to the best of their knowledge and belief, and as far as they are able to ascertain from such information, no facts have been omitted which would render the reproduced information false, inaccurate or misleading.

IMPORTANT NOTICE AND GENERAL STATEMENTS OF DISCLAIMER

This Information Memorandum is being furnished to prospective investors on a private and confidential basis for use solely to consider the purchase of Sukuk Wakalah pursuant to the Sukuk Wakalah Programme falling within any one or more of the categories of persons specified in Schedule 6 or Section 229(1)(b), and Schedule 7 or Section 230(1)(b), read together with Schedule 9 or Section 257(3) of the Capital Markets and Services Act 2007 as amended from time to time ("**CMSA**") at issuance and Schedule 6 or Section 229(1)(b), read together with Schedule 9 or Section 257(3) of the CMSA thereafter.

The Sukuk Wakalah Programme has been accorded a preliminary rating of AA_3(s)/stable by RAM Rating Services Berhad ("**RAM Ratings**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agency.

CIMB Investment Bank Berhad (Company No. 18417-M) ("**CIMB IB**"), Kuwait Finance House (Malaysia) Berhad (Company No. 672174-T) ("**KFH Malaysia**") and Maybank Investment Bank Berhad (Company No. 15938-H) ("**Maybank IB**") as the joint joint lead arrangers ("**Joint Lead Arrangers**") and CIMB IB, KFH Malaysia and Maybank IB, and in respect of subsequent issuances of Sukuk Wakalah under the Sukuk Wakalah Programme, such party(ies) as may be appointed by the Issuer prior to each issuance of the Sukuk Wakalah, as joint lead managers ("**Joint Lead Managers**") of the Sukuk Wakalah Programme have not independently verified any of the information or data contained in this Information Memorandum. Neither the Joint Lead Arrangers/Joint Lead Managers nor any of their directors, affiliates, advisers, agents, representatives and employees has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, expressed or implied, is given or assumed by the Joint Lead Arrangers/Joint Lead Managers or any of their directors, affiliates, advisers, agents, representatives or employees as to the authenticity, origin, validity, accuracy or completeness of the information or data contained in this Information Memorandum or any other information provided by the Issuer and Kuveyt Türk in connection with the Sukuk Wakalah and/or the Sukuk Wakalah Programme, or that such information or data remains unchanged in any respect after the relevant date shown in this Information Memorandum. To the fullest extent permitted by law, none of the Joint Lead Arrangers/Joint Lead Managers or any of their directors, affiliates, advisers, agents, representatives or employees has accepted or will accept any responsibility for the contents of this Information Memorandum or for any other statement, made or purported to be made by the Joint Lead Arrangers/Joint Lead Managers or on their behalf in connection with the Issuer, Kuveyt Türk, the Sukuk Wakalah Programme or the issue and offering of the Sukuk Wakalah. The Joint Lead Arrangers/Joint Lead Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise which any of them might otherwise have in respect of this Information Memorandum or any such statement.

It is to be noted that although the Issuer has sought the advice of CIMB Islamic Bank Berhad, Kuwait Finance House (Malaysia) Berhad and Maybank Islamic Berhad ("**Joint Shariah Advisers**") with regards to the conformity of the Sukuk Wakalah and the structure and mechanism as described in the Principal Terms and Conditions of the Sukuk Wakalah Programme with Shariah principles, no representation, warranty or undertaking, express or implied, is given by the Issuer as to Shariah permissibility of the structure or the issue and trading of the Sukuk Wakalah and the Issuer, the Joint Lead Arrangers/Joint Lead Managers and the Joint Shariah Advisers shall not be liable for any consequences of such reliance and/or assumption of any such compliance. Each recipient should perform and is deemed to have consulted its own professional advisers and obtained independent Shariah advice on the Shariah permissibility of the structure or the issue and trading of the Sukuk Wakalah. Any non-compliance with Shariah principles may have legal consequences.

This Information Memorandum may not be, in whole or in part, reproduced or used for any other purpose, or shown, given, copied to or filed with any other person including, without limitation, any government or regulatory authority except as required under Malaysian laws, regulations or guidelines or with the prior consent of the Issuer, Kuveyt Türk and the Joint Lead Arrangers/Joint Lead Managers.

The information in this Information Memorandum supersedes all other information and material previously supplied (if any) to the recipients in relation to the Sukuk Wakalah Programme, the Sukuk Wakalah, the Issuer, and Kuveyt Türk. By taking possession of this Information Memorandum, the recipients are acknowledging and agreeing and are deemed to have acknowledged and agreed that they will not rely on any previous information supplied in relation to the Sukuk Wakalah Programme, the Sukuk Wakalah, the Issuer, or Kuveyt Türk. No person is authorised to give any information or data or to make any representation or warranty other than as contained in this Information Memorandum and, if given or made, any such information, data, representation or warranty must not be relied upon as having been authorised by any of the Issuer, Kuveyt Türk, the Joint Lead Arrangers/Joint Lead Managers or any other person.

This Information Memorandum has not been and will not be made to comply with the laws of any jurisdiction other than Malaysia ("**Foreign Jurisdiction**"), and has not been and will not be lodged, registered or approved pursuant to or under any legislation of (or with or by any regulatory authorities or other relevant bodies of) any Foreign Jurisdiction and it does not constitute an issue, offer or sale of, or an invitation to subscribe or purchase the Sukuk Wakalah or any other securities of any kind by any party in any Foreign Jurisdiction.

No action has been or will be taken in any Foreign Jurisdiction by the Issuer, Kuveyt Türk or the Joint Lead Arrangers/Joint Lead Managers that would permit an issue or offering or an invitation to subscribe for or purchase the Sukuk Wakalah, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Information Memorandum comes are required by the Issuer, Kuveyt Türk or the Joint Lead Arrangers/Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver the Sukuk Wakalah or have in their possession or distribute such offering material, in all cases at their own expense.

This Information Memorandum is not and is not intended to be a prospectus. Unless otherwise specified in this Information Memorandum, the information contained in this Information Memorandum is current as at the date hereof. Neither the delivery of this Information Memorandum, nor any sale of the Sukuk Wakalah, shall under any circumstance, create any implication that there has been no change in the information contained and incorporated by reference in this Information Memorandum since the date of it or that the information contained or incorporated by reference in it is correct as of any time subsequent to either of such dates, as the case may be.

The distribution or possession of this Information Memorandum in or from certain jurisdictions may be restricted or prohibited by law. Each recipient is required to seek appropriate professional advice regarding, and to observe, any such restriction or prohibition. None of the Issuer, Kuveyt Türk or the Joint Lead Arrangers/Joint Lead Managers accepts any responsibility or liability to any person in relation to the distribution or possession of this Information Memorandum in or from any such Foreign Jurisdiction.

By accepting delivery of this Information Memorandum, each recipient agrees to the terms upon which this Information Memorandum is provided to such recipient as set out in this Information Memorandum, and further agrees and confirms that:

(a) it will keep confidential all of such information and data;

(b) it is lawful for the recipient to subscribe for or purchase the Sukuk Wakalah under all jurisdictions to which the recipient is subject;

(c) the recipient has complied with all applicable laws in connection with such subscription or purchase of the Sukuk Wakalah;

(d) the Issuer, Kuveyt Türk, the Joint Lead Arrangers/Joint Lead Managers and their respective directors, officers, employees, affiliates and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject as a result of such subscription or purchase of the Sukuk Wakalah, and they shall not have any responsibility or liability in the event that such subscription or purchase of the Sukuk Wakalah is or shall become unlawful, unenforceable, voidable or void;

(e) it is aware that the Sukuk Wakalah can only be offered, sold, transferred or otherwise disposed of directly or indirectly in accordance with the relevant selling restrictions and all applicable laws;

(f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing the Sukuk Wakalah, and is able and is prepared to bear the economic and financial risks of investing in or holding the Sukuk Wakalah;

(g) it is subscribing or accepting the Sukuk Wakalah for its own account; and

(h) it is a person to whom an issue, offer or invitation to subscribe or purchase the Sukuk Wakalah would constitute persons falling within any one or more of the categories of persons specified in Schedule 6 (or Section 229(1)(b)) and Schedule 7 (or Section 230(1)(b)), read together with Schedule 9 (or Section 257(3)) of the CMSA at issuance and Schedule 6 (or Section 229(1)(b)) read together with Schedule 9 (or Section 257(3)) of the CMSA thereafter.

Each recipient is solely responsible for seeking all appropriate expert advice as to the laws of all jurisdictions to which it is subject. For the avoidance of doubt, this Information Memorandum shall not constitute an offer or invitation to subscribe or purchase the Sukuk Wakalah in relation to any recipient who does not fall within item (h) above.

This Information Memorandum or any document delivered under or in relation to the issue, offer and sale of the Sukuk Wakalah is not, and should not be construed as, intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer, Kuveyt Türk and/or the Joint Lead Arrangers/Joint Lead Managers to subscribe or purchase the Sukuk Wakalah. This Information Memorandum is not a substitute for, and should not be regarded as, an independent evaluation and analysis and does not purport to be all-inclusive. Each recipient contemplating purchasing the Sukuk Wakalah should perform and is deemed to have made its own independent investigation and analysis of the financial condition, status and affairs, and its own appraisal of the creditworthiness and nature, of the Issuer, Kuveyt Türk, the Sukuk Wakalah, the Sukuk Wakalah Programme, the terms of the offering of the Sukuk Wakalah, including the merits and risks involved and all other relevant matters, and each recipient should consult its own professional advisers. All information and statements herein are subject to the detailed provisions of the respective agreements referred to herein and are qualified in their entirety by reference to such documents.

This Information Memorandum must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein.

Neither the delivery of this Information Memorandum nor the offering, sale or delivery of any Sukuk Wakalah shall, in any circumstances, create any implication that the information contained in this Information Memorandum is true subsequent to the date hereof or the date upon which this Information Memorandum has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer or Kuveyt Türk since the date thereof or, if later, the date upon which this Information Memorandum has been most recently amended or supplemented or that any other information supplied in connection with the Sukuk Wakalah Programme and/or the Sukuk Wakalah is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Joint Lead Arrangers/Joint Lead Managers or any other advisers for the Sukuk Wakalah Programme expressly do not undertake to review the financial condition or affairs of the Issuer or Kuveyt Türk during the tenor of the Sukuk Wakalah or to advise any investor of the Sukuk Wakalah of any information coming to its attention. The recipient of this Information Memorandum or the potential investors should review, *inter alia*, the most recently published documents incorporated by reference into this Information Memorandum when deciding whether or not to purchase any Sukuk Wakalah.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Information Memorandum may be deemed to be "forward-looking statements". Forward-looking statements involve risks, uncertainties and assumptions, and include statements (other than statements of historical fact) concerning Kuveyt Türk's or, as the case may be, the Group's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. When used in this Information Memorandum, 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, among other things, Kuveyt Türk's or, as the case may be, the Group's business strategy, management plans and objectives, 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 identified below or which Kuveyt Türk has otherwise identified in this Information Memorandum, or if any of Kuveyt Türk's underlying assumptions prove to be incomplete or inaccurate, Kuveyt Türk's or, as the case may be, the Group's actual results of operation may vary from those expected, estimated or predicted.

Important factors that could cause Kuveyt Türk's or, as the case may be, the Group's actual results of operation to differ materially from any forward-looking statements include, among others:

- macro-economic and financial market conditions and, in particular, political and economic conditions in Turkey, including changes in the Turkish economy and in the banking and financial markets in Turkey;
- credit risks, including the impact of a higher level of credit defaults arising from adverse economic conditions, Kuveyt Türk's ability to successfully re-price and restructure financings, the impact of provisions and impairments and the concentration of Kuveyt Türk's financing portfolio;
- liquidity risks, including the inability of Kuveyt Türk to meet its contractual and contingent cash flow obligations or the inability to fund its operations; and
- changes in profit rates and other market conditions, including changes in benchmark rates, spreads and net profit margins.

These forward-looking statements speak only as at the date of this Information Memorandum. 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 Information Memorandum 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.

ACKNOWLEDGEMENT

The Issuer and Kuveyt Türk hereby acknowledge that each has authorised the Joint Lead Arrangers/Joint Lead Managers to circulate or distribute this Information Memorandum on their behalf in respect of or in connection with the proposed offer or invitation to subscribe for and issue of, the Sukuk Wakalah to prospective investors and that no further evidence of authorisation is required.

STATEMENTS OF DISCLAIMER BY THE SECURITIES COMMISSION MALAYSIA

In accordance with the CMSA, a copy of this Information Memorandum will be deposited with the Securities Commission Malaysia ("**SC**"), who takes no responsibility for its contents.

The issue, offer or invitation in relation to the Sukuk Wakalah in this Information Memorandum or otherwise are subject to the fulfilment of various conditions precedent including without limitation the applicable approval from the SC.

The SC has on 10 February 2015 authorised the proposal under Section 212(5) of the CMSA. Please note that the authorisation of the SC shall not be taken to indicate that the SC recommends the subscription or purchase of the Sukuk Wakalah.

The SC takes no responsibility for the contents of this Information Memorandum and 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 Information Memorandum.

APPROVAL FROM THE CAPITAL MARKETS BOARD OF TURKEY

Application has been made to the Capital Markets Board of Turkey (the "**CMB**"), in its capacity as competent authority under Law No. 6362 of Turkey relating to capital markets (the "**Capital Markets Law of Turkey**"), for the approval of the sale and issuance of the Sukuk Wakalah by the Issuer outside of Turkey and the issuance certificate (ihraç belgesi) relating to the Sukuk Wakalah. The approval of the CMB for the establishment of the Sukuk Wakalah Programme was obtained on 4 December 2014 and the issuance certificate (ihraç belgesi) representing the CMB's approval of the issuance of the Sukuk Wakalah is expected to be obtained from the CMB on or before theissue date of the Sukuk Wakalah.

APPROVAL FROM BANK NEGARA MALAYSIA

Approval for the Sukuk Wakalah Programme was granted by Bank Negara Malaysia ("**BNM**") (as the Controller of Foreign Exchange) via its approval letter dated 3 December 2014.

CERTAIN PUBLICLY AVAILABLE INFORMATION

Certain statistical data and other information appearing in this Information Memorandum under "*Investment Considerations", "Selected Financial Information", "Financial Review", "Description of Kuveyt Türk"* and "*Overview of the Turkish Banking Sector and Regulations*" have 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 account and prepares statutory financial statements in Turkish lira in accordance with the Regulation on Accounting Applications for Banks and Safeguarding of Documents published in the Official Gazette dated 1 November 2006 (No. 26333), 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 the accounting and financial reporting principles published by the BRSA (collectively, "**BRSA Principles**").

The annual statutory audited consolidated financial statements of Kuveyt Türk for the years ended 31 December 2012 and 2013 prepared and presented in accordance with BRSA Principles (the "**BRSA Accounts**") are incorporated by reference in this Information Memorandum. The BRSA Accounts were audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. ("**Deloitte**"), a member of Deloitte Touche Tohmatsu Limited.

The unaudited consolidated financial statements of Kuveyt Türk for the nine month period ended 30 September 2014 prepared and presented in accordance with BRSA Principles (the "**Interim BRSA Accounts**") are also incorporated by reference in this Information Memorandum. The Interim BRSA Accounts were reviewed by Deloitte.

Kuveyt Türk's foreign subsidiaries maintain their books of account and prepare their financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries in which they operate.

Although 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**"), it also prepares audited consolidated annual financial statements for the year ended 31 December and unaudited consolidated interim financial statements for the six month period ended 30 June each year in accordance with IFRS. The audited consolidated annual financial statements of Kuveyt Türk for the years ended 31 December 2012 and 2013 prepared and presented in accordance with IFRS (the "**IFRS Accounts**") are further incorporated by reference in this Information Memorandum. The IFRS Accounts were audited by Deloitte.

Reference is made in relation to certain financial data included in this Information Memorandum to such data having been prepared in accordance with BRSA Principles. Financial data prepared in accordance with BRSA Principles is included in this Information Memorandum 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 Information Memorandum is extracted from the IFRS Accounts.

BRSA Principles differ from IFRS. For a discussion of the differences between BRSA Principles and IFRS, see "*Summary of Differences between IFRS and BRSA Principles*".

All references in this Information Memorandum to "**Ringgit Malaysia**" and "**RM**" are to the lawful currency of Malaysia and all references to "**Turkish lira**" (in Turkish: Türk lirası) and "**TRY**" are to the lawful currency of the Republic of Turkey. Translations of amounts from RM to Turkish lira and *vice versa* in this Information Memorandum are solely for the convenience of the reader.

All references in this Information Memorandum to "**Turkey**" are to the Republic of Turkey.

Certain figures and percentages included in this Information Memorandum 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.
The language of this Information Memorandum is English. Certain legislative references and technical terms have been cited by reference to the original Turkish term in order that the correct technical meaning may be ascribed to them under Turkish law.

EACH ISSUANCE OF SUKUK WAKALAH UNDER THE SUKUK WAKALAH PROGRAMME MAY CARRY DIFFERENT RISKS AND ALL INVESTORS SHOULD EVALUATE EACH ISSUE OF THE SUKUK WAKALAH BASED ON ITS MERITS. INVESTORS SHOULD PERFORM AND RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF AN INVESTMENT IN THE SUKUK WAKALAH ISSUED PURSUANT TO THE SUKUK WAKALAH PROGRAMME.

FOR INFORMATION CONCERNING CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS, SEE "*INVESTMENT CONSIDERATIONS*" IN SECTION 3 HEREOF.

INVESTORS SHOULD READ THIS ENTIRE INFORMATION MEMORANDUM CAREFULLY AND AS A WHOLE, INCLUDING THE APPENDICES.

PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN FINANCIAL, LEGAL AND OTHER ADVISERS BEFORE PURCHASING OR ACQUIRING OR SUBSCRIBING FOR THE SUKUK WAKALAH.

INFORMATION INCORPORATED BY REFERENCE

Certain documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Information Memorandum including:-

(a) the most recently published audited annual financial statements and, if published later, the most recently published interim financial statements of the Issuer and/or Kuveyt Türk (if any);

(b) the pricing supplement (if any) for each issuance of the Sukuk Wakalah; and

(c) all supplements or amendments to this Information Memorandum circulated by the Issuer and Kuveyt Türk, if any, save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Memorandum.

CONFIDENTIALITY

To the recipient of this Information Memorandum

This Information Memorandum and its contents are strictly confidential and the information herein contained is given to the recipient strictly on the basis that the recipient shall ensure the same remains confidential. Accordingly, this Information Memorandum and its contents, and/or any information, which is made available to the recipient in connection with any further enquiries, must be held in complete confidence.

THIS INFORMATION MEMORANDUM IS SUBMITTED TO SELECTED PERSONS SPECIFICALLY TO WHOM AN ISSUE, OFFER OR INVITATION TO SUBSCRIBE OR PURCHASE THE SUKUK WAKALAH WOULD CONSTITUTE PERSONS FALLING WITHIN ANY ONE OR MORE OF THE CATEGORIES SPECIFIED IN SCHEDULE 6 OR SECTION 229(1)(B) AND SCHEDULE 7 OR SECTION 230(1)(B), READ TOGETHER WITH SCHEDULE 9 (OR SECTION 257(3)) OF THE CMSA AND MAY NOT BE REPRODUCED OR USED, IN WHOLE OR IN PART, FOR ANY PURPOSE, NOR FURNISHED TO ANY PERSON OTHER THAN THOSE TO WHOM COPIES HAVE BEEN SENT BY THE JOINT LEAD ARRANGERS/JOINT LEAD MANAGERS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF APPLICABLE LAWS. IF YOU HAVE RECEIVED THIS INFORMATION MEMORANDUM CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

In the event that there is any contravention of the confidentiality undertaking or there is reasonable likelihood that this confidentiality undertaking may be contravened, each of the Issuer, Kuveyt Türk and/or the Joint Lead Arrangers/Joint Lead Managers may, at its discretion, apply for any remedy available to the Issuer, Kuveyt Türk and/or the Joint Lead Arrangers/Joint Lead Managers (as the case may be) whether at law or equity, including without limitation, injunctions. Each of the Issuer, Kuveyt Türk and/or the Joint Lead Arrangers/Joint Lead Managers is entitled to fully recover from the contravening party all costs, expenses and losses incurred and/or suffered in this regard on a full indemnity basis. For the avoidance of doubt, it is hereby deemed that this confidentiality undertaking shall be imposed upon the recipient, the recipient's professional advisers, directors, employees, agents and any other persons who may receive this Information Memorandum (or any part of it) from the recipient.

REGISTRATION WITH CENTRAL REGISTRY AGENCY OF TURKEY

In accordance with the Communiqué III-61.1 on Lease Certificates (the "**Sukuk Communiqué**"), published in the Official Gazette dated 7 June 2013 (No. 28670), the Sukuk Wakalah are required under Turkish law to be issued in an electronically registered form in the Central Registry Agency of Turkey (*Merkezi Kayıt Kuruluşu*) (the "**CRA**") and interests therein recorded in the CRA. However, upon the Issuer's request, the CMB may resolve to exempt the Sukuk Wakalah from this central registration requirement if the Sukuk Wakalah are to be issued outside of Turkey. The Issuer's exemption request was granted by the CMB and as a result the central registration requirement will not be applicable to the Sukuk Wakalah. Notwithstanding such exemption, the Issuer is required to notify the CRA within three Turkish business days from the issue date of, *inter alia*, the total issue amount, issue date, stock code, first periodic distribution payment date, scheduled maturity date, periodic distribution rate, name of the Sukuk trustee and currency of the Sukuk Wakalah and the country of issuance.

REPUBLIC OF TURKEY NOTICE

The Sukuk Wakalah cannot be offered or sold within Turkey under the provisions of the Capital Markets Law of Turkey. The CMB has approved the offering and sale of the Sukuk Wakalah only for the purpose of the sale of the Sukuk Wakalah outside of Turkey in accordance with Article 15(b) of Decree 32 on the Protection of the Value of the Turkish Currency (as amended from time to time, "**Decree 32**") and the Sukuk Communiqué or its related regulation. As a condition of such approval, no sale or offering of the Sukuk Wakalah may be made by way of public offering or private placement in Turkey. However, pursuant to Article 15(d)(ii) of Decree 32, there is no restriction on the offshore purchase or sale of Sukuk Wakalah by residents of Turkey on an unsolicited (reverse enquiry) basis, provided any such purchase or sale is undertaken in financial markets outside of Turkey and such purchase or sale is made through banks and/or licensed brokerage institutions authorised pursuant to CMB regulations.

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 may 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 Malaysia providing for reciprocal enforcement of judgments. Turkish courts have not rendered any judgment confirming *de facto* reciprocity between Turkey and Malaysia. Accordingly, there is uncertainty as to the enforceability of court judgments obtained in Malaysia by Turkish courts.

In addition, the courts of Turkey may 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, 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 6.831 per cent, of the Turkish lira equivalent of the amount claimed plus a fixed application fee to the relevant courts.

In any suit or action against the Issuer in Turkish courts, the relevant party, as a foreign plaintiff, may be required to deposit security for court costs ("**cautio judicatum solvi**"), unless the plaintiff is considered to be one of the contracting states of the Convention Relating to Civil Procedure done at The Hague on 1 March 1954 (ratified by Turkey by Law No. 1574) or a state that has signed a bilateral treaty with Turkey which is duly ratified, containing inter alia, a waiver of the cautio judicatum solvi requirement on a reciprocal basis.

In connection with the Sukuk Wakalah, service of process may be made upon Kuveyt Türk at the registered office of Kuwait Finance House (Malaysia) Berhad at Level 26, Menara Prestige, No. 1, Jalan Pinang, 50450 Kuala Lumpur, Malaysia (Attention: Process Agent) with respect to any proceedings in Malaysia.

See "*Investment Considerations—Risk factors relating to enforcement*"

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GLOSSARY OF DEFINITIONS & ABBREVIATIONS

The following definitions (in addition to the definitions contained in the body herein) and abbreviations shall apply throughout this Information Memorandum unless the context otherwise requires:

"Banking Law"	:	means the Turkish Banking Law No. 5411 (as amended), published in the Official Gazette dated 1 November 2005;
"BNM"	:	means Bank Negara Malaysia;
"Board" or **"Board of Directors"**	:	means Kuveyt Türk's Board of Directors;
"BRSA"	:	means the Banking Regulation and Supervision Agency of Turkey;
"BRSA Principles"	:	means the "Regulation on Accounting Applications and safeguarding of Documents" published in the Official Gazette No. 26333 on 1 November 2006, published by the BRSA, 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 BRSA in accordance with Article 37 of the Banking Law;
"Capital Markets Law of Turkey"	:	means the "No. 6362 Capital Markets Law" published in the Official Gazette No. 28513 on 30 December 2012;
"CBT"	:	means the Central Bank of Turkey;
"CMB"	:	means the Capital Markets Board of the Republic of Turkey;
"CMSA"	:	means the Capital Markets and Services Act 2007 (as amended from time to time);
"DIFC"	:	means the Dubai International Financial Centre;
"EU"	:	means the European Union;
"EUR"	:	means Euro, being the lawful currency of the European Union;
"Group"	:	means Issuer, Kuveyt Türk and its consolidated subsidiaries taken as a whole;
"IAS"	:	means the International Accounting Standards as promulgated by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee of the International Accounting Standards Board;
"IASB"	:	means the International Accounting Standards Board;
"IFRS"	:	means the International Financial Reporting Standards;
"IM" or "Information Memorandum"	:	means this Information Memorandum dated 11 February 2015 in relation to the Sukuk Wakalah Programme;
"Income Tax Law"	:	means the "No. 193 Income Tax Law" of Turkey published in the Official Gazette No. 10700 on 6 January 1961;

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"Issuer" or "KT Kira"	:	means KT Kira Sertifikaları Varlık Kiralama A.Ş., a company incorporated in the Republic of Turkey (Registration Number. 881355);
"Joint Lead Arrangers"	:	means collectively, CIMB Investment Bank Berhad (Company No. 18417-M), Kuwait Finance House (Malaysia) Berhad (Company No. 672174-T) and Maybank Investment Bank Berhad (Company No. 15938-H);
"Joint Lead Managers"	:	means collectively, CIMB Investment Bank Berhad (Company No. 18417-M), Kuwait Finance House (Malaysia) Berhad (Company No. 672174-T) and Maybank Investment Bank Berhad (Company No. 15938-H) or such party(ies) as may be appointed by the Issuer prior to each issuance of the Sukuk Wakalah;
"Joint Shariah Advisers"	:	means collectively, the CIMB Islamic Bank Berhad (Company No. 671380-H), Kuwait Finance House (Malaysia) Berhad (Company No. 672174-T and Maybank Islamic Berhad (Company No. 787435-M);
"KFH"	:	means Kuwait Finance House K.S.C.;
"Latest Practicable Date"	:	means 1 February 2015;
"Obligor" or "Kuveyt Türk"	:	means Kuveyt Türk Katılım Bankasi A.Ş. (Registration Number. 2504890);
"PTC"	:	means the principal terms and conditions of the Sukuk Wakalah Programme;
"Ringgit" and "RM"	:	means Ringgit, the lawful currency of Malaysia;
"RAM Ratings" or "Rating Agency"	:	RAM Rating Services Berhad (Company No. 763588-T);
"SC"	:	means the Securities Commission Malaysia;
"SME"	:	means small and medium sized enterprises;
"Sukukholders"	:	means the holders of the Sukuk Wakalah;
"Sukuk Trustee"	:	means Maybank Trustees Berhad (Company No. 5004-P);
"Sukuk Wakalah"	:	means the Ringgit-denominated Islamic medium term notes issued pursuant to the Sukuk Wakalah Programme;
"Sukuk Wakalah Programme"	:	means the Ringgit-denominated Islamic medium term note programme of up to Ringgit Malaysia Two Billion (RM2,000,000,000) in aggregate nominal value with a maximum tenure of ten (10) years under the Shariah principle of Wakalah;
"Transaction Documents"	:	means each of the documents executed or to be executed by the Issuer and/or the Obligor in connection with the Sukuk Wakalah Programme;
"TRY"	:	means Turkish Lira, the lawful currency of the Republic of Turkey; and

"U.S. dollar(s)" or "**U.S.$**"	:	means United Stated Dollar(s), being the lawful currency of the United States of America.

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1. EXECUTIVE SUMMARY

The following summary is qualified in its entirety by the more detailed information, the audited financial statements and notes thereto appearing elsewhere in this Information Memorandum. Prospective investors should read the full text of this Information Memorandum before deciding whether or not to invest in the Sukuk Wakalah.

1.1 BRIEF BACKGROUND OF THE ISSUER

The Issuer was incorporated in the Republic of Turkey on 3 September 2013 with the trade registration number 881355 under the laws of the Republic of Turkey as an asset leasing company in the form of a joint stock company and with limited liability. Its registered office and principal place of business is at Büyükdere Cad. No 129/1 Kat:3, 34394, Esentepe Şisli İstanbul, Turkey.

The Issuer is a wholly-owned subsidiary of the Obligor, Kuveyt Türk.

1.2 BRIEF BACKGROUND OF THE OBLIGOR

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**").

Kuveyt Türk is a full service bank which has been operating in the Republic of Turkey for over 25 years. Kuveyt Türk's business is undertaken in compliance with the principles of interest-free banking, known as participation banking in the Republic of Turkey. Kuveyt Türk engages in Shariah compliant banking, primarily with SME and corporate clients whilst its core business segments are Retail Banking, Commercial Banking and Corporate & International Banking.

1.3 BRIEF SUMMARY OF THE STRUCTURE OF THE SUKUK WAKALAH PROGRAMME

The Sukuk Wakalah Programme comprises the issuance of Sukuk Wakalah of up to Ringgit Malaysia Two Billion (RM2,000,000,000.00) in nominal value under the Shariah principle of Wakalah, a Shariah principle and concept approved by the Shariah Advisory Council of the SC.

The tenure of the Sukuk Wakalah Programme is ten (10) years from the date of first issuance of the Sukuk Wakalah while the tenure of the Sukuk Wakalah shall be more than one (1) year and up to ten (10) years provided always that the maturity of the Sukuk Wakalah shall not exceed the tenure of the Sukuk Wakalah Programme.

The Sukuk Wakalah Programme has been accorded an indicative long term rating of AA_3(s) by RAM Ratings.

The issuance of each series of the Sukuk Wakalah from time to time under the Sukuk Wakalah Programme shall be effected as follows:

1. (i) In accordance with the Declaration of Trust and Agency Agreement, the Issuer shall act as agent in respect of the Sukuk Assets for the benefit and for the account of the Sukukholders ("**Sukukholders' Agent**"). The "**Sukuk Assets**" are (a) all of the Sukukholders' Agent's rights, title, interest and benefit, present and future, in, to and under the Assets Portfolio (hereinafter defined) and any Shariah Compliant Investments (hereinafter defined), (b) all of the Issuer's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (as defined in the PTC in Section 2 of this Information Memorandum); (c) all monies which may now be, or hereafter from time to time are, standing to the credit of the Transaction Account; and (d) all proceeds of the foregoing. The "**Transaction Account**"

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refers to the account established by the Issuer in the name of the Sukukholders' Agent into which Kuveyt Türk will deposit all amounts due to the Sukukholders' Agent under the Management Agreement, the Purchase Undertaking (as defined below) or the Sale Undertaking (as defined below), as the case may be, respectively.

(ii) The Issuer shall issue Sukuk Wakalah to the Sukukholders and the Sukukholders will pay the issue price in respect of the Sukuk Wakalah to KT Kira. KT Kira, acting as Sukukholders' Agent, will enter into a purchase agreement ("**Purchase Agreement"**) with Kuveyt Türk ("**Seller"**) and pay such amount to Kuveyt Türk as the purchase price payable under the Purchase Agreement for the initial Assets Portfolio. The purchase price of any Murabahah Assets will be an amount equal to the then outstanding amounts payable in respect of that Murabahah Assets. Each Sukuk Wakalah evidence the Sukukholder's undivided proportionate interest in the Sukuk Assets.

(iii) Constituent Asset means the Real Estate Ijarah Assets, the Ijarah Assets, the Tangible Investment Sukuk and the Murabahah Assets constituting the Assets Portfolio (as defined below). The Real Estate Ijarah Assets shall comprise of physical assets legally and beneficially owned by Kuveyt Türk. The Ijarah Assets shall comprise of certain assets which are the subject of ijarah (lease) contracts (including the related ijarah contracts and all rights under such contracts) while Tangible Investment Sukuk shall comprise of sukuk certificates having associated with such certificates with underlying tangible assets of a value not less than the aggregate nominal value of those certificates. The Murabahah Assets shall comprise of receivables under murabahah contracts (involving the sale of commodities on a deferred payment basis, which deferred payment includes a related profit amount), together with the related murabahah contract and all rights under such contract. The Real Estate Ijarah Assets, Ijarah Assets and Tangible Investment Sukuk are also known as "**Tangible Assets**". On each issuance, one or more types of Tangible Assets may be used.

In respect of the sale, transfer and assignment of the Assets Portfolio (other than the Real Estate Ijarah Assets) under the Purchase Agreement, legal title to the Constituent Assets shall at all times remain with the Seller in accordance with Article 6 of the Sukuk Communiqué, which will hold such legal title on behalf and for the account of the Purchaser on a fiduciary basis. In respect of the Real Estate Ijarah Assets, the legal and beneficial title to the Real Estate Ijarah Assets will be transferred from the Seller to KT Kira in its capacity as the Sukukholders' Agent.

(iv) The Constituent Assets comprised within the Assets Portfolio may be added to or substituted from time to time with additional or replacement Real Estate Ijarah Assets, Ijarah Assets, Tangible Investments Sukuk or Murabahah Assets. Kuveyt Türk may require the substitution of Constituent Assets under the Sale Undertaking, in each case, for new Constituent Assets of a value not less than the Constituent Assets being substituted and Kuveyt Türk shall ensure, on a best effort basis that the Tangible Assets amount following such substitution continues on a best effort basis to be at least 51 per cent. of the Sukuk Assets Value (the "**Tangibility Ratio**"). For the avoidance of doubt, the Tangibility Ratio is required to be complied with and maintained on a best effort basis throughout the entire tenure of the Sukuk Wakalah. "**Sukuk Assets Value**" means at any time, the aggregate value of (i) the Constituent Assets constituting the Assets Portfolio at that time and (ii) any Shariah Compliant Investments then held by the Managing Agent (as defined below).

(v) The "**Assets Portfolio**" means a) the initial Assets Portfolio and (b) from the time of any acquisition of a Constituent Asset on the Sukukholders' behalf

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and/or any substitution of a Constituent Asset in accordance with (i) the Management Agreement (hereinafter defined) or (ii) the Sale Undertaking (hereinafter defined), the eligible Constituent Asset(s) so acquired, including as substituted for any relevant Constituent Asset and from the time of such substitution the Constituent Asset so substituted shall cease to be included in the Assets Portfolio. From the time of any other sale and transfer of a Constituent Asset to Kuveyt Turk in accordance with the Sale Undertaking, the Constituent Asset so sold and transferred shall also cease to be included in the Assets Portfolio.

Pursuant to the Management Agreement, the Constituent Assets in the Assets Portfolio shall be substituted in the situation where Kuveyt Türk in its capacity as Managing Agent acting on behalf of the Sukukholders' Agent becomes aware of, inter alia, (i) any impairment of any Constituent Asset (in terms of value or a physical impairment) as a result of any default or adverse claim (i.e. any claim of ownership of any person (other than Kuveyt Türk in its capacity as Seller of such Constituent Asset)) in respect of that Constituent Asset or (ii) any breach of any of the representations and warranties in respect of any Constituent Asset contained in the Purchase Agreement or any sale agreement pursuant to the exercise of the Purchase Undertaking.

The sum of (i) the aggregate market value of the Real Estate Ijarah 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: (a) the value of the Ijarah Assets and (b) the value of any Tangible Investment Sukuk, both in the nature of capital or principal payments, shall comply with the Tangibility Ratio to be maintained by the Managing Agent (as defined below) on a best effort basis throughout the entire tenure of the Sukuk Wakalah, in accordance with the Management Agreement.

2. Under a management agreement (the "**Management Agreement**") KT Kira will appoint Kuveyt Türk as the managing agent for a one-off fixed fee (in such capacity, the "**Managing Agent**") in respect of the Assets Portfolio. The Managing Agent may also be entitled to an incentive payment as described below.

3. KT Kira will lease the Real Estate Ijarah Assets to Kuveyt Türk (in such capacity, as the "**Lessee"**) pursuant to a lease agreement (the "**Lease Agreement**"). Rental, payable under the Lease Agreement will be paid to the Managing Agent for the account of KT Kira as lessor (in such capacity, as the "**Lessor**"). In the event of the occurrence of a Total Loss Event for Real Estate Ijarah Assets (as defined in the PTC in Section 2 of this Information Memorandum), the Lease Agreement will be terminated and the affected Real Estate Ijarah Assets will be substituted in accordance with the Management Agreement. For the avoidance of doubt, the Lease Agreement will not be terminated in the event of the occurrence of a Partial Total Loss Event for Real Estate Ijarah Assets (as defined in the PTC in Section 2 of this Information Memorandum).

4. On or before the issue date of each Sukuk Wakalah, KT Kira (for the benefit of Sukukholders) shall establish the following book-entry ledger accounts in respect of each series of Sukuk Wakalah:

   (i) Principal Collection Account;
   (ii) Income Collection Account; and
   (iii) Reserve Collection Account.

   (I) Portfolio Revenues

   The services to be provided by the Managing Agent in managing the Assets Portfolio will include the crediting of all revenues received in respect of the Assets Portfolio in the nature of capital or principal, including all amounts received in respect of Murabahah Assets (the "**Portfolio Principal Revenues**") to the Principal Collection Account as and when received. Amounts received in respect of Murabahah Assets will constitute Portfolio Principal Revenues for these purposes on the basis that such amounts will not represent a profit on the investment by the Sukukholders' Agent (or the Managing Agent on its behalf) in those Murabahah Assets, as the purchase price of any Murabahah Assets on such investment will be equal to the outstanding amounts payable in respect of that Murabahah Assets.

All other revenues received in respect of the Assets Portfolio (the "**Portfolio Income Revenues**"), which will consist of any such other revenues received in respect of the Tangible Assets, will be credited by the Managing Agent to the Income Collection Account on the payment Business Day immediately prior to each Periodic Distribution Date.

Pursuant to the Management Agreement, after the payment of any Periodic Distribution Shortfall (as defined below) if required, the Managing Agent, for and on behalf of the Sukukholders' Agent, will use all reasonable endeavours to apply all Portfolio Principal Revenues towards:

(i) purchase from Kuveyt Türk (acting in its own capacity and for its own account) of additional Constituent Assets (the "**Additional Constituent Assets**") subject to the Tangibility Ratio. It is at the option of the Managing Agent whether and when to apply Portfolio Principal Revenues towards purchase from Kuveyt Türk of the Additional Constituent Assets as long as the Tangibility Ratio is achieved; and/or

(ii) invest any remaining Portfolio Principal Revenues by placing the relevant amounts on deposit with Kuveyt Türk on a Shariah compliant basis (the "**Shariah Compliant Investments**") pending the availability of such Additional Constituent Assets, in the event that on the receipt of any Portfolio Principal Revenues Kuveyt Türk has insufficient Additional Constituent Assets available for sale to KT Kira. Any Shariah Compliant Investments shall be recorded by the Managing Agent and any returns generated from such investment will be credited to the Income Collection Account on the payment Business Day immediately prior to each Periodic Distribution Date.

(II) Periodic Distribution Payments

The Issuer will pay Periodic Distribution Amounts (as defined in the PTC in Section 2 of this Information Memorandum) solely from the proceeds received in respect of the Assets Portfolio, which include payments by Kuveyt Türk as Lessee and as Managing Agent under the Lease Agreement and the Management Agreement, respectively.

In accordance with the Management Agreement, on each Periodic Distribution Date (as defined hereinafter), the Managing Agent will pay to KT Kira from amounts then standing to the credit of the Income Collection Account, an amount equal to the Periodic Distribution Amounts payable by the Issuer under the Sukuk Wakalah on such Periodic Distribution Date.

To the extent the aggregate amounts standing to the credit of the Income Collection Account and the Reserve Collection Account are insufficient to fund the required Periodic Distribution Amounts (any such shortfall being the "**Periodic Distribution Shortfall**"), the Managing Agent shall:

(a) first, using amounts standing to the credit of the Principal Collection Account, pay into the Transaction Account an amount equal to the lesser of the Periodic Distribution Shortfall and the balance of the Principal Collection Account;

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(b) second, where the amount paid into the Transaction Account pursuant to (a) above is insufficient to cover the Periodic Distribution Shortfall, realise a portion of any Shariah Compliant Investments then held by the Managing Agent as selected by the Managing Agent equal in value to the remaining Periodic Distribution Shortfall or, where the aggregate value of such Shariah Compliant Investments is less than the remaining Periodic Distribution Shortfall, all such Shariah Compliant Investments (by terminating and demanding immediate payment of such Shariah Compliant Investments in compliance in all material respects with Shariah principles as interpreted by Kuveyt Turk's Sharia Advisory Board), and pay the amount so realised to the Transaction Account; and

(c) third, where the amounts paid into the Transaction Account pursuant to (a) and (b) above are insufficient to cover the Periodic Distribution Shortfall, realise a portion of the Assets Portfolio equal in value to the remaining Periodic Distribution Shortfall through the sale of Constituent Assets on behalf of the Sukukholders' Agent to Kuveyt Türk pursuant to the "**Purchase Undertaking**" (as defined below). Upon any such sale of Constituent Assets, the Murabahah Assets will be sold first for an amount equal to the value of those Murabahah Assets and in accordance with Shariah principles related to debt trading as approved by Kuveyt Turk's Sharia Advisory Board, then the Tangible Investment Sukuk, the Ijarah Assets and the Real Estate Ijarah Assets as applicable, but in each case only to the extent necessary to realise an amount equal to the remaining Periodic Distribution Shortfall, and pay the amount so realised to the Transaction Account.

On each Periodic Distribution Date, any excess arising from Income Collection Account shall be debited from the Income Collection Account and credited to the Reserve Collection Account. The Managing Agent will be entitled to deduct amounts standing to the credit of the Reserve Collection Account at any time and use such amounts for its own account, provided that the Managing Agent shall be required to, *inter alia*, repay such amounts if so required to fund a Periodic Distribution Shortfall. Following payment of all amounts due and payable under the Sukuk Wakalah on the termination date, the Managing Agent shall be entitled to retain any amounts standing to the credit of the Reserve Collection Account as an incentive payment for acting as Managing Agent.

5. Pursuant to the "**Purchase Undertaking**", Kuveyt Türk as the Obligor undertakes, at the option of the Sukukholders' Agent, to purchase the Assets Portfolio (or part thereof) from KT Kira at the relevant Exercise Price (as defined in the PTC in Section 2 of this Information Memorandum) and execute a sale agreement for such purchase in case of:

(i) the occurrence of Periodic Distribution Shortfall on any Periodic Distribution Date, Kuveyt Türk is required to purchase an amount of Constituent Assets (with the Murabahah Assets to be sold first, then the Tangible Investment Sukuk, the Ijarah Assets and the Real Estate Ijarah Assets, as applicable) equal in value to the remaining Periodic Distribution Shortfall;

(ii) the occurrence of a Dissolution Event (as defined in the PTC in Section 2 of this Information Memorandum) or at the maturity of the Sukuk Wakalah; and

(iii) the occurrence of a Change of Control Event (as defined in the PTC in Section 2 of this Information Memorandum).

In respect of (i) above, the Exercise Price (as defined in the PTC in Section 2 of this Information Memorandum) shall equal to the Periodic Distribution Shortfall less any

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amounts paid into the Transaction Account pursuant to paragraph (4)(II)(a) and (b) above in accordance with the Management Agreement ("**Periodic Distribution Shortfall Exercise Price**"). In the case of (ii) above, the Exercise Price (as defined in the PTC in Section 2 of this Information Memorandum) shall be the Assets Portfolio Exercise Price (as defined in the PTC in Section 2 of this Information Memorandum). In the case of (iii) above, the Exercise Price (as defined in the PTC in Section 2 of this Information Memorandum) shall be the Change of Control Exercise Price (as defined in the PTC in Section 2 of this Information Memorandum).

6. Pursuant to the "**Sale Undertaking**", Kuveyt Türk has the right to oblige the Sukukholders' Agent to transfer or sell the Assets Portfolio (or part thereof) to Kuveyt Türk and execute a transfer agreement or sale agreement for such transfer or sale upon the occurrence of the following events:

   (i) Kuveyt Türk exercising its rights to effect the in-kind substitution of the Constituent Assets; or

   (ii) if Kuveyt Türk, its Subsidiaries (as defined in the PTC in Section 2 of this Information Memorandum) or any of their agents purchases the Sukuk Wakalah in the open market, in which case Kuveyt Türk may request the Sukukholders' Agent to transfer the assets corresponding to the cancelled Sukuk Wakalah in consideration for the Sukuk Wakalah being surrendered to the Issuer and subsequently cancelled.

7. <u>Termination Payment by Kuveyt Turk</u>

   Kuveyt Türk may be required to purchase all of the Assets Portfolio prior to the scheduled termination date following a Dissolution Event (as defined in the PTC in Section 2 of this Information Memorandum) or Change of Control Event (as defined in the PTC in Section 2 of this Information Memorandum). In each case, the amounts payable by the Issuer on the due date for termination will be funded, *inter alia*, by Kuveyt Türk purchasing the Assets Portfolio from the Sukukholders' Agent at the Exercise Price (as defined in the PTC in Section 2 of this Information Memorandum) and paying the Exercise Price (as defined in the PTC in Section 2 of this Information Memorandum) to Sukukholders' Agent pursuant to the terms of the Purchase Undertaking.

   On the scheduled termination date, Sukukholders' Agent will have the right under the Purchase Undertaking to require Kuveyt Türk to purchase the Assets Portfolio and pay the Exercise Price (as defined in the PTC in Section 2 of this Information Memorandum) payable by Kuveyt Türk to KT Kira for such purchase, together with the amounts realised upon the termination of any Shariah Compliant Investments by the Managing Agent and the payment of such amounts by Kuveyt Türk, and any Portfolio Principal Revenues and Portfolio Income Revenues then held by the Managing Agent, to KT Kira, in each case pursuant to the Management Agreement, is intended to fund the aggregate outstanding nominal value of the Sukuk Wakalah plus all accrued and unpaid Periodic Distribution Amounts in respect of such Sukuk Wakalah (the "**Termination Distribution Amount**") payable by the Issuer under the Sukuk Wakalah.

   Upon full payment of the Termination Distribution Amount, in the case of excess, any amounts standing to the credit of the Reserve Collection Account shall be retained by the Managing Agent as an incentive payment.

For the avoidance of doubt, any double counting shall be disregarded.

1.4 USE OF PROCEEDS

The proceeds raised from the issuance of the Sukuk Wakalah shall be utilised by the Issuer to pay the purchase price of the relevant initial Assets Portfolio (as defined in the PTC in Section

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2 of this Information Memorandum) purchased from Kuveyt Türk on each issue date of the Sukuk Wakalah.

The proceeds from the sale of the relevant Assets Portfolio under the Purchase Agreement shall be utilised by Kuveyt Türk for its general corporate and funding purposes provided always that any such utilisation shall be in compliance with Shariah.

1.5 RATING

RAM Ratings has assigned a preliminary rating of AA_3(S)/stable to the Sukuk Wakalah Programme.

1.6 APPROVALS / REGULATORY REQUIREMENTS

(a) *Malaysia*

(i) Approval for the Sukuk Wakalah Programme was granted by BNM (as the Controller of Foreign Exchange) via its approval letter dated 3 December 2014.

(ii) The Sukuk Wakalah Programme has also been authorised under Section 212(5) of the CMSA by the SC via its letter dated 10 February 2015.

(b) *Republic of Turkey*

(i) The Sukuk Wakalah Programme has been approved by the CMB of the Republic of Turkey via its approval letter dated 4 December 2014.

1.7 SELLING RESTRICTIONS

(a) *General*

No action has been or will be taken by the Issuer, Kuveyt Türk and/or the Joint Lead Arrangers/Joint Lead Managers that would or is intended to permit a public offer of the Sukuk Wakalah in any Foreign Jurisdiction where any such action for that purpose is required.

Purchasers of the Sukuk Wakalah are recommended to consult their professional advisers if they are in any doubt as to the regulatory implications of subscribing for, purchasing, holding, disposing of or otherwise dealing in the Sukuk Wakalah.

(b) *Malaysia*

i. At the Issuance of the Sukuk Wakalah

The Sukuk Wakalah may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe the Sukuk Wakalah may be made and to whom the Sukuk Wakalah are issued would fall within Schedule 6 (or Section 229(1)(b)) and Schedule 7 (or Section 230(1)(b)), read together with Schedule 9 (or Section 257(3)) of the CMSA.

ii. Selling Restrictions Thereafter

The Sukuk Wakalah may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to purchase the Sukuk Wakalah would fall within Schedule 6 (or Section 229(1)(b)), read together with Schedule 9 (or Section 257(3)) of the CMSA.

2. PRINCIPAL TERMS AND CONDITIONS OF THE SUKUK WAKALAH PROGRAMME AND DESCRIPTION OF THE SUKUK WAKALAH

This summary highlights selected information and may not contain all of the information that is important to prospective investors. To understand the terms of the Sukuk Wakalah Programme, prospective investors should carefully read this Information Memorandum.

Words and expressions used and defined in this Section 2 shall, in the event of any inconsistency with the definition section of this Information Memorandum, only be applicable for this Section 2.

1. BACKGROUND INFORMATION

(a) Issuer

(i)	Name	KT Kira Sertifikaları Varlık Kiralama A.Ş. ("**KT Kira**" or the "**Issuer**").
(ii)	Address	Büyükdere Cad. No 129/1 Kat:3, 34394 Esentepe-Şişli Istanbul Turkey.
(iii)	Business registration number	881355.
(iv)	Date and place of incorporation	3 September 2013/ Turkey.
(v)	Date of listing, where applicable	Not applicable.
(vi)	Status on residence, i.e. whether it is a resident controlled company or non-resident controlled company	Non-resident controlled company.
(vii)	Principal activities	The Issuer's activities will principally be the issue of lease certificates (including the Sukuk Wakalah (as defined in paragraph 2(c) below), 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 incidental thereto.
(viii)	Board of directors	The board of directors of the Issuer as at 1 December 2014 consists of: 1. Rusen Ahmet Albayrak; 2. Mehmet Keles; 3. Omer Asim Ozgozukara.

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(ix)	Structure of shareholdings and names of shareholders or, in the case of a public company, names of all substantial shareholders	The structure of shareholdings and the name of the shareholder of the Issuer as at 1 December 2014 is as follows:

Name of Shareholder	**No. of shares held**	**(%)**
Kuveyt Türk Katılım Bankası A.Ş.	50,000	100.00
Total	50,000	**100.00**

(x)	Authorised, issued and paid-up capital	**Authorised share capital as at 1 December 2014** Turkish Lira ("**TL**") 50,000 comprising 50,000 ordinary shares of TL1.00 each. **Issued and fully paid-up share capital as at 1 December 2014** TL50,000 comprising 50,000 ordinary shares of TL1.00 each.
(xi)	Disclosure of the following:	
	• If the Issuer or its board members have been convicted or charged with any offence under the securities laws, corporation laws or other laws involving fraud or dishonesty in a court of law, for the past five years prior to the date of application; and	None.
	• If the Issuer has been subjected to any action by the stock exchange for any breach of the listing requirements or rules issued by the stock exchange, for the past five years prior to the date of application.	None.

(b) Obligor

(i)	Name	Kuveyt Türk Katılım Bankası A.Ş. ("**Kuveyt Türk**" or the "**Obligor**").
(ii)	Address	Büyükdere Cad. No 129/1, 34394 Esentepe-Şişli Istanbul Turkey.

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(iii)	Business registration number	250489/0.
(iv)	Date and place of incorporation	22 November 1988/Turkey.
(v)	Date of listing, where applicable	Not applicable.
(vi)	Status on residence, i.e. whether it is a resident controlled company or non-resident controlled company	Non-resident controlled company.
(vii)	Principal activities	Banking business in compliance with the principles of interest-free banking, known as participation banking in Turkey.
(viii)	Board of directors	The board of directors of the Obligor as at 1 December 2014 consists of:

1. Hamad Abdulmohsen Al Marzouq;
2. Abdullah Tivnikli;
3. Adnan Ertem;
4. Fawaz K H E AlSaleh;
5. Nadir Alpaslan;
6. Khaled Nasser Abdulaziz AlFouzan;
7. Mohammed Shujauddin Ahmed;
8. Ahmad S Al Kharji;
9. UfukUyan.

(viii) Structure of shareholdings and names of shareholders or, in the case of a public company, names of all substantial shareholders

The structure of shareholdings and the names of the shareholders of the Obligor as at 1 December 2014 are as follows:

Name of Shareholder	**No. of shares held**	**(%)**
Kuwait Finance House K.S.C ("**KFH**")	1,425,324,949	62.24
General Directorate for Foundations – Turkey	428,671,143	18.72
Public Institution for Social Security-Kuwait	206,100,000	9.00
The Islamic Development Bank	206,100,000	9.00
Others	23,803,908	1.04
Total	**2,290,000,000**	**100.00**

(xi)	Authorised, issued and paid-up capital	**Authorised share capital as at 1 December 2014** TL2,290,000,000 comprising 2,290,000,000 ordinary shares of TL1.00 each. **Issued and fully paid-up share capital as at 1 December 2014** TL2,290,000,000 comprising 2,290,000,000 ordinary shares of TL1.00 each.
(xii)	Disclosure of the following:	
	• If the Obligor or its board members have been convicted or charged with any offence under the securities laws, corporation laws or other laws involving fraud or dishonesty in a court of law, for the past five years prior to the date of application; and	None.
	• If the Obligor has been subjected to any action by the stock exchange for any breach of the listing requirements or rules issued by the stock exchange, for the past five years prior to the date of application.	None.

2. PRINCIPAL TERMS AND CONDITIONS

(a) Names of parties involved in the proposal, where applicable

(i)	Joint principal advisers	CIMB Investment Bank Berhad ("**CIMB**"), Kuwait Finance House (Malaysia) Berhad ("**KFH Malaysia**") and Maybank Investment Bank Berhad ("**Maybank IB**") ("**JPAs**").
(ii)	Joint lead arrangers	CIMB, KFH Malaysia and Maybank IB ("**JLAs**").
(iii)	Co-arranger	Not applicable.
(iv)	Solicitor	<u>Legal Counsel to the JPAs/JLAs in relation to Malaysian Law</u> Messrs. Adnan Sundra & Low ("**ASL**").

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		Legal Counsel to the JPAs/JLAs in relation to Turkish Law Pekin & Bayar Law Firm. Legal Counsel to the Issuer in relation to Malaysian Law Messrs. Zaid Ibrahim & Co. Legal Counsel to the Issuer in relation to Turkish Law Mutlu Avukatlik Ortakligi.
(v)	Financial adviser	Not applicable.
(vi)	Technical adviser	Not applicable.
(vii)	Sukuk trustee	Maybank Trustees Berhad ("**Sukuk Trustee**").
(viii)	Shariah adviser	CIMB Islamic Bank Berhad, KFH Malaysia and Maybank Islamic Berhad ("**Joint Shariah Advisers**").
(ix)	Guarantor	Not applicable.
(x)	Valuer	Not applicable.
(xi)	Facility agent	KFH Malaysia ("**Facility Agent**").
(xii)	Primary subscriber (under a bought-deal arrangement) and amount subscribed	The primary subscriber(s) (if any) will be determined prior to each issuance.
(xiii)	Underwriter and amount underwritten	Not applicable.
(xiv)	Central depository	Bank Negara Malaysia ("**BNM**").
(xv)	Paying agent	BNM.
(xvi)	Reporting accountant	DRT Bağımsız Denetim ve SMMM A.Ş. (Member of Deloitte Touche Tohmatsu Limited) ("**Reporting Accountant**").
(xvii)	Calculation agent	Not applicable.
(xviii)	Others (please specify)	**Joint Lead Managers ("JLMs")** For the first Sukuk Wakalah issue: CIMB, KFH Malaysia and Maybank IB. For subsequent Sukuk Wakalah issues: Any party or parties as may be appointed by the Issuer. **Joint Bookrunners ("JBRs")** For the first Sukuk Wakalah issue: CIMB, KFH Malaysia and Maybank IB. For subsequent Sukuk Wakalah issues: Any party or parties as may be appointed by the Issuer.

(b)	**Islamic principles used**	Shariah principle of Wakalah bi Al-Istithmar.

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(c) Facility description

An Islamic medium term notes under the Shariah principle of Wakalah bi Al-Istithmar ("**Sukuk Wakalah**") programme of up to RM2.0 billion in nominal value under the Islamic principle of Wakalah ("**Sukuk Wakalah Programme**").

__**Underlying Transaction**__

1. The issuance of each series of the Sukuk Wakalah from time to time under the Sukuk Wakalah Programme shall be effected as follows:

   (i) In accordance with the Declaration of Trust and Agency Agreement, the Issuer (or "**KT Kira**") shall act as agent in respect of the Sukuk Assets for the benefit and for the account of the Sukukholders ("**Sukukholders' Agent**"). The "**Sukuk Assets**" are (a) all of the Sukukholders' Agent's rights, title, interest and benefit, present and future, in, to and under the Assets Portfolio (hereinafter defined) and any Shariah Compliant Investments (hereinafter defined), (b) all of the Issuer's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (as defined in paragraph 2(y)(xi) below); (c) all monies which may now be, or hereafter from time to time are, standing to the credit of the Transaction Account; and (d) all proceeds of the foregoing. The "**Transaction Account**" refers to the account established by the Issuer in the name of the Sukukholders' Agent into which Kuveyt Türk will deposit all amounts due to the Sukukholders' Agent under the Management Agreement, the Purchase Undertaking (as defined below) or the Sale Undertaking (as defined below), as the case may be, respectively.

   (ii) The Issuer shall issue Sukuk Wakalah to the Sukukholders and the Sukukholders will pay the issue price in respect of the Sukuk Wakalah to KT Kira. KT Kira, acting as Sukukholders' Agent, will enter into a purchase agreement ("**Purchase Agreement"**) with Kuveyt Türk ("**Seller"**) and pay such amount to Kuveyt Türk as the purchase price payable under the Purchase Agreement for the initial Assets Portfolio. The purchase price of any Murabahah Assets will be an amount equal to the then outstanding amounts payable in respect of that Murabahah Assets. Each Sukuk Wakalah evidence the Sukukholder's undivided proportionate interest in the Sukuk Assets.

   (iii) Constituent Asset means the Real Estate Ijarah Assets, the Ijarah Assets, the Tangible Investment Sukuk and the Murabahah Assets constituting the Assets Portfolio (as defined in paragraph 2(c)(1)(v) below). The Real Estate Ijarah Assets shall comprise of physical assets legally and beneficially owned by Kuveyt Turk.

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The Ijarah Assets shall comprise of certain assets which are the subject of ijarah (lease) contracts (including the related ijarah contracts and all rights under such contracts) while Tangible Investment Sukuk shall comprise of sukuk certificates having associated with such certificates with underlying tangible assets of a value not less than the aggregate nominal value of those certificates. The Murabahah Assets shall comprise of receivables under murabahah contracts (involving the sale of commodities on a deferred payment basis, which deferred payment includes a related profit amount), together with the related murabahah contract and all rights under such contract. The Real Estate Ijarah Assets, Ijarah Assets and Tangible Investment Sukuk are also known as "**Tangible Assets**". On each issuance, one or more types of Tangible Assets may be used.

In respect of the sale, transfer and assignment of the Assets Portfolio (other than the Real Estate Ijarah Assets) under the Purchase Agreement, legal title to the Constituent Assets shall at all times remain with the Seller in accordance with Article 6 of the Sukuk Communiqué, which will hold such legal title on behalf and for the account of the Purchaser on a fiduciary basis. In respect of the Real Estate Ijarah Assets, the legal and beneficial title to the Real Estate Ijarah Assets will be transferred from the Seller to KT Kira in its capacity as the Sukukholders' Agent.

(iv) The Constituent Assets comprised within the Assets Portfolio may be added to or substituted from time to time with additional or replacement Real Estate Ijarah Assets, Ijarah Assets, Tangible Investments Sukuk or Murabahah Assets. Kuveyt Türk may require the substitution of Constituent Assets under the Sale Undertaking, in each case, for new Constituent Assets of a value not less than the Constituent Assets being substituted and Kuveyt Türk shall ensure, on a best effort basis that the Tangible Assets amount following such substitution continues on a best effort basis to be at least fifty one per cent (51%) of the Sukuk Assets Value (the "**Tangibility Ratio**"). For the avoidance of doubt, the Tangibility Ratio is required to be complied with and maintained on a best effort basis throughout the entire tenure of the Sukuk Wakalah. "**Sukuk Assets Value**" means at any time, the aggregate value of (i) the Constituent Assets constituting the Assets Portfolio at that time and (ii) any Shariah Compliant Investments then held by the Managing Agent.

(v) The "**Assets Portfolio**" means a) the initial Assets Portfolio and (b) from the time of any acquisition of a Constituent Asset on the Sukukholders' behalf and/or any substitution of a

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Constituent Asset in accordance with (i) the Management Agreement (hereinafter defined) or (ii) the Sale Undertaking (hereinafter defined), the eligible Constituent Asset(s) so acquired, including as substituted for any relevant Constituent Asset and from the time of such substitution the Constituent Asset so substituted shall cease to be included in the Assets Portfolio. From the time of any other sale and transfer of a Constituent Asset to Kuveyt Turk in accordance with the Sale Undertaking, the Constituent Asset so sold and transferred shall also cease to be included in the Assets Portfolio.

Pursuant to the Management Agreement, the Constituent Assets in the Assets Portfolio shall be substituted in the situation where Kuveyt Türk in its capacity as Managing Agent acting on behalf of the Sukukholders' Agent becomes aware of, inter alia, (i) any impairment of any Constituent Asset (in terms of value or a physical impairment) as a result of any default or adverse claim (i.e. any claim of ownership of any person (other than Kuveyt Türk in its capacity as Seller of such Constituent Asset)) in respect of that Constituent Asset or (ii) any breach of any of the representations and warranties in respect of any Constituent Asset contained in the Purchase Agreement or any sale agreement pursuant to the exercise of the Purchase Undertaking.

The sum of (i) the aggregate market value of the Real Estate Ijarah 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: (a) the value of the Ijarah Assets and (b) the value of any Tangible Investment Sukuk, both in the nature of capital or principal payments, shall comply with the Tangibility Ratio to be maintained by the Managing Agent on a best effort basis throughout the entire tenure of the Sukuk Wakalah, in accordance with the Management Agreement.

2. Under a management agreement (the "**Management Agreement**") KT Kira will appoint Kuveyt Türk as the managing agent for a one-off fixed fee (in such capacity, the "**Managing Agent**") in respect of the Assets Portfolio. The Managing Agent may also be entitled to an incentive payment as described below.

3. KT Kira will lease the Real Estate Ijarah Assets to Kuveyt Türk (in such capacity, as the "**Lessee**") pursuant to a Lease Agreement. Rental, payable under the Lease Agreement will be paid to the Managing Agent for the account of KT Kira as lessor (in such capacity, as the "**Lessor**"). In the event of the occurrence of a

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Total Loss Event for Real Estate Ijarah Assets (as defined in paragraph 2(y)(xxxviii) below), the Lease Agreement will be terminated and the affected Real Estate Ijarah Assets will be substituted in accordance with the Management Agreement. For the avoidance of doubt, the Lease Agreement will not be terminated in the event of the occurrence of a Partial Total Loss Event for Real Estate Ijarah Assets (as defined in paragraph 2(y)(xxxix) below).

4. On or before the issue date of each Sukuk Wakalah, KT Kira (for the benefit of Sukukholders) shall establish the following book-entry ledger accounts in respect of each series of Sukuk Wakalah:

   (i) Principal Collection Account;
   (ii) Income Collection Account; and
   (iii) Reserve Collection Account.

   (I) Portfolio Revenues

   The services to be provided by the Managing Agent in managing the Assets Portfolio will include the crediting of all revenues received in respect of the Assets Portfolio in the nature of capital or principal, including all amounts received in respect of Murabahah Assets (the "**Portfolio Principal Revenues**") to the Principal Collection Account as and when received. Amounts received in respect of Murabahah Assets will constitute Portfolio Principal Revenues for these purposes on the basis that such amounts will not represent a profit on the investment by the Sukukholders' Agent (or the Managing Agent on its behalf) in those Murabahah Assets, as the purchase price of any Murabahah Assets on such investment will be equal to the outstanding amounts payable in respect of that Murabahah Assets.

   All other revenues received in respect of the Assets Portfolio (the "**Portfolio Income Revenues**"), which will consist of any such other revenues received in respect of the Tangible Assets, will be credited by the Managing Agent to the Income Collection Account on the payment Business Day immediately prior to each Periodic Distribution Date.

   Pursuant to the Management Agreement, after the payment of any Periodic Distribution Shortfall (as defined below) if required, the Managing Agent, for and on behalf of the Sukukholders' Agent, will use all reasonable endeavours to apply all Portfolio Principal Revenues towards:

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(i) purchase from Kuveyt Türk (acting in its own capacity and for its own account) of additional Constituent Assets (the "**Additional Constituent Assets**") subject to the Tangibility Ratio. It is at the option of the Managing Agent whether and when to apply Portfolio Principal Revenues towards purchase from Kuveyt Türk of the Additional Constituent Assets as long as the Tangibility Ratio is achieved; and/or

(ii) invest any remaining Portfolio Principal Revenues by placing the relevant amounts on deposit with Kuveyt Türk on a Shariah compliant basis (the "**Shariah Compliant Investments**") pending the availability of such Additional Constituent Assets, in the event that on the receipt of any Portfolio Principal Revenues Kuveyt Türk has insufficient Additional Constituent Assets available for sale to KT Kira. Any Shariah Compliant Investments shall be recorded by the Managing Agent and any returns generated from such investment will be credited to the Income Collection Account on the payment Business Day immediately prior to each Periodic Distribution Date.

(II) Periodic Distribution Payments

The Issuer will pay Periodic Distribution Amounts (as defined in paragraph 2(j) below) solely from the proceeds received in respect of the Assets Portfolio, which include payments by Kuveyt Türk as Lessee and as Managing Agent under the Lease Agreement and the Management Agreement, respectively.

In accordance with the Management Agreement, on each Periodic Distribution Date (as defined hereinafter), the Managing Agent will pay to KT Kira from amounts then standing to the credit of the Income Collection Account, an amount equal to the Periodic Distribution Amounts payable by the Issuer under the Sukuk Wakalah on such Periodic Distribution Date.

To the extent the aggregate amounts standing to the credit of the Income Collection Account and the Reserve Collection Account are insufficient to fund the required Periodic Distribution Amounts (any such shortfall being the "**Periodic Distribution Shortfall**"), the Managing

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Agent shall

(a) first, using amounts standing to the credit of the Principal Collection Account, pay into the Transaction Account an amount equal to the lesser of the Periodic Distribution Shortfall and the balance of the Principal Collection Account;

(b) second, where the amount paid into the Transaction Account pursuant to (a) above is insufficient to cover the Periodic Distribution Shortfall, realise a portion of any Shariah Compliant Investments then held by the Managing Agent as selected by the Managing Agent equal in value to the remaining Periodic Distribution Shortfall or, where the aggregate value of such Shariah Compliant Investments is less than the remaining Periodic Distribution Shortfall, all such Shariah Compliant Investments (by terminating and demanding immediate payment of such Shariah Compliant Investments in compliance in all material respects with Shariah principles as interpreted by Kuveyt Turk's Sharia Advisory Board), and pay the amount so realised to the Transaction Account; and

(c) third, where the amounts paid into the Transaction Account pursuant to (a) and (b) above are insufficient to cover the Periodic Distribution Shortfall, realise a portion of the Assets Portfolio equal in value to the remaining Periodic Distribution Shortfall through the sale of Constituent Assets on behalf of the Sukukholders' Agent to Kuveyt Türk pursuant to the Purchase Undertaking (as defined below). Upon any such sale of Constituent Assets, the Murabahah Assets will be sold first for an amount equal to the value of those Murabahah Assets and in accordance with Shariah principles related to debt trading as approved by Kuveyt Turk's Sharia Advisory Board, then the Tangible Investment Sukuk, the Ijarah Assets and the Real Estate Ijarah Assets as applicable, but in each case only to the extent necessary to realise an amount equal to the remaining Periodic Distribution Shortfall, and pay the amount so realised to the Transaction Account.

On each Periodic Distribution Date, any excess arising from Income Collection Account shall be

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debited from the Income Collection Account and credited to the Reserve Collection Account. The Managing Agent will be entitled to deduct amounts standing to the credit of the Reserve Collection Account at any time and use such amounts for its own account, provided that the Managing Agent shall be required to, *inter alia*, repay such amounts if so required to fund a Periodic Distribution Shortfall. Following payment of all amounts due and payable under the Sukuk Wakalah on the termination date, the Managing Agent shall be entitled to retain any amounts standing to the credit of the Reserve Collection Account as an incentive payment for acting as Managing Agent.

5. Pursuant to the "**Purchase Undertaking**", Kuveyt Türk as the Obligor undertakes, at the option of the Sukukholders' Agent, to purchase the Assets Portfolio (or part thereof) from KT Kira at the relevant Exercise Price and execute a sale agreement for such purchase in case of:

   (i) the occurrence of Periodic Distribution Shortfall on any Periodic Distribution Date, Kuveyt Türk is required to purchase an amount of Constituent Assets (with the Murabahah Assets to be sold first, then the Tangible Investment Sukuk, the Ijarah Assets and the Real Estate Ijarah Assets, as applicable) equal in value to the remaining Periodic Distribution Shortfall;

   (ii) the occurrence of a Dissolution Event or at the maturity of the Sukuk Wakalah; and

   (iii) the occurrence of a Change of Control Event.

   In respect of (i) above, the Exercise Price shall equal to the Periodic Distribution Shortfall less any amounts paid into the Transaction Account pursuant to paragraph 2(c)(4)(II)(a) and (b) above in accordance with the Management Agreement ("**Periodic Distribution Shortfall Exercise Price**"). In the case of (ii) above, the Exercise Price shall be the Assets Portfolio Exercise Price. In the case of (iii) above, the Exercise Price shall be the Change of Control Exercise Price.

6. Pursuant to the "**Sale Undertaking**", Kuveyt Türk has the right to oblige the Sukukholders' Agent to transfer or sell the Assets Portfolio (or part thereof) to Kuveyt Türk and execute a transfer agreement or sale agreement for such transfer or sale upon the occurrence of the following events:

   (i) Kuveyt Türk exercising its rights to effect the in-kind substitution of the Constituent Assets; or

   (ii) if Kuveyt Türk, its Subsidiaries or any of their agents purchases the Sukuk Wakalah in the open market, in which case Kuveyt Türk may request

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the Sukukholders' Agent to transfer the assets corresponding to the cancelled Sukuk Wakalah in consideration for the Sukuk Wakalah being surrendered to the Issuer and subsequently cancelled.

7. **Termination Payment by Kuveyt Turk**

Kuveyt Türk may be required to purchase all of the Assets Portfolio prior to the scheduled termination date following a Dissolution Event or Change of Control Event. In each case, the amounts payable by the Issuer on the due date for termination will be funded, *inter alia*, by Kuveyt Türk purchasing the Assets Portfolio from the Sukukholders' Agent at the Exercise Price and paying the Exercise Price to Sukukholders' Agent pursuant to the terms of the Purchase Undertaking.

On the scheduled termination date, Sukukholders' Agent will have the right under the Purchase Undertaking to require Kuveyt Türk to purchase the Assets Portfolio and pay the Exercise Price payable by Kuveyt Türk to KT Kira for such purchase, together with the amounts realised upon the termination of any Shariah Compliant Investments by the Managing Agent and the payment of such amounts by Kuveyt Türk, and any Portfolio Principal Revenues and Portfolio Income Revenues then held by the Managing Agent, to KT Kira, in each case pursuant to the Management Agreement, is intended to fund the aggregate outstanding nominal value of the Sukuk Wakalah plus all accrued and unpaid Periodic Distribution Amounts in respect of such Sukuk Wakalah (the "**Termination Distribution Amount**") payable by the Issuer under the Sukuk Wakalah.

Upon full payment of the Termination Distribution Amount, in the case of excess, any amounts standing to the credit of the Reserve Collection Account shall be retained by the Managing Agent as an incentive payment.

For the avoidance of doubt, any double counting shall be disregarded.

A diagrammatical illustration of the transaction is set out in Appendix 1.

(d)	**Identified assets**	Real Estate Ijarah Assets, Ijarah Assets, Tangible Investment Sukuk and Murabahah Assets (Murabahah receivables).
(e)	**Purchase and selling price / rental (where applicable)**	<u>Purchase Price</u> The purchase price in relation to each purchase of the Identified Assets, shall be equal to the proceeds of the Sukuk Wakalah. The purchase price shall comply with the Securities Commission's Malaysia's ("**SC**") Shariah Advisory Council ("**SAC**") asset pricing requirements ("**Asset Pricing Requirements**") as provided in the SC's

		Guidelines on Sukuk effective 28 August 2014 (as may be amended from time to time) ("**Guidelines on Sukuk**").
(f)	**Issue / sukuk programme size**	The aggregate outstanding nominal value of the Sukuk Wakalah issued under the Sukuk Wakalah Programme at any point in time shall not exceed RM2.0 billion at any point in time.
(g)	**Tenure of issue / sukuk programme**	**<u>Tenure of the Sukuk Wakalah Programme</u>** Ten (10) years from the date of the first issue under the Sukuk Wakalah Programme provided that the first issue of the Sukuk Wakalah shall not be later than two (2) years from the date of the SC's authorisation. **<u>Tenure of the Sukuk Wakalah</u>** The tenure of the Sukuk Wakalah shall be more than one (1) year and up to ten (10) years, provided that the Sukuk Wakalah mature on or prior to the expiry of the Sukuk Wakalah Programme. The tenure of each Sukuk Wakalah to be issued under the Sukuk Wakalah Programme will be determined prior to each issue date.
(h)	**Availability period of sukuk programme**	The period commencing from the date of completion of documentation and, unless waived by the JLMs, compliance of all conditions precedent and other applicable conditions to the satisfaction of the JLMs provided always that the Sukuk Wakalah shall mature on or prior to the expiry of the Sukuk Wakalah Programme.
(i)	**Profit / coupon / rental rate**	The periodic distribution rate(s) shall be determined at the point of issuance of the respective Sukuk Wakalah ("**Expected Periodic Distribution Rate**").
(j)	**Profit / coupon / rental payment frequency**	The payment frequency of the periodic distribution amount (being the amount payable by the Issuer, which amount shall be calculated based on the Expected Periodic Distribution Rate)("**Periodic Distribution Amount**") shall be semi-annual or such other period as the Issuer and the JLMs may agree ("Periodic Distribution Date").
(k)	**Profit / coupon / rental payment basis**	The Periodic Distribution Amounts shall be calculated on the basis of actual/365 days.
(l)	**Security / collateral, where applicable**	Unsecured.
(m)	**Details on utilisation of proceeds by issuer/obligor. If proceeds are to be utilised for project or capital expenditure, description of the project or capital expenditure, where applicable**	<u>Issuer's utilisation</u> The proceeds raised from the issuance of the Sukuk Wakalah shall be utilised by the Issuer to pay the purchase price of the relevant initial Assets Portfolio purchased from Kuveyt Türk on each issue date of the Sukuk Wakalah. <u>Obligor's utilisation</u> The proceeds from the sale of the relevant Assets Portfolio under the Purchase Agreement shall be utilised by Kuveyt Türk for its general corporate and funding purposes provided always that any such utilisation shall be in compliance with Shariah.

(n)	**Sinking fund and designated accounts, where applicable**	Not applicable.
(o)	**Rating**	
	- Credit ratings assigned and whether the rating is final or indicative.	The Sukuk Wakalah Programme has been accorded an indicative long term rating of AA_3(s).
	- Name of credit rating agencies	RAM Rating Services Berhad ("**RAM**").
(p)	**Mode of issue**	The Sukuk Wakalah may be issued through any of the following modes: (i) via private placement via the JLMs on a best effort basis; (ii) via bought deal basis; and/or (iii) via book running by the JLMs/JBRs on a best effort basis. The issuance of the Sukuk Wakalah under the Sukuk Wakalah Programme shall be in accordance with (i) the "Participation and Operation Rules for Payments and Securities Services" issued by Malaysian Electronic Clearing Corporation Sdn Bhd ("**MyClear**") ("**MyClear Rules**") and (ii) the "Operational Procedures for Securities Services" and "Operational Procedures for Malaysian Ringgit (MYR) Settlement in RENTAS" both issued by MyClear, or their replacement thereof (collectively "**MyClear Rules and MyClear Procedures**") applicable from time to time, subject to such exemptions (if any) granted from time to time.
(q)	**Selling restriction, including tradability, i.e. whether tradable or non-tradable**	**Selling Restrictions at Issuance** The Sukuk Wakalah may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe the Sukuk Wakalah may be made and to whom the Sukuk Wakalah are issued would fall within Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b) of the Capital Markets and Services Act 2007, as amended from time to time ("**CMSA**") read together with Schedule 9 or Section 257(3) of the CMSA. **Selling Restrictions Thereafter** The Sukuk Wakalah may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to purchase the Sukuk Wakalah would fall within Schedule 6 or Section 229(1)(b) of CMSA read together with Schedule 9 or Section 257(3) of the CMSA. **Tradability** Tradable, but subject to the selling restrictions stated above.
(r)	**Listing status and types of listing, where applicable**	The Sukuk Wakalah will not be listed on any stock exchange.

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(s)	**Other regulatory approvals required in relation to the issue, offer or invitation to subscribe or purchase sukuk and whether or not obtained**	The Issuer has obtained (i) BNM's approval for the Sukuk Wakalah Programme via BNM's letter dated 3 December 2014; and (ii) the Capital Markets Board of Turkey ("**CMB**")'s approval on 4 December 2014 for the establishment of the Sukuk Wakalah Programme.
(t)	**Conditions precedent**	The conditions precedent for the establishment of the Sukuk Wakalah Programme shall include the following, unless waived by the JLAs all of which shall be in form and substance acceptable to the JLAs:

Conditions Precedent

A **Main Documentation**

(i) The relevant Transaction Documents shall have been duly executed by the parties thereto and stamped (or if exempted, duly endorsed as exempted from stamp duty) and where relevant, registered at the relevant registry.

B **The Issuer**

(i) A certificate signed by the duly authorised signatories of the Issuer that there is:

(a) there has been no adverse change, or development reasonably likely to involve an adverse change, in the condition (financial or otherwise), business, prospects, results of operations or general affairs of the Issuer since the date of its latest audited accounts;

(b) no event rendering untrue, incorrect or misleading, any of the representations and warranties by the Issuer as set out the Transaction Documents;

(c) no breach or potential breach of any of the undertakings by the Issuer under the Transaction Documents; and

(d) no Dissolution Event or a Potential Dissolution Event (as defined in paragraph 2(w)(i) below), has occurred and is continuing under the Transaction Documents.

(ii) Certified true copies (and English translations) of the most recent Certificate of Activity (in Turkish: *Faaliyet Belgesi*), and the current or most up-to-date constitutional documents of the Issuer.

(iii) Certified true extracts (and English translations) of board resolutions of the Issuer authorising, among others, the Sukuk Wakalah Programme and the execution of the relevant Transaction Documents.

(iv) A list of the Issuer's authorised signatories and their respective specimen signatures.

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C **Obligor**

(i) A certificate signed by the duly authorised signatories of the Obligor that there is:

(a) there has been no adverse change, or development reasonably likely to involve an adverse change, in the condition (financial or otherwise), business, prospects, results of operations or general affairs of the Obligor since the date of its latest audited accounts;

(b) no event rendering untrue, incorrect or misleading, any of the representations and warranties by the Obligor as set out in the Transaction Documents;

(c) no breach or potential breach of any of the undertakings by the Obligor under the Transaction Documents; and

(d) no Dissolution Event or a Potential Dissolution Event (as defined in paragraph 2(w)(i) below), has occurred and is continuing under the Transaction Documents.

(ii) Certified true copies (and English translations) of the most recent Certificate of Activity (in Turkish*:* *Faaliyet Belgesi*), and the current or most up-to-date constitutional documents of the Obligor.

(iii) Certified true extracts (and English translations) of board resolutions of the Obligor authorising, among others, the Sukuk Wakalah Programme and the execution of the relevant Transaction Documents.

(iv) A list of the Obligor's authorised signatories and their respective specimen signatures.

D **General**

(i) Evidence of all required regulatory approvals, where applicable, including but not limited to the relevant approvals from the SC, BNM and the CMB (in respect of which the certified true copies and unofficial English translations are required), have been obtained for the establishment of the Sukuk Wakalah Programme.

(ii) The Sukuk Wakalah Programme has received the requisite rating as stated in this principal terms and conditions ("**PTC**").

(iii) All necessary approvals or waivers required (including but not limited to the existing lenders/financiers of the Issuer and the Obligor) for the implementation of the Sukuk Wakalah Programme (if required) and the execution of the Transaction Documents have been obtained and the Issuer and the Obligor are in compliance with

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all conditions (which are required to be complied prior to the first issue date) of such approvals or waivers.

(iv) Confirmation from the Joint Shariah Advisers that the structure and mechanism of the Sukuk Wakalah Programme and the Transaction Documents are in compliance with Shariah.

(v) Completion of the due diligence exercise carried out on the Issuer and the Obligor.

(vi) Evidence that all transaction fees, costs and expenses due and payable have been paid or evidence that arrangements have been made for all transaction fees, costs and expenses due and payable will be paid in full by the Issuer and/or the Obligor prior to the issuance of the issue request.

(vii) A favourable legal opinion from ASL addressed to the JLAs, JLMs and the Sukuk Trustee on, inter alia, the validity, legality and enforceability of the Sukuk Wakalah and the Transaction Documents and a confirmation that all conditions precedents have been fulfilled or waived, as the case may be.

(viii) A favourable legal opinion each from Mutlu Avukatlik Ortakligi and Pekin & Bayar Law Firm addressed to the JLAs, JLMs and Sukuk Trustee in relation to the laws of the Republic of Turkey opining on, amongst others, the capacity and authority of the Issuer and the Obligor to enter into the Transaction Documents to which it is a party and to confirm the legality, validity and enforceability of the Transaction Documents from the perspective of the laws of the Republic of Turkey.

(ix) A comfort letter in the form and substance acceptable to the JLAs and JLMs addressed to the Issuer, the Obligor, the JLAs and the JLMs from the Reporting Accountant.

(x) Such other conditions precedent customary for a transaction of this nature, as may be advised by ASL and are mutually agreed to by the Issuer, the Obligor and the JLAs.

<u>Conditions precedent for issuance of each series of Sukuk Wakalah</u>

(i) Confirmation from the Issuer and the Obligor by way of inclusion in the issue request that all representations and warranties by the Issuer and the Obligor as set out in the Transaction Documents remain true and correct.

(ii) A copy of the approval (with English translation) from the CMB for each issuances of the Sukuk Wakalah (in Turkish: *tertip ihraç belgesi*).

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(iii) No Dissolution Event or Potential Dissolution Event (as defined in paragraph 2(w)(i) below) has occurred and is continuing.

(iv) Copies of all resolutions, authorisations and consents, if any, required by the Issuer and the Obligor in connection with the issuance of the Sukuk Wakalah having been obtained or otherwise delivered to the JLAs/JLMs; and

(v) Such other conditions precedent customary for a transaction of this nature, as may be advised by ASL and are mutually agreed to by the Issuer, the Obligor and the JLAs.

(u) Representations and warranties

The following:

(a) The representations and warranties applicable to KT Kira:

(i) it is duly incorporated as a company and validly existing under the laws of the Republic of Turkey;

(ii) it has full power and authority to own its assets and carry on its business as it is being conducted;

(iii) the relevant Transaction Documents and the other documents contemplated by the same to be executed by the Issuer, will be valid, legal and binding obligations of the Issuer and are enforceable in accordance with the terms and conditions herein and therein contained;

(iv) the entering into, the transactions contemplated by and the performance of the Transaction Documents and the other documents required by it in connection with the Transaction Documents (i) are within its powers and authority and have been duly authorised and consented by all necessary and desirable actions; and (ii) do not contravene any applicable law, regulation, decree, order, permit or other restriction binding upon it or any of its properties and assets; its constitutional documents; or any agreement, mortgage, debenture, financing instrument, sukuk/bond, contract or other undertaking or instrument to which it is a party or which is binding upon it or any of its assets which affects its ability to meet its obligations under the Transaction Documents;

(v) it has full power and authority to enter into, perform and deliver, and has taken

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all necessary action to authorise its entry into, performance and delivery of, its obligations under the Transaction Documents to which it is a party;

(vi) all authorisations, consents and permissions required to enable it lawfully to enter into, exercise its rights and comply with its obligations pursuant to the Transaction Documents to which it is a party (or specified as a beneficiary) have been obtained or effected and are in full force and effect;

(vii) it has not engaged in any business or activity other than those contemplated under its Memorandum and Articles of Association and it has no subsidiary;

(viii) no Dissolution Event has occurred and is continuing;

(ix) (i) the information memorandum (as amended or supplemented from time to time) issued in connection with the Sukuk Wakalah Programme ("**Information Memorandum**") does not contain any statements or information which are false or misleading or from which there is a material omission and all expressions of expectation, intention, belief and opinion contained therein were honestly made on reasonable grounds after due and careful inquiry by KT Kira, (ii) all factual information furnished by KT Kira to the JLAs, the JLMs and/or the Facility Agent in connection with the issue and offering of the Sukuk Wakalah or the Information Memorandum or the negotiation of the Transaction Documents is provided to the JLAs, the JLMs and/or the Facility Agent responsibly and is honestly held and (iii) all additional written information approved by KT Kira for use in connection with the offering of the Sukuk Wakalah, including, without limitation, any pre-marketing investor presentations and roadshow presentations relating to KT Kira is true and accurate and there are no other facts the omission of which would or is likely to make any such information misleading;

(x) save as disclosed in the Information Memorandum, there has been no adverse change in the business or condition (financial or otherwise), prospects, results of operations or

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general affairs of KT Kira since its last audited financial statements which would have a Material Adverse Effect (as defined in paragraph 2(y)(xxix) below);

(xi) there are no litigation, arbitration or administrative proceedings of or before any court, arbiter, governmental authority or agency pending or insofar as KT Kira is aware (or ought reasonably to have been aware) threatened against KT Kira or the properties and/or assets of KT Kira which if adversely determined would enjoin or restrain the execution or performance of the Transaction Documents to which it is a party;

(xii) the Sukuk Wakalah, when issued and delivered in accordance with the relevant Transaction Documents, will be direct, unconditional, unsecured and unsubordinated obligations of KT Kira ranking *pari passu*, without any preference or priority among themselves, and *pari passu* with all other present and future unsecured obligations (save for those obligations, which would be mandatorily preferred by law) of KT Kira;

(xiii) KT Kira is not in breach of or in default under any agreement to which it is a party or which is binding on KT Kira or any of its undertakings, assets, property or revenues, which breach or default would have a Material Adverse Effect;

(xiv) KT Kira maintains a system of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorisations; (ii) transactions are recorded as necessary to: (A) permit preparation of financial statements in conformity with accounting rules and standards generally applicable in the Republic of Turkey and/or with IFRS; and (B) maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorisation; and (iv) KT Kira has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of its unconsolidated financial statements in

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accordance with accounting principles generally accepted in the Republic of Turkey and/or with IFRS and KT Kira has not experienced any material difficulties with regard to (i) to (iv) above;

(xv) the most recent audited accounts of KT Kira (i) include such financial statements as are required by the laws of the Republic of Turkey and, save as stated in the notes thereto, were prepared, audited, examined, reported on and approved in accordance with accounting principles and practices generally accepted in the Republic of Turkey and consistently applied and in accordance with the laws of the Republic of Turkey and its Memorandum and Articles of Association and (ii) together with those notes, presents fairly the financial condition and operations of KT Kira as at the date and for the financial year then ended;

(xvi) KT Kira is not in liquidation and no steps have been taken by it nor have any legal proceedings been started by it or, as far as it is aware, by any other person or threatened for (i) it to be adjudicated or found bankrupt or insolvent; (ii) its dissolution; or (iii) the appointment of a liquidator (including a provisional liquidator), receiver, manager, trustee, judicial manager or similar officer of it or its assets or undertakings which would have a Material Adverse Effect;

(xvii) KT Kira: (i) has all licences, permits, authorisations, consents and approvals, certificates, registrations and orders and has made all necessary declarations and filings with all government agencies, including the CMB and the Banking Regulations and Supervision Agency of Turkey ("**BRSA**") that are necessary to enable it to own or lease its properties and conduct its businesses as described in the Information Memorandum; and (ii) is conducting its businesses and operations in compliance with all applicable laws, regulations and guidelines save where such non-compliance would not have a Material Adverse Effect;

(xviii) KT Kira is not subject to any taxation dispute which, when finally determined, would have a Material Adverse Effect;

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(xix) KT Kira has caused to be effected such takaful/insurance cover on all its material property and assets which are of a coverable/insurable nature and which are customarily covered/insured by companies in similar businesses against fire and other risks, and the takaful plan/policies of insurance in respect of the foregoing are in full force and effect and enforceable by the Issuer and there are no circumstances which might render any such policy void or voidable, other than where such failure to do so would not have a Material Adverse Effect;

(xx) under the laws of its jurisdiction of incorporation it is not necessary to ensure the enforceability or admissibility in evidence of the Transaction Documents that the Transaction Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Transaction Documents subject to:

(i) a registration fee will be charged by the CMB (in Turkish: *Sermaye Piyasasi Kurulu*) for registration of the Sukuk Wakalah;

(ii) except any charges and stamp duty in relation to conveyance and re-conveyance of title which are exempt from land registry fees as per the provisions Law No.: 6111 promulgated in the Official Gazetted dated February 13, 2011 No.: 27855 (bis),fees may be payable to the land registry or notary public in relation to the sale and purchase of land; and

(iii) usual court charges may be payable and/or it may be necessary to give security for costs in respect of any enforcement of the Sukuk Wakalah or the Transaction Documents;

(xxi) the operations of KT Kira are and have been conducted at all times in compliance with applicable financial record keeping and reporting requirements and money laundering statutes in the Republic of Turkey, and of all jurisdictions in which KT Kira conducts its business, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or

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enforced by any governmental agency (collectively, "**Money Laundering Laws**") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Issuer with respect to Money Laundering Laws is pending and, to the best of the Issuer's knowledge, no such actions, suits or proceedings are threatened or contemplated; and

(xxii) that under the laws of the Republic of Turkey the consent by KT Kira to the jurisdiction of the courts of Malaysia and the appointment of an agent for service of process in Malaysia contained in the Transaction Documents and the agreement by it that Malaysian law shall govern the Transaction Documents are irrevocably binding on KT Kira;

(xxiii) all properties and assets of KT Kira which are material to its respective businesses are legally and beneficially owned by KT Kira, with good and marketable title, in each case free and clear of any security and title defects that would affect the value thereof or interfere with the use made or to be made thereof by them and which, in either case, would be material in the context of the issue and offering of the Sukuk Wakalah and the entry into of the Transaction Documents; and any material (in the context of the issue and offering of the Sukuk Wakalah and the entry into of the Transaction Documents) real property and buildings held under lease by KT Kira is held by it under valid, existing and enforceable leases and do not interfere with the use made or proposed to be made of such property and buildings by KT Kira;

(xxiv) KT Kira has no reason to believe that it will not be able to renew its existing takaful plan/insurance coverage as and where such plan/coverage expires or to obtain similar plan/coverage from similar takaful companies/insurers as may be necessary to continue its business at a cost that would not be material in the context of the issue and offering of the Sukuk Wakalah and the entry into of the Transaction Documents;

(xxv) there are no acquisitions or disposals of business or assets by KT Kira pending or currently being negotiated which

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would be or might reasonably be expected to be material in the context of the issue and offering of the Sukuk Wakalah and the entry into of the Transaction Documents;

(xxvi) all returns, reports or filings which ought to have been made by or in respect of KT Kira in compliance with applicable laws and regulations have been made and to the best of the knowledge and belief of KT Kira all such returns are up to date, correct and on a proper basis and are not the subject of any material dispute with the relevant authorities and it is not aware of any present circumstances likely to give rise to any such material dispute; and

(xxvii) such other representations and warranties customary for a transaction of this nature, as may be advised by ASL and are mutually agreed to by the Issuer and the JLAs.

(b) The representations and warranties applicable to Kuveyt Türk:

(i) Kuveyt Türk is a participation bank duly incorporated and validly existing under the laws of the Republic of Turkey and has full power and authority to perform its obligations under the Transaction Documents to which it is a party;

(ii) the payment obligations of Kuveyt Türk under the relevant Transaction Documents are and will be direct, unconditional, unsubordinated, unsecured and general obligations of Kuveyt Türk and at all times rank at least equally with all other unsecured and unsubordinated indebtedness of Kuveyt Türk save for those obligations, which would be mandatorily preferred by law;

(iii) the entering into and the performance of the Transaction Documents and the other documents required by KT Kira to be executed by Kuveyt Türk in connection with the Transaction Documents (i) are within the powers and authority of Kuveyt Türk and have been duly authorised and consented by all necessary actions; and (ii) do not contravene any applicable law, regulation, decree, order, permit or other restriction binding upon Kuveyt Türk or any of the properties and assets of Kuveyt Türk; its constitutional

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documents; or any agreement, mortgage, debenture, financing instrument, sukuk/bond, contract or other undertaking or instrument to which Kuveyt Türk is a party or which is binding upon Kuveyt Türk or any of its assets which affects the ability of Kuveyt Türk to meet its obligations under the Transaction Documents to which it is a party;

(iv) Kuveyt Türk has obtained all the necessary statutory, parliamentary, ministerial or other authorities' licences, permissions, approvals, authorisations and consents for the due execution and delivery of the Transaction Documents to which it is a party;

(v) there are no litigation, arbitration or administrative proceedings of or before any court, arbiter, governmental authority or agency pending or insofar as Kuveyt Türk is aware (or ought reasonably to have been aware) threatened against Kuveyt Türk and/or any of its Material Subsidiaries (as defined in paragraph 2(y)(xxx) below) or the properties and/or assets of Kuveyt Türk and/or any of its Material Subsidiaries which if adversely determined would enjoin or restrain the execution or performance of the Transaction Documents to which it is a party;

(vi) the relevant Transaction Documents and the other documents contemplated by the same to be executed by Kuveyt Türk, will be legal, valid and binding obligations of Kuveyt Türk and are enforceable in accordance with the terms and conditions herein and therein contained;

(vii) under the laws of its jurisdiction of incorporation it is not necessary to ensure the enforceability or admissibility in evidence of the Transaction Documents that the Transaction Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Transaction Documents subject to:

(i) a registration fee will be charged by the CMB (in Turkish: *Sermaye Piyasasi Kurulu*) for registration of the Sukuk Wakalah;

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(ii) except any charges and stamp duty in relation to conveyance and re-conveyance of title which are exempt from land registry fees as per the provisions Law No.: 6111 promulgated in the Official Gazetted dated February 13, 2011 No.: 27855 (bis),fees may be payable to the land registry or notary public in relation to the sale and purchase of land; and

(iii) usual court charges may be payable and/or it may be necessary to give security for costs in respect of any enforcement of the Sukuk Wakalah or the Transaction Documents;

(viii) the Information Memorandum does not contain any statements or information which are false or misleading or from which there is a material omission and all expressions of expectation, intention, belief and opinion contained therein were honestly made on reasonable grounds after due and careful inquiry by Kuveyt Türk, (ii) all factual information furnished by Kuveyt Türk to the JLAs, the JLMs and/or the Facility Agent in connection with the issue and offering of the Sukuk Wakalah or the Information Memorandum or the negotiation of the Transaction Documents is provided to the JLAs, the JLMs and/or the Facility Agent responsibly and is honestly held and (iii) all additional written information approved by Kuveyt Türk for use in connection with the offering of the Sukuk Wakalah, including, without limitation, any pre-marketing investor presentations and roadshow presentations relating to Kuveyt Türk is true and accurate and there are no other facts the omission of which would or is likely to make any such information misleading;

(ix) save as disclosed in the Information Memorandum, there has been no adverse change in the business or condition (financial or otherwise, prospects, results of operations or general affairs) of Kuveyt Türk since its last audited financial statements which would have a Material Adverse Effect;

(x) neither Kuveyt Türk nor any of its Material Subsidiaries are in breach of or in default under any agreement to which it is a party or which is binding on

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Kuveyt Türk or any of its Material Subsidiaries or any of their respective undertakings, assets, property or revenues, which breach or default would have a Material Adverse Effect;

(xi) Kuveyt Türk maintains a system of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorisations; (ii) transactions are recorded as necessary to: (A) permit preparation of financial statements in conformity with accounting rules and standards generally applicable in the Republic of Turkey and/or with IFRS; and (B) maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorisation; and (iv) Kuveyt Türk has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of its unconsolidated financial statements in accordance with accounting principles generally accepted in the Republic of Turkey and/or with IFRS and Kuveyt Türk has not experienced any material difficulties with regard to (i) to (iv) above;

(xii) the most recent audited accounts of Kuveyt Türk, the most recent audited consolidated accounts of Kuveyt Türk and its Material Subsidiaries and the most recent unaudited consolidated interim accounts of Kuveyt Türk and its Material Subsidiaries (i) include such financial statements as are required by the laws of the Republic of Turkey and, save as stated in the notes thereto, were prepared, audited, examined, reported on and approved in accordance with accounting principles and practices generally accepted in the Republic of Turkey and consistently applied and in accordance with the laws of the Republic of Turkey and their respective Memorandum and Articles of Association and (ii) together with those notes, presents fairly the financial condition and operations of Kuveyt Türk or its Material Subsidiaries (as the case may be) (or, in the case of consolidated accounts, the consolidated state of affairs and financial condition and operations of Kuveyt Türk and its

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Material Subsidiaries) as at the date and for the financial year then ended;

(xiii) neither Kuveyt Türk nor any of its Material Subsidiaries are in liquidation and no steps have been taken by any of them nor have any legal proceedings been started by any of them or, as far as they are or any of them is aware, by any other person or threatened for (i) any of them to be adjudicated or found bankrupt or insolvent; (ii) any of them to be dissolved; or (iii) the appointment of a liquidator (including a provisional liquidator), receiver, manager, trustee, judicial manager or similar officer of any of them or any of their assets or undertaking which would have a Material Adverse Effect;

(xiv) each of Kuveyt Türk and its Material Subsidiaries: (i) has all licences, permits, authorisations, consents and approvals, certificates, registrations and orders and has made all necessary declarations and filings with all government agencies, including the CMB and the BRSA that are necessary to enable it to own or lease its properties and conduct its businesses as described in the Information Memorandum; and (ii) is conducting its businesses and operations in compliance with all applicable laws, regulations and guidelines save where such non-compliance would not have a Material Adverse Effect;

(xv) neither Kuveyt Türk nor any of its Material Subsidiaries is subject to any taxation dispute which, when finally determined, would have a Material Adverse Effect;

(xvi) each of Kuveyt Türk and its Material Subsidiaries has caused to be effected such takaful/insurance cover on all its material property and assets which are of a coverable/insurable nature and which are customarily covered/insured by companies in similar businesses against fire and other risks, and the takaful plan/policies of insurance in respect of the foregoing are in full force and effect and enforceable by Kuveyt Türk and/or its Material Subsidiaries (as the case may be) and there are no circumstances which might render any such policy void or voidable, other than where such failure to do so would not have a Material Adverse Effect; and

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(xvii) the operations of Kuveyt Turk and its Subsidiaries are and have been conducted at all times in compliance with the Money Laundering Laws and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving Kuveyt Turk and its Subsidiaries with respect to Money Laundering Laws is pending and, to the best of the Kuveyt Turk's knowledge, no such actions, suits or proceedings are threatened or contemplated;

(xviii) under the laws of Turkey the consent by Kuveyt Turk to the jurisdiction of the Courts of Malaysia and the appointment of an agent for service of process in Malaysia contained in the Transaction Documents and the agreement by it that Malaysian law shall govern the Transaction Documents are irrevocably binding on Kuveyt Turk;

(xix) all properties and assets of Kuveyt Turk and its Material Subsidiaries which are material to their respective businesses are legally and beneficially owned by Kuveyt Turk and its Material Subsidiaries respectively, with good and marketable title, in each case free and clear of any security and title defects that would affect the value thereof or interfere with the use made or to be made thereof by them and which, in either case, would be material in the context of the issue and offering of the Sukuk Wakalah and the entry into of the Transaction Documents; and any material (in the context of the issue and offering of the Sukuk Wakalah and the entry into of the Transaction Documents) real property and buildings held under lease by Kuveyt Turk and/or its Material Subsidiaries are held by it under valid, existing and enforceable leases and do not interfere with the use made or proposed to be made of such property and buildings by Kuveyt Turk and its Material Subsidiries respectively;

(xx) Kuveyt Turk has no reason to believe that it and any of its Material Subsidiaries will not be able to renew their respective existing insurance/takaful coverage as and where such coverage expires or to obtain similar coverage from similar insurers/takaful providers as may be necessary to continue their respective

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business at a cost that would not be material in the context of the issue and offering of the Sukuk Wakalah and the entry into of the Transaction Documents;

(xxi) there are no acquisitions or disposals of business or assets by Kuveyt Turk and/or its Material Subsidiaries pending or currently being negotiated which would be or might reasonably be expected to be material in the context of the issue and offering of the Sukuk Wakalah and the entry into of the Transaction Documents;

(xxii) no employment dispute, slowdown, work-stoppage or disturbance involving the employees of Kuveyt Turk and/or its Material Subsidiaries exists or, to the best of the knowledge and belief of Kuveyt Turk, there is no existing, threatened or imminent employment disturbance by the employees of any principal supplier, costumer or contractor of Kuveyt Turk and its Material Subsidiaries that, in any such case, may reasonably be expected to be material in the context of the issue and offering of the Sukuk Wakalah and the entry into of the Transaction Documents;

(xxiii) all returns, reports or filings which ought to have been made by or in respect of Kuveyt Turk and its Material Subsidiaries in compliance with applicable laws and regulations have been made and to the best of the knowledge and belief of Kuveyt Turk all such returns are up to date, correct and on a proper basis and are not the subject of any material dispute with the relevant authorities and it is not aware of any present circumstances likely to give rise to any such material dispute;

(xxiv) Kuveyt Turk and its Material Subsidiaries maintains a system of internal controls (including, but not limited to, disclosure controls and procedures, internal controls over accounting matters and financial reporting, an internal audit function and legal and regulatory compliance controls (together "**Internal Controls**") that comply with applicable law and are sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific

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authorisations; (ii) transactions are recorded as necessary to (A) permit preparation of financial statements in conformity with accounting rules and standards generally applicable in its jurisdiction of incorporation and/or with IFRS and (B) maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorisation and (iv) each of Kuveyt Turk and its Material Subsidiaries has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of Kuveyt Turk's consolidated financial statements in accordance with IFRS and none of Kuveyt Turk or its Material Subsidiaries has experienced any material difficulties with regard to (i) and (iv) above;)

(xxv) none of Kuveyt Turk or its Material Subsidiaries has publicly disclosed or reported to its board of directors a significant deficiency, material weakness, change in Internal Controls or fraud involving managements or other employees who have a significant role in Internal Controls (each, an "**Internal Control Event**"), any violation of, or failure to comply with, applicable law or any matter which, if determined adversely, would a Material Adverse Effect;

(xxvi) Kuveyt Turk has made its own investigation as to the Shariah compliance of each Transaction Document;

(xxvii) Kuveyt Turk will not dispute its obligations on the grounds of Shariah compliance; and it has not relied on the JLAs/JLMs or any other party to any Transaction Document for any form of confirmation that the transactions contemplated thereunder are Shariah compliant;

(xxviii) no member of the Group, nor any director or officer, nor, to the best of its knowledge having made all due inquiries, any agent, employee or other person associated with or acting on behalf of any member of the Group, (i) has used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (ii) has made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; (iii) violated or is in violation of any applicable anti-bribery or anti-corruption law or regulation enacted in any jurisdiction; or (iv) has made any bribe, rebate, payoff, influence payment, facilitation payment, kickback or other unlawful payment or gift of money or anything of value prohibited under any applicable law or regulation;

(xxix) no member of the Group or any director, officer, agent, employee, affiliate or other person acting on behalf of any such company is a person with whom transactions are currently prohibited under any (i) U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Department of Treasury ("**OFAC**") or (ii) any other sanctions administered by the European Union, Her Majesty's Treasury, any other governmental entity or the United Nations or any similar organisation, including but not limited to any list of restricted entities, persons or organisations maintained by the European Union, Her Majesty's Treasury, any such other governmental entity, the United Nations or similar organisation ("**Economic Sanctions**") ((i) and (ii), together, **Sanctions)** nor is any member of the Group or any such person dealing, transacting or operating in or with a person, country or territory that is the subject of Sanctions where such dealings, transactions or operations are in violation of such Sanctions; and

(xxx) such other representations and warranties customary for a transaction of this nature, as may be advised by ASL and are mutually agreed to by the Issuer, the Obligor and the JLAs.

(v) Events of default, dissolution event and enforcement event, where applicable

The Dissolution Events shall include but not limited to the following:

(a) Dissolution Events applicable to KT Kira:

(i) KT Kira fails to pay any amount due from it under any of the Transaction Documents on the due date or, if so payable, on demand and such failure to pay is not remedied within seven (7) days from the date such amount is due or demand;

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(ii) a Kuveyt Türk Event (as defined in paragraph 2(v)(b) below) occurs;

(iii) any representation, warranty or statement made (or acknowledged in writing to have been made) or given by KT Kira under the Transaction Documents or which is contained in any certificate, document, notice or statement furnished at any time pursuant to any of the Transaction Documents proves to have been incorrect or misleading on or as of the date made or given or deemed made or given, or if repeated at any time with reference to the facts and circumstances subsisting at such time, would not be accurate and in the case of a failure which in the opinion of the Sukuk Trustee is capable of being remedied, KT Kira does not remedy the failure within a period of thirty (30) days after KT Kira became aware of such misrepresentation or having been notified by the Sukuk Trustee of such misrepresentation whichever is the earlier;

(iv) KT Kira fails to observe or perform its obligations under any of the Transaction Documents or under any undertaking or arrangement entered into in connection therewith other than an obligation of the type referred to in paragraph 2(v)(a)(i) above, and in the case of a failure which in the opinion of the Sukuk Trustee is capable of being remedied, KT Kira does not remedy the failure within a period of thirty (30) days after KT Kira became aware or having been notified by the Sukuk Trustee of the failure whichever is the earlier;

(v) there has been a breach by KT Kira of any obligation under any of its respective existing contractual obligations which may materially and adversely affect KT Kira's ability to perform its obligations under the Transaction Documents and, if in the opinion of the Sukuk Trustee is capable of being remedied, KT Kira does not remedy the breach within a period of thirty (30) days after KT Kira became aware or having been notified by the Sukuk Trustee of the breach whichever is the earlier;

(vi) where any Financial Indebtedness (as defined in paragraph 2(y)(xxiv) below) of KT Kira becomes due and payable

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prior to its stated maturity or where the security created for any Financial Indebtedness of KT Kira becomes enforceable;

(vii) an encumbrancer takes possession of, or a trustee, receiver, receiver and manager or similar officer is appointed in respect of the whole or any part of the business or assets of KT Kira, or distress, legal process, sequestration or any form of execution is levied or enforced upon or sued out against any of the undertakings, assets, rights or revenues of KT Kira which may have a Material Adverse Effect;

(viii) KT Kira fails to satisfy any judgment passed against it by any court of competent jurisdiction and no appeal against such judgment or no application for a stay of execution has been made to any appropriate appellate court within the time prescribed by law or such appeal or application for a stay of execution has been dismissed;

(ix) any step is taken for the winding-up, dissolution or liquidation of KT Kira or a resolution is passed for the winding-up of KT Kira or a petition for winding-up is presented against KT Kira and KT Kira has not taken any action in good faith to set aside such petition within thirty (30) days from the date of service of such winding-up petition has been made against KT Kira;

(x) where a creditors' scheme of arrangement under Section 176 of the Malaysian Companies Act 1965, as amended from time to time (or the equivalent legislation of Section 176 of the Malaysian Companies Act 1965 in the Republic of Turkey) has been instituted against KT Kira;

(xi) where there is a revocation, withholding or modification of any licence, authorisation, approval or consent which in the opinion of the Sukuk Trustee may have a Material Adverse Effect;

(xii) either: (a) KT Kira becomes insolvent or is unable to pay its debts as they fall due, (b) an administrator or liquidator of the whole or substantially the whole of the undertaking, assets and revenues of KT Kira is appointed (or application for any such appointment is made), (c) KT Kira 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 financiers/creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it, or (d) KT Kira 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 or restructuring whilst solvent approved by extraordinary resolution of the Sukukholders of KT Kira);

(xiii) an order or decree is made or an effective resolution is passed for the winding up, liquidation or dissolution of KT Kira;

(xiv) any event occurs which under the laws of the Republic of Turkey has an analogous effect to any of the events referred to in paragraphs 2(v)(a)(xii) and (xiii) above;

(xv) any party takes over the financial management of KT Kira and such event in the opinion of the Sukuk Trustee may have a Material Adverse Effect;

(xvi) at any time it is or will become unlawful or impossible for KT Kira (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 provisions of the Transaction Documents is or becomes illegal, void, voidable or unenforceable;

(xvii) KT Kira repudiates any of the Transaction Documents to which it is a party or KT Kira does or causes to be done any act or thing evidencing an intention to repudiate any of the Transaction Documents to which it is a party;

(xviii) a change of the constitutional documents of KT Kira in a manner inconsistent with the Transaction Documents, save and except where such addition, deletion, variation or amendment is required by any law, regulation or requirement of any regulatory authority and which does not have a Material Adverse Effect;

(xix) any of the assets, undertakings, rights or revenue of KT Kira are seized,

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nationalised, expropriated or compulsorily acquired by or under the authority of any governmental body which in the opinion of the Sukuk Trustee may have a Material Adverse Effect;

(xx) any event or events has or have occurred or a situation exists which in the opinion of the Sukuk Trustee may have a Material Adverse Effect, and in the case of the occurrence of such event or situation which in the opinion of the Sukuk Trustee is capable of being remedied, KT Kira does not remedy it within a period of thirty (30) days after KT Kira became aware or having been notified by the Sukuk Trustee of the event or situation whichever is the earlier;

(xxi) such other events customary for a transaction of this nature as may be advised by ASL and are mutually agreed between KT Kira and the JLAs.

(b) Dissolution Events applicable to Kuveyt Türk (each a "**Kuveyt Türk Event**"):

(i) Kuveyt Türk fails to pay any amount due from it under any of the Transaction Documents on the due date or, if so payable, on demand and such failure to pay is not remedied within seven (7) days from the date such amount is due or demand;

(ii) any representation, warranty or statement made (or acknowledged in writing to have been made) or given by Kuveyt Türk under the Transaction Documents or which is contained in any certificate, document, notice or statement furnished at any time pursuant to any of the Transaction Documents proves to have been incorrect or misleading on or as of the date made or given or deemed made or given, or if repeated at any time with reference to the facts and circumstances subsisting at such time, would not be accurate and in the case of a failure which in the opinion of the Sukuk Trustee is capable of being remedied, Kuveyt Türk does not remedy the failure within a period of thirty (30) days after Kuveyt Türk became aware of such misrepresentation or having been notified by the Sukuk Trustee of such misrepresentation whichever is the earlier;

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(iii) Kuveyt Türk fails to observe or perform its obligations under any of the Transaction Documents or under any undertaking or arrangement entered into in connection therewith other than an obligation of the type referred to in paragraph 2(v)(b)(i) above, and in the case of a failure which in the opinion of the Sukuk Trustee is capable of being remedied, Kuveyt Türk does not remedy the failure within a period of thirty (30) days after Kuveyt Türk became aware or having been notified by the Sukuk Trustee of the failure whichever is the earlier;

(iv) there has been a breach by Kuveyt Türk of any obligation under any of its respective existing contractual obligations which may materially and adversely affect Kuveyt Türk's ability to perform its obligations under the Transaction Documents and, if in the opinion of the Sukuk Trustee is capable of being remedied, Kuveyt Türk does not remedy the breach within a period of thirty (30) days after Kuveyt Türk became aware or having been notified by the Sukuk Trustee of the breach whichever is the earlier;

(v) (a) any Financial Indebtedness of Kuveyt Türk or any of its Material Subsidiaries is not paid when due or, as the case may be, within any originally applicable grace period, or (b) any Financial Indebtedness of Kuveyt Türk or any of its Material Subsidiaries becomes due and payable prior to its stated maturity by reason of any non-payment Dissolution Event (howsoever described) or other Dissolution Event (howsoever described), or (c) Kuveyt Türk or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee (as defined in paragraph 2(y)(xxviii) below) of any Financial Indebtedness, provided that the amount of the relevant Financial Indebtedness referred to in sub-paragraph (a) and/or (b) above) and/or the Financial Indebtedness guaranteed by the Guarantee referred to in sub-paragraph (c) above, individually or in the aggregate, exceeds USD20,000,000 (or its equivalent in any other currency or currencies); or enforcement of any security interest over any assets of Kuveyt Türk or any of its Material Subsidiaries (where the aggregated value of such assets is in excess of

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USD20,000,000 or its equivalent in another currency or currencies);

(vi) an encumbrancer takes possession of, or a trustee, receiver, receiver and manager or similar officer is appointed in respect of the whole or any part of the business or assets of Kuveyt Türk or any of its Material Subsidiaries, or distress, legal process, sequestration or any form of execution is levied or enforced upon or sued out against any of the undertakings, assets, rights or revenues of Kuveyt Türk or any of its Material Subsidiaries which may have a Material Adverse Effect;

(vii) Kuveyt Türk or any of its Material Subsidiaries fails to satisfy any judgment passed against it by any court of competent jurisdiction and no appeal against such judgment or no application for a stay of execution has been made to any appropriate appellate court within the time prescribed by law or such appeal or application for a stay of execution has been dismissed;

(viii) any step is taken for the winding-up, dissolution or liquidation of Kuveyt Türk or any of its Material Subsidiaries or a resolution is passed for the winding-up of Kuveyt Türk or any of its subsidiaries or a petition for winding-up is presented against Kuveyt Türk or any of its Material Subsidiaries and Kuveyt Türk or its relevant Material Subsidiaries has not taken any action in good faith to set aside such petition within thirty (30) days from the date of service of such winding-up petition has been made against Kuveyt Türk or the relevant Material Subsidiaries;

(ix) where a creditors' scheme of arrangement under Section 176 of the Malaysian Companies Act 1965, as amended from time to time (or the equivalent legislation of Section 176 of the Malaysian Companies Act 1965 in the Republic of Turkey) has been instituted against Kuveyt Türk or any of its Material Subsidiaries;

(x) where there is a revocation, withholding or modification of any licence, authorisation, approval or consent which in the opinion of the Sukuk Trustee may have a Material Adverse Effect;

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(xi) either: (a) Kuveyt Türk and/or any of its Material Subsidiaries is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts or convenes a meeting with one or more of its creditors to consider a proposal for rescheduling any of its indebtedness; (b) the value of the assets of Kuveyt Türk is less than its liabilities (taking into account contingent and prospective liabilities); or (c) a moratorium is declared in respect of any indebtedness of Kuveyt Türk or (d) Kuveyt Türk or any of its Material Subsidiaries 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 or restructuring whilst solvent approved by extraordinary resolution of the Sukukholders);

(xii) an order or decree is made or an effective resolution is passed for the winding up, liquidation or dissolution of Kuveyt Türk or any of its Material Subsidiaries;

(xiii) any event occurs which under the laws of the Republic of Turkey has an analogous effect to any of the events referred to in paragraphs 2(v)(b)(xi) and (xii) above;

(xiv) any creditor of Kuveyt Türk or any of its Material Subsidiaries exercises a contractual right to take over the financial management of Kuveyt Türk or any of its Material Subsidiaries and such event in the opinion of the Sukuk Trustee may have a Material Adverse Effect;

(xv) at any time it is or will become unlawful or impossible for Kuveyt Türk (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 provisions of the Transaction Documents is or becomes illegal, void, voidable or unenforceable;

(xvi) Kuveyt Türk repudiates any of the Transaction Documents to which it is a party or Kuveyt Türk does or causes to be done any act or thing evidencing an intention to repudiate any of the Transaction Documents to which it is a party;

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(xvii) a change of the constitutional documents of Kuveyt Türk in a manner inconsistent with the Transaction Documents, save and except where such addition, deletion, variation or amendment is required by any law, regulation or requirement of any regulatory authority and which does not have a Material Adverse Effect;

(xviii) any of the assets, undertakings, rights or revenue of Kuveyt Türk or any of its subsidiaries are seized, nationalised, expropriated or compulsorily acquired by or under the authority of any governmental body which in the opinion of the Sukuk Trustee may have a Material Adverse Effect;

(xix) any event or events has or have occurred or a situation exists which in the opinion of the Sukuk Trustee may have a Material Adverse Effect, and in the case of the occurrence of such event or situation which in the opinion of the Sukuk Trustee is capable of being remedied, Kuveyt Türk does not remedy it within a period of thirty (30) days after Kuveyt Türk became aware or having been notified by the Sukuk Trustee of the event or situation whichever is the earlier;

(xx) the banking licence of Kuveyt Türk is revoked, suspended, withdrawn or not renewed;

(xxi) 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 under or in respect to the Transaction Documents is not taken, fulfilled or done; and

(xxii) such other events as may be advised by the Solicitor.

In the circumstances where any of the events above occurs, the Sukuk Trustee may and shall, if instructed by the Sukukholders, declare that a Dissolution Event has occurred and the Sukuk Trustee shall give notice to KT Kira that KT Kira shall pay all amounts then outstanding whereupon, the Sukuk Trustee (acting for and on behalf of the Sukukholders) shall be entitled to enforce all its rights provided under the Transaction Documents, (including the

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Sukukholders' Agent shall be entitled to exercise the Purchase Undertaking and require Kuveyt Türk to purchase the Assets Portfolio at the Exercise Price and execute the sale agreement whereupon the Exercise Price is immediately due and payable in full in accordance with the terms of the Transaction Documents) and thereupon the Sukuk Wakalah shall be cancelled and the trust shall be dissolved.

(w) Covenants

(i) Information Covenant

The following:

(i) each of KT Kira and Kuveyt Türk shall provide to the Sukuk Trustee at least on an annual basis, a certificate confirming that it has complied with all its obligations under the Transaction Documents to which it is a party and the terms and conditions of the Sukuk Wakalah Programme and that there does not exist or had not existed, from the date the Sukuk Wakalah were first issued or the date of the previous certificate as the case may be, any Dissolution Event or enforcement event or Change of Control Event, and if such is not the case, to specify the same;

(ii) each of KT Kira and Kuveyt Türk shall deliver to the Sukuk Trustee, with a copy to the Facility Agent, the following:

(a) as soon as they become available (and in any event within one hundred and eighty (180) days of the end of each financial year) its consolidated audited financial statements in English, which financial statements have been prepared on a basis consistently applied in accordance with approved accounting standards and principles and those financial statements shall give a true and fair view of the results of their operations for the period to which the financial statements are made up and shall disclose or provide against all liabilities (actual or contingent) of KT Kira and Kuveyt Türk respectively and which are audited and certified without qualification by a firm of independent certified public accountants; and

(b) as soon as they become available (and in any event within ninety (90) days of the expiration of each half year period) its unaudited consolidated financial statements for that period, which financial statements have been prepared on a basis consistently applied in accordance with approved accounting standards and principles and those financial statements shall give a true and fair view of the results of their

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operations for the period to which the financial statements are made up and shall disclose or provide against all liabilities (actual or contingent) of KT Kira and Kuveyt Türk respectively which are duly certified by any one of its directors;

(c) promptly, any information which the Sukuk Trustee may reasonably require in order to discharge its duties and obligations under the applicable Transaction Documents relating to KT Kira's or Kuveyt Türk's affairs to the extent permitted by law;

(d) promptly, any other accounts, report, notice, statement or circular issued to shareholders which the Sukuk Trustee shall at its discretion circulate the accounts, report, notice, statement or circular to the registered Sukukholders who fall within Schedules 6 and 7 of the CMSA and the rating agency;

(iii) each of KT Kira and Kuveyt Türk shall make available the latest annual audited financial statements to the Sukukholders throughout the tenure of the Sukuk Wakalah Programme and shall announce on Fully Automated System for Issuing/Tendering ("**FAST**") through the Facility Agent that the said annual audited financial statements have been made available and specify where the Sukukholders can obtain a copy of the annual audited financial statements;

(iv) each of KT Kira and Kuveyt Türk shall immediately inform the Sukuk Trustee in the event that any one of them becomes aware of the following:

(a) the occurrence of any Dissolution Event or any event which, upon the giving of notice and/or lapse of time and/or the issue of a certificate and/or the fulfilment of the relevant requirement as contemplated under the relevant transaction document would constitute an Dissolution Event ("**Potential Dissolution Event**") forthwith upon becoming aware thereof, and it shall take all reasonable steps and/or such other steps as may reasonably be requested by the Sukuk Trustee to remedy and/or mitigate the effect of the Dissolution Event or the Potential Dissolution Event;

(b) the happening of any event that has caused or could cause, one or more of (aa) any amount secured or payable

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under the Sukuk Wakalah to become immediately payable; (bb) the Sukuk Wakalah to become immediately enforceable; or (cc) any other right or remedy under the terms, provisions and covenants of the Transaction Documents have become immediately enforceable;

(c) any change in its condition (financial or otherwise) and of any litigation or other proceedings of any nature whatsoever being threatened or initiated against KT Kira and/or Kuveyt Türk before any court or tribunal or administrative agency involving KT Kira and/or Kuveyt Türk or which may materially and adversely affect the ability of KT Kira and/or Kuveyt Türk to perform any of its obligations under any of the Transaction Documents;

(d) any circumstance that has occurred that would materially prejudice KT Kira and/or Kuveyt Türk;

(e) any substantial change in the nature of the business of KT Kira and/or Kuveyt Türk;

(f) any change in the withholding tax position or taxing jurisdiction of KT Kira and/or Kuveyt Türk;

(g) any change in the utilisation of proceeds of the Sukuk Wakalah;

(h) any occurrence of Change of Control Event;

(i) any other matter that may materially prejudice the interests of the Sukukholders;

(v) KT Kira shall give notice to the Sukuk Trustee, the Rating Agency and the Facility Agent no later than seven (7) Business Days from the date of issuance of any lease certificates (other than the Sukuk Wakalah); and

(vi) any other information covenants customary for a transaction of this nature as advised by ASL and mutually agreed between the Issuer and Obligor (as the case may be) and the JLAs.

(ii) Positive covenants

The following:

(i) each of KT Kira and Kuveyt Türk shall maintain in full force and effect all relevant authorisations, consents, rights, licences, approvals and permits (governmental and otherwise) and will promptly obtain any further authorisations, consents,

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rights, licences, approvals and permits (governmental and otherwise) which is or may become necessary to enable it to own its assets, to carry on its business or for KT Kira and Kuveyt Türk to enter into or perform its obligations under the Transaction Documents to which it is a party or to ensure the validity, enforceability, admissibility in evidence of the obligations of KT Kira and Kuveyt Türk or the priority or rights of the Sukukholders under the Transaction Documents and KT Kira and Kuveyt Türk shall comply with the same;

(ii) each of KT Kira and Kuveyt Türk shall at all times on demand execute all such further documents and do all such further acts and things reasonably necessary at any time or times to give further effect to the terms and conditions of the Transaction Documents;

(iii) each of KT Kira and Kuveyt Türk shall at all times keep proper books of account in relation to their respective obligations under the Sukuk Wakalah and the Transaction Documents to which any of them is a party and, at any time so far as permitted by applicable law, allow the Sukuk Trustee and anyone appointed by it, access to such books of account at all reasonable times during normal business hours;

(iv) each of KT Kira and Kuveyt Türk shall promptly perform and carry out all its obligations under all the Transaction Documents to which it is a party (including but not limited to redeeming in full the Sukuk Wakalah on the relevant maturity date(s) or any other date on which the Sukuk Wakalah are due and payable) and ensure that it shall immediately notify the Sukuk Trustee in the event that KT Kira and/or Kuveyt Türk is unable to fulfil or comply with any of the provisions of the Transaction Documents;

(v) each of KT Kira and Kuveyt Türk shall maintain a paying agent in Malaysia and KT Kira and/or Kuveyt Türk shall cause and procure such paying agent to notify the Sukuk Trustee (through a Facility Agent) in the event the paying agent does not receive payment from KT Kira and/or Kuveyt Türk on the due dates as required under the Sukuk Wakalah;

(vi) each of KT Kira and Kuveyt Türk shall ensure that KT Kira shall remain a wholly-owned subsidiary of Kuveyt Türk at all times;

(vii) KT Kira and Kuveyt Türk shall exercise and procure its Material Subsidiaries to exercise reasonable diligence in carrying out their business and affairs and in accordance with sound business and commercial standards;

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(viii) each of KT Kira and Kuveyt Türk shall promptly comply with all applicable laws in relation to the Transaction Documents (to which it is a party) including the provisions of the CMSA and/or the notes, circulars, conditions or guidelines issued by SC, BNM, CMB and BRSA from time to time;

(ix) each of KT Kira and Kuveyt Türk shall utilise the issue proceeds from the Sukuk Wakalah for the purpose as represented in the Information Memorandum, which shall be Shariah compliant;

(x) KT Kira and Kuveyt Türk shall comply with, and perform and observe all of, the provisions of the Transaction Documents which are expressed to be binding on each of them;

(xi) KT Kira and Kuveyt Türk shall ensure that the terms in any of the applicable Transaction Documents (to which any of them is a party) do not contain any matter which is inconsistent with the provisions of the Information Memorandum; and

(xii) such other positive covenants customary for a transaction of this nature as may be advised by ASL and mutually agreed between the Issuer and the Obligor (as the case may be) and the JLAs.

(iii) Negative covenants

The following:

(a) Negative covenants applicable to KT Kira:-

(i) KT Kira shall not obtain or permit to exist any loans/financings or advances from its shareholder or its subsidiaries unless these loans/financings and advances are subordinated to the Sukuk Wakalah Programme;

(ii) KT Kira shall not permit any amendment, supplement or variation to the constitutional documents of KT Kira in a manner which may be materially prejudicial to the interests of the Sukukholders;

(iii) KT Kira shall not amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof) without the prior approval of the Sukuk Trustee or the Sukukholders or its memorandum and articles of association;

(iv) KT Kira shall not 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

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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 Sukuk Assets except pursuant to the Transaction Documents;

(v) KT Kira shall not reduce its authorised or issued paid-up share capital whether by varying the amount, structure or value thereof or the rights attached thereto or by converting any of its share capital into stock, or by consolidating, dividing or sub-dividing all or any of its shares, or by any other manner;

(vi) KT Kira shall not enter into a transaction (which for the avoidance of doubt does not include any transactions entered into pursuant to the Transaction Documents and any transactions between KT Kira and Kuveyt Turk (as the wholly-owned subsidiary of Kuveyt Turk) pursuant to an Islamic financing structure to facilitate any future Sukuk issuance/transactions undertaken by KT Kira), whether directly or indirectly with interested persons unless:

(a) such transaction shall be on terms that are no less favourable to KT Kira than those which could have been obtained in a comparable transaction from persons who are not interested persons; and

(b) in respect of a transaction involving an aggregate payment or value equal to or greater than USD1,000,000,000 (or its equivalent in any other currency or currencies), KT Kira obtains certification from an independent adviser that the transaction is carried out on fair and reasonable terms; and

PROVIDED that KT Kira certifies to the Sukuk Trustee (1) that the transaction complies with paragraph (vi)(a), (2) that it has received the certification referred to in paragraph (vi)(b) above (if applicable) and (3) that the transaction has been approved by the majority of the board of directors or shareholder of KT Kira in a general meeting as the case may require;

(vii) KT Kira shall not use the proceeds of the issue of the Sukuk Wakalah except for the purpose as represented in the Transaction Documents, which shall be Shariah compliant;

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(viii) KT Kira shall not redeem any of its shares or pay any dividends or make any other distribution to its shareholder;

(ix) KT Kira shall not carry on any business other than its authorised businesses in accordance with the object clauses under its constitutional documents;

(x) save in respect of any other series of lease certificates issued and outstanding as of the issue date and/or that may be issued from time to time, in each case in accordance with the Sukuk Communiqué or under the Sukuk Wakalah Programme:

(a) KT Kira shall not 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) KT Kira shall not create or permit to exist any Security Interest, but excluding liens arising in the ordinary course of business by operation of law and not by way of contract;

(xi) KT Kira shall not have any subsidiaries or employees;

(xii) prior to the date which is one year and one day after the date on which all amounts owing by KT Kira under the Transaction Documents to which it is a party have been paid in full, put to its directors or shareholder 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;

(xiii) KT Kira shall not, directly or indirectly, use the proceeds of the issue of the Sukuk Wakalah, or advance, contribute or otherwise make available such proceeds, to any person or entity (whether or not related to KT Kira or Kuveyt Turk) for the purpose of financing the activities of any person currently subject to the Sanctions**;**

(xiv) such other negative covenants customary for a transaction of this nature as may be advised by ASL and mutually agreed between the Issuer and the JLAs.

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(b) Negative covenants applicable to Kuveyt Türk:-

(i) 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;

(ii) without prejudice to paragraph 2(w)(iii)(a)(vi) above and 2(w)(iii)(b)(vii) below, Kuveyt Türk shall not, and shall not permit any of its Subsidiaries to, in any 12 month period: (a) make any payment to, (b) sell, lease, transfer or otherwise dispose of any of its properties, revenues or assets to, (c) purchase any properties, revenues or assets from, or (d) enter into or make or amend any transaction, contract, agreement, understanding, loan, advance, indemnity or guarantee (whether related or not) with or for the benefit of, any Affiliate (each, an Affiliate Transaction) which Affiliate Transaction has (or, when taken together with any other Affiliate Transactions during such 12 month period, which Affiliate Transactions in the aggregate have) a value in excess of USD10,000,000 (or its equivalent in any other currency unless (i) such Affiliate Transaction (and each such other aggregated 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 (or any such other aggregated 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;

(iii) Kuveyt Türk shall not use the proceeds of the issue of the Sukuk Wakalah except for the Shariah compliant purposes set out in the Transaction Documents;

(iv) Kuveyt Türk shall not permit any amendment, supplement or variation to the constitutional documents of Kuveyt Türk in a manner which may be materially prejudicial to the interests of the Sukukholders;

(v) Kuveyt Türk shall not amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof) without the prior

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approval of the Sukuk Trustee or the Sukukholders;

(vi) notwithstanding anything in the Transaction Documents and herein contained, Kuveyt Türk shall not take any steps or shall not agree nor consent to wind up or liquidate or dissolve KT Kira or any other action of similar/analogous effect;

(vii) Kuveyt Türk shall not enter into a transaction (which for the avoidance of doubt does not include any transactions entered into pursuant to the Transaction Documents and any transactions between KT Kira and Kuveyt Turk (as the wholly-owned subsidiary of Kuveyt Turk) pursuant to an Islamic financing structure to facilitate any future Sukuk issuance/transactions undertaken by KT Kira), whether directly or indirectly with interested persons unless:

(a) such transaction shall be on terms that are no less favourable to Kuveyt Türk than those which could have been obtained in a comparable transaction from persons who are not interested persons; and

(b) in respect of a transaction involving an aggregate payment or value equal to or greater than USD1,000,000,000 (or its equivalent in any other currency or currencies), Kuveyt Türk obtains certification from an independent adviser that the transaction is carried out on fair and reasonable terms; and

PROVIDED that Kuveyt Türk certifies to the Sukuk Trustee (1) that the transaction complies with paragraph (vii)(a), (2) that it has received the certification referred to in paragraph (vii)(b) above (if applicable) and (3) that the transaction has been approved by the majority of the board of directors or shareholder of Kuveyt Türk in a general meeting as the case may require;

(viii) Kuveyt Türk shall not, directly or indirectly, use the proceeds of the issue of the Sukuk Wakalah, or advance, contribute or otherwise make available such proceeds, to any person or entity (whether or not related to KT Kira or Kuveyt Turk) for the purpose of financing the activities of any person currently subject to the Sanctions**;** and

(ix) such other negative covenants customary for a transaction of this nature as may be advised by ASL and mutually agreed between the Obligor and the JLAs.

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(x)	**Provisions on buy-back and early redemption of sukuk**	**<u>Buy-back of the Sukuk Wakalah</u>** The Issuer, the Obligor, or any subsidiaries or agent(s) of the Issuer and/or the Obligor may at any time purchase the Sukuk Wakalah at any price in the open market or by private treaty, but these purchased Sukuk Wakalah shall be cancelled and cannot be resold. The Sukuk Wakalah so acquired by any of the interested persons or related corporations of the Issuer and/or the Obligor which are not the Issuer's or the Obligor's subsidiaries will not be cancelled but will not entitle them to vote at any meetings of the Sukukholders and will not be deemed to be outstanding for the purpose of determining the total votes exercisable by the Sukukholders whenever such determination is required under the Trust Deed. The Issuer and the Obligor shall confirm in writing to the Sukuk Trustee that (i) the aggregate nominal amount and certificate numbers (if applicable) of those Sukuk Wakalah which have been purchased and cancelled, and (ii) such Sukuk Wakalah have been cancelled, as soon as reasonably possible (and in any event within fourteen (14) days after the date of acquisition). **<u>Early Redemption of the Sukuk Wakalah</u>** Not applicable.

(y) Other principal terms and conditions for the proposal

(i)	Issue Price	The Sukuk Wakalah are to be issued at par in accordance with the MyClear Rules and Procedures.
(ii)	Issue conditions	The Sukuk Wakalah may be issued in multiples of RM1,000, but subject to the MyClear Rules and Procedures and other standard conditions including, without limitation, the following: 1) a minimum issue size of RM10.0 million for each issue; and 2) the issue notice shall be given to the Facility Agent at least eight (8) Business Days (for the first issue) or six (6) Business Days (for subsequent issues) prior to and excluding the date of proposed issue.
(iii)	Status	The Sukuk Wakalah issued under the Sukuk Wakalah Programme, pursuant to the relevant Transaction Documents, shall constitute unsubordinated, unconditional and unsecured obligations of the Issuer and shall rank pari passu, without any preference or priority among themselves and at least pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer, subject to those preferred by law. The obligation of Kuveyt Türk, pursuant to the relevant Transaction Documents, shall constitute unsubordinated, unconditional and unsecured obligations of Kuveyt Türk and shall rank pari passu, without any preference or priority among themselves and at least pari passu with all

other present and future unsecured and unsubordinated obligations of Kuveyt Türk, subject to those preferred by law.

Limited Recourse and Non-Petition

(1) Each of Kuveyt Türk and the Sukuk Trustee agrees that notwithstanding anything to the contrary contained herein:

(a) no payment of any amount whatsoever shall be made by the Issuer or any of its agents on its behalf except to the extent funds are available therefor from the Sukuk Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Issuer to the extent the Sukuk Assets have been exhausted following which all obligations of the Issuer shall be extinguished;

(b) 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, it will not institute against, or join with any other person in instituting against, the Issuer any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law; and

(c) no recourse (whether by institution or enforcement of any legal proceeding or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Issuer arising under or in connection with the Transaction Documents by virtue of any law, statute or otherwise shall be had against any shareholder, officer or director of the Issuer in their capacity as such and any and all personal liability of every such shareholder, officer or director in their capacity as such for any breaches by the Issuer of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law.

(2) None of Kuveyt Türk or the Sukuk Trustee shall be entitled to claim or exercise any right of set-off or counterclaim in respect of any sums due under the Transaction Documents or any part thereof with respect to any liability owed by it to

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the Issuer or claim any lien or other rights over any property held by it on behalf of the Issuer.

(iv)	Redemption	Redemption on maturity Unless previously redeemed or purchased and cancelled, the Sukuk Wakalah will be redeemed by the Issuer at 100% of their nominal value on their respective maturity dates. Redemption following Change of Control Event If a Change of Control Event occurs, the Issuer shall, upon the holder of any Sukuk Wakalah giving notice to the Issuer at any time during the Change of Control Redemption Period, redeem such Sukuk Wakalah on the Change of Control Redemption Date for an amount equal to the sum of its nominal value and the Periodic Distribution Amounts on such Sukuk Wakalah (if any) accrued and unpaid to the Change of Control Redemption Date. 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 Sukuk Trustee, if so requested in writing by Sukukholders representing not less than one-fifth in nominal value of the Sukukholders 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 Sukukholders specifying the nature of the Change of Control Event, the Change of Control Redemption Period and the Change of Control Redemption Date. Such redemption will be funded through the exercise by the Sukukholders' Agent of its right under the Purchase Undertaking to require Kuveyt Türk to purchase a portion of the Assets Portfolio (on a *pro rata* basis relative to the composition of the Assets Portfolio at that time as split between Ijarah Assets, Tangible Investment Sukuk and Murabahah Assets) equal to the percentage of the aggregate nominal value of the Sukuk Wakalah then outstanding that the aggregate nominal value of the Change of Control Sukuk Wakalah represents (the "**Change of Control Sukuk Wakalah Percentage**"). The Managing Agent will further terminate a corresponding percentage of any Shariah Compliant Investments and pay the relevant amounts received from Kuveyt Türk in respect of such termination, together with the same percentage of any Portfolio Principal Revenues and Portfolio Income Revenue then held by the Managing Agent, to the Sukukholders' Agent, which amounts shall also be applied by the Sukukholders Agent towards such redemption of the Change of Control Sukuk Wakalah.
(v)	Form and denomination	Each tranche of the Sukuk Wakalah shall be issued in accordance with the MyClear Rules and Procedures. Each tranche of the Sukuk Wakalah shall be represented by a

		global certificate to be deposited with BNM, and is exchanged for definitive bearer form only in certain limited circumstances. The denomination of the Sukuk Wakalah shall be RM1,000 or in multiples of RM1,000 at the time of issuance.
(vi)	Compensation for late and default payments ("**Ta'widh**")	In the event the Issuer/Obligor: (a) breaches its fiduciary duty as the Sukukholders' Agent or the Managing Agent due to its failure to distribute the realized profit to the Sukukholders on the agreed date; or (b) delays the distribution or payment of any amount due and payable to the Sukukholders upon the dissolution of the wakalah arrangement. Ta'widh shall be payable on such overdue amounts to the Sukukholders at the rate prescribed by SC's SAC from time to time.
(vii)	Trustees' Reimbursement Account for Sukukholders' Actions	The Issuer shall set up a Shariah compliant "Trustees' Reimbursement Account for Sukukholders' Actions" ("**TRA**") with a sum of RM30,000.00 and which shall be maintained at all times throughout the tenure of the Sukuk Wakalah Programme. The TRA shall be operated by the Sukuk Trustee and the monies therein shall be used strictly by the Sukuk Trustee in carrying out its duties upon the occurrence of a Dissolution Event or enforcement events as provided in the relevant Transaction Documents.
(viii)	No payment of interest	For the avoidance of doubt and notwithstanding any other provision to the contrary herein contained, it is agreed and declared that nothing in this PTC and the Transaction Documents shall oblige or entitle any party nor shall any party pay or receive or recover interest on any amount due or payable to another party pursuant to the PTC, the Transaction Documents and the parties hereby expressly waive and reject any entitlement to recover such interest.
(ix)	Taxation	All payments by KT Kira and/or Kuveyt Türk shall be made without withholding or deductions for or on account of any present or future tax, duty or charge of whatsoever nature imposed or levied by or on behalf of Malaysia, or any other applicable jurisdictions, or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law, in which event the payer shall be required to make such additional amount so that the payee would receive the full amount which the payee would have received if no such withholding or deductions are made.
(x)	Other conditions	The Sukuk Wakalah shall at all times be governed by the guidelines issued and to be issued from time to time by the SC, BNM and MyClear having jurisdiction over matters pertaining to the Sukuk Wakalah or the Sukuk Wakalah Programme.
(xi)	Transaction Documents	The Transaction Documents for a facility of this nature would include, inter alia:

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(i) Trust Deed;
(ii) Programme Agreement;
(iii) Securities Lodgement Form;
(iv) Purchase Agreement;
(v) Declaration of Trust and Agency Agreement;
(vi) Lease Agreement;
(vii) Management Agreement;
(viii) Purchase Undertaking;
(ix) Sale Undertaking;
(x) Subscription Agreement;
(xi) the Global Certificates and the Definitive Certificates (if applicable); and
(xii) all other documents of whatsoever nature executed or to be executed in connection with or pursuant to any of the above documents or otherwise in connection with the Sukuk Wakalah Programme.

(xii) Governing law

Laws of Malaysia.

(xiii) Jurisdiction

KT Kira and Kuveyt Türk shall unconditionally and irrevocably submit to the non-exclusive jurisdiction of the courts of Malaysia.

(xiv) Affiliate

In respect of any specified person, any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person, and, in the case of a natural person, any immediate family member of such person. For purposes of this definition, control, as used with respect to any person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities, by agreement or otherwise, and the terms controlling, controlled by and under common control with shall have corresponding meanings.

(xv) Assets Portfolio Exercise Price

An amount equal to the aggregate of:

(a) the aggregate value of the Murabahah Assets comprised within the Assets Portfolio on the relevant termination date (the "**Murabahah Assets Amount**");

(b) an amount equal to the aggregate nominal value of the Sukuk Wakalah then outstanding less the sum of the Murabahah Assets Amount and any Principal Cash Amount then held by the Managing Agent;

(c) all accrued and unpaid Periodic Distribution Amount (if any) relating to the Sukuk Wakalah, less any amounts standing to the credit of the Transaction Account for the payment of such Periodic Distribution Amounts, on the date on which payment of the Exercise Price is made pursuant to the Purchase Undertaking; and

(d) any outstanding management expenses as set out in the Management Agreement.

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(xvi)	Business Day	A day (other than Saturday, Sunday and public holidays) on which financial institutions are open for business in Kuala Lumpur.
(xvii)	Change of Control Event	A Change of Control Event will occur if at any time Kuwait Finance House K.S.C ("**KFH**") 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, KFH 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.
(xviii)	Change of Control Exercise Price	An amount equal to the aggregate of : (a) the product of the Change of Control Sukuk Wakalah Percentage and the aggregate value of the Murabahah Assets comprised within the Assets Portfolio on the Change of Control Redemption Date (the "**Change of Control Murabahah Assets Amount**"); (b) an amount equal to the aggregate nominal value of the Change of Control Sukuk Wakalah less the sum of the Change of Control Murabahah Assets Amount and the Change of Control Principal Cash Amount (the "**Change of Control Tangible Asset Value**"); and (c) all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Change of Control Sukuk Wakalah on the Change of Control Redemption Date.
(xix)	Change of Control Principal Cash	Upon the occurrence of a Change of Control Event, pursuant to the Management Agreement, the Managing Agent shall realise a percentage portion of any Shariah Compliant Investments (by terminating and demanding immediate payment of such Shariah Compliant Investments in compliance in all material respects with Shariah principles as interpreted by Kuveyt Türk's Sharia Advisory Board) as selected by the Managing Agent equal to the Change of Control Certificate Percentage, which percentage portion shall be determined by reference to the value of those Shariah Compliant Investments (with the amount so realised being the **Change of Control Principal Cash Amount**), and pay the Change of Control Principal Cash Amount to the Transaction Account.
(xx)	Change of Control Redemption Date	The first payment Business Day following the expiration of the Change of Control Redemption Period provided that the Change of Control Notice is given within thirty (30) days of the Change of Control Event occurring, otherwise it means the date falling fourteen (14) days after the date on which the relevant Sukukholders exercise their right to

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require the redemption of the relevant Sukuk Wakalah in accordance with paragraph 2(y)(iv) above.

(xxi)	Change of Control Redemption Period	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 Sukuk Trustee 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 Redemption Period shall not terminate.
(xxii)	Change of Control Sukuk Wakalah	The Sukuk Wakalah specified as such in an exercise notice to be redeemed following the Change of Control Event.
(xxiii)	Exercise Price	The Assets Portfolio Exercise Price, the Change of Control Exercise Price or the Periodic Distribution Shortfall Exercise Price, as applicable.
(xxiv)	Financial Indebtedness	Any indebtedness for or in respect of:

(i) moneys borrowed/any Islamic financing;

(ii) any amounts raised including (without limitation) deposits;

(iii) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;

(iv) any amount raised pursuant to any note purchase facility or the issue of sukuk/bonds, notes, debentures, loan stock or any similar instrument;

(v) 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;

(vi) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

(vii) any amount raised under any other transaction (including any forward sale or purchase agreement or Islamic financing transaction) having the commercial effect of a financing/borrowing;

(viii) 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

(ix) (without double counting) the amount of any liability in respect of any Guarantee for any of the items referred to in paragraphs (i) to (viii) above.

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(xxv)	IFRS	Means International Financial Reporting Standards issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of IASB (as amended, supplemented or re-issued from time to time).
(xxvi)	Interested person	Shall have the meaning ascribed to it in the Trust Deeds Guidelines issued by the SC which includes directors, major shareholders and chief executive of the Issuer or the Obligor, as the case may be.
(xxvii)	Group	Kuveyt Türk and its Subsidiaries, taken as a whole at any given time;
(xxviii)	Guarantee	in relation to any Financial Indebtedness of any person, any obligation of another person to pay such Financial Indebtedness following any 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; (iv) any obligation to pay an exercise price or other amount under any undertaking or indemnity given in favour of the obligor in respect of such Financial Indebtedness as part of an Islamic financing transaction; and (v) any other agreement to be responsible for such Financial Indebtedness.
(xxix)	Material Adverse Effect	Any material adverse effect on the business or condition (financial or otherwise) or results of the operations of KT Kira and/or Kuveyt Türk and/or the occurrence of any event which may materially and adversely affect the ability of KT Kira and/or Kuveyt Turk to perform any of their respective obligations under any of the Transaction Documents and/or an event which would have a material adverse effect on the legality, validity or enforceability of the Transaction Documents or the rights or remedies of the Sukuk Trustee against KT Kira and/or Kuveyt Türk.
(xxx)	Material Subsidiary	Means a Subsidiary of Kuveyt Türk (save for KT Kira): (i) which contributes, based on the latest consolidated audited financial statements, five percent (5%) or more to the profit after tax of the Group; or

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(ii) which, based on the latest consolidated audited financial statements, holds five percent (5%) or more of the net tangible assets of the Group; or

(iii) which, based on the latest consolidated audited financial statements, contributes ten percent (10%) or more of the revenue of the Group.

(xxxi) Permitted Security

Each and any of the following classes of Security Interest:

(i) any Security Interest arising in the ordinary course of Kuveyt Türk's business;

(ii) 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;

(iii) 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;

(iv) 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;

(v) any Security Interest over or affecting any asset acquired by Kuveyt Türk after the first issue 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;

(vi) any Security Interest arising out of the refinancing, substitution, extension or renewal of any indebtedness secured by way of Security Interest permitted by paragraphs (iv) and (v) above, except to the extent the principal amount secured by that Permitted Security exceeds, in the case of paragraph (v) above, the principal amount of the Financial Indebtedness incurred for the purpose of financing such acquisition;

(vii) any Security Interest created in connection with any Securitisation Indebtedness;

(viii) 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

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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;

(ix) any Security Interest created or outstanding with the approval of an extraordinary resolution of the Sukukholders; and

(x) 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.

(xxxii) Principal Cash Amount — At any time, the sum of the Portfolio Principal Revenues and the Shariah Compliant Investment Principal at such time.

(xxxiii) Securitisation Indebtedness — Any Financial Indebtedness issued, borrowed or raised by Kuveyt Türk in connection with any securitisation of existing or future assets or revenues of Kuveyt Türk or the Group, provided that: (i) any Security Interest given in connection with the securitisation is limited solely to the assets and/or revenues which are the subject of the securitisation; (ii) each person participating in such securitisation expressly agrees to limit its recourse to the assets and/or revenues so securitised as the principal source of repayment for such Financial Indebtedness; and (iii) there is no other recourse to Kuveyt Türk or any other member of the Group in respect of such Financial Indebtedness.

(xxxiv) Security Interest — 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.

(xxxv) Shariah Compliant Investment Principal — All amounts received or payable in respect of the outstanding nominal value or par value of any Shariah Compliant Investment.

(xxxvi) Subsidiary — A subsidiary of a company (the parent) shall be construed as a reference to any company:

(a) which is controlled by the parent; or

(b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by the parent; or

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(c) which is a subsidiary of another subsidiary of the parent,

and, for these purposes, a company or corporation shall be treated as being controlled by 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;

(xxxvii)	Sukuk Communiqué	Communiqué III-61.1 on Lease Certificates published in the Official Gazette dated 7 June 2013 (No. 28670) issued by the Capital Markets Board of Turkey) and applicable to private sector entities as amended from time to time).
(xxxviii)	Total Loss Event for Real Estate Ijarah Assets	The total loss or destruction of, or damage to the whole of, the Real Estate Ijarah Assets or any event or occurrence that renders the whole of the Real Estate Ijarah Assets permanently unfit for any economic use and (but only after taking into consideration any takaful/insurances or other indemnity granted by any third party in respect of the Real Estate Ijarah Assets) the repair or remedial work in respect thereof is wholly uneconomical.
(xxxix)	Partial Total Loss Event for Real Estate Ijarah Assets	The total loss or destruction of, or damage to only part of the Real Estate Ijarah Asset or any event or occurrence that renders only part of the Real Estate Ijarah Asset 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 Ijarah Asset) the repair or remedial work in respect thereof is wholly uneconomical.

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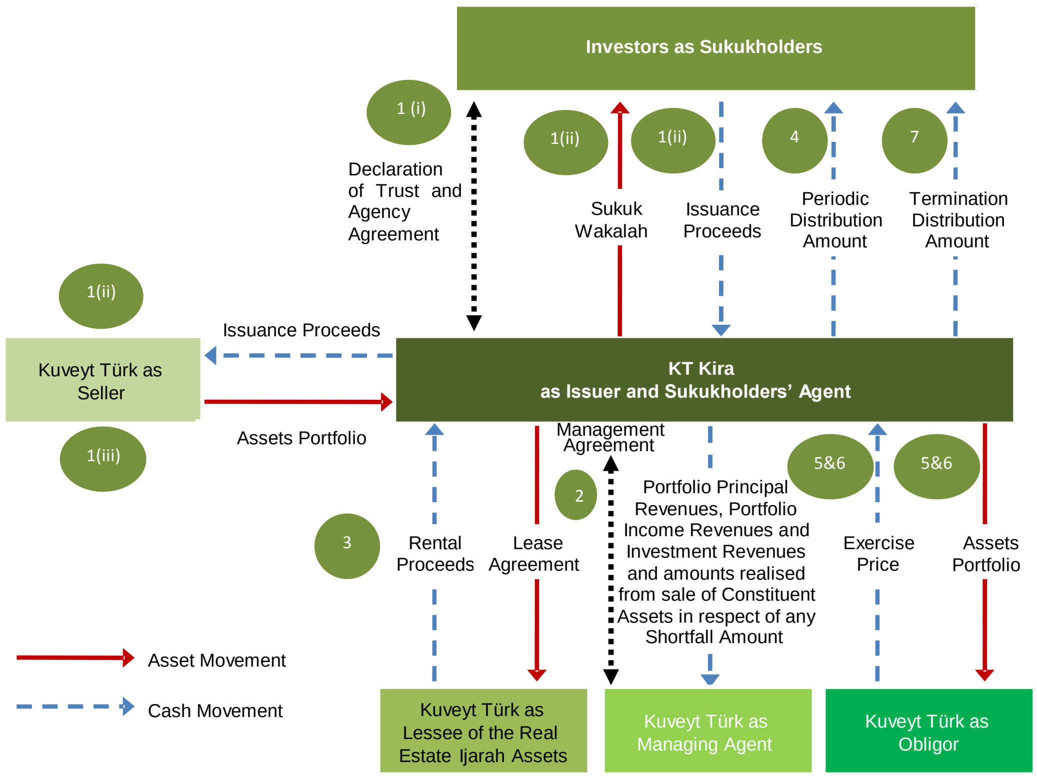
Appendix 1

Transaction Structure for the Sukuk Wakalah Programme



Steps	Description of Transaction
1	The issuance of each series of the Sukuk Wakalah from time to time under the Sukuk Wakalah Programme shall be effected as follows: (i) In accordance with the Declaration of Trust and Agency Agreement, the Issuer (or "**KT Kira**") shall act as agent in respect of the Sukuk Assets for the benefit and for the account of the Sukukholders ("**Sukukholders' Agent**"). The "**Sukuk Assets**" are (a) all of the Sukukholders' Agent's rights, title, interest and benefit, present and future, in, to and under the Assets Portfolio (hereinafter defined) and any Shariah Compliant Investments (hereinafter defined); (b) all of the Issuer's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (as defined in paragraph 2(y)(xi) above); (c) all monies which may now be, or hereafter from time to time are, standing to the credit of the Transaction Account; and (d) all proceeds of the foregoing. The "**Transaction Account**" refers to the account established by the Issuer in the name of the Sukukholders' Agent into which Kuveyt Türk will deposit all amounts due to the Sukukholders' Agent under the Management Agreement, the Purchase Undertaking or the Sale Undertaking, as the case may be, respectively. (ii) The Issuer shall issue Sukuk Wakalah to the Sukukholders and the Sukukholders will pay the issue price in respect of the Sukuk Wakalah to KT Kira. KT Kira, acting as Sukukholders' Agent, will enter into a purchase agreement ("**Purchase Agreement**") with Kuveyt Türk ("**Seller**") and pay such amount to Kuveyt Türk as the purchase price payable under the Purchase Agreement for the initial Assets Portfolio. The purchase price of any Murabahah Assets will be an amount equal to the then outstanding amounts payable in respect of that Murabahah Assets. Each Sukuk Wakalah evidence the Sukukholder's undivided proportionate interest in the Sukuk Assets.

	(iii) Constituent Asset means the Real Estate Ijarah Assets, the Ijarah Assets, the Tangible Investment Sukuk and the Murabahah Assets constituting the Assets Portfolio (as defined in paragraph 2(c)(1)(v) above). The Real Estate Ijarah Assets shall comprise of physical assets legally and beneficially owned by Kuveyt Turk. The Ijarah Assets shall comprise of certain assets which are the subject of ijarah (lease) contracts (including the related ijarah contracts and all rights under such contracts) while Tangible Investment Sukuk shall comprise of sukuk certificates having associated with such certificates underlying tangible assets of a value not less than the aggregate nominal value of those certificates. The Murabahah Assets shall comprise of receivables under murabahah contracts (involving the sale of commodities on a deferred payment basis, which deferred payment includes a related profit amount), together with the related murabahah contract and all rights under such contract. The Real Estate Ijarah Assets, Ijarah Assets and Tangible Investment Sukuk are also known as "**Tangible Assets**". On each issuance, one or more types of Tangible Assets may be used. In respect of the sale, transfer and assignment of the Assets Portfolio (other than the Real Estate Ijarah Assets) under the Purchase Agreement, legal title to the Constituent Assets shall at all times remain with the Seller in accordance with Article 6 of the Sukuk Communiqué, which will hold such legal title on behalf and for the account of the Purchaser on a fiduciary basis. In respect of the Real Estate Ijarah Assets, the legal and beneficial title to the Real Estate Ijarah Assets will be transferred from the Seller to KT Kira in its capacity as the Sukukholders' Agent. (iv) The Constituent Assets comprised within the Assets Portfolio may be added to or substituted from time to time with additional or replacement Real Estate Ijarah Assets, Ijarah Assets, Tangible Investments Sukuk or Murabahah Assets. Kuveyt Türk may require the substitution of Constituent Assets under the Sale Undertaking (as defined below), in each case, for new Constituent Assets of a value not less than the Constituent Assets being substituted and Kuveyt Turk shall ensure, on a best effort basis, that the Tangible Assets amount following such substitution continues to be at least fifty one per cent (51%) of the Sukuk Assets Value (the "**Tangibility Ratio**"). For the avoidance of doubt, the Tangibility Ratio is required to be complied with and maintained on a best effort basis throughout the entire tenure of the Sukuk Wakalah. "**Sukuk Assets Value**" means at any time, the aggregate value of (i) the Constituent Assets constituting the Assets Portfolio at that time and (ii) any Shariah Compliant Investments then held by the Managing Agent. (v) The "**Assets Portfolio**" means a) the initial Assets Portfolio and (b) from the time of any acquisition of a Constituent Asset on the Sukukholders' behalf and/or any substitution of a Constituent Asset in accordance with (i) the Management Agreement (hereinafter defined) or (ii) the Sale Undertaking (hereinafter defined), the eligible Constituent Asset(s) so acquired, including as substituted for any relevant Constituent Asset and from the time of such substitution the Constituent Asset so substituted shall cease to be included in the Assets Portfolio. From the time of any other sale and transfer of a Constituent Asset to Kuveyt Turk in accordance with the Sale Undertaking, the Constituent Asset so sold and transferred shall also cease to be included in the Assets Portfolio. Pursuant to the Management Agreement, the Constituent Assets in the Assets Portfolio shall be substituted in the situation where Kuveyt Türk in its capacity as Managing Agent acting on behalf of the Sukukholders' Agent becomes aware of, inter alia, (i) any impairment of any Constituent Asset (in terms of value or a physical impairment) as a result of any default or adverse claim (i.e. any claim of ownership of any person (other than Kuveyt Türk in its capacity as Seller of such Constituent Asset)) in respect of that Constituent Asset or (ii) any breach of any of the representations and warranties in respect of any Constituent Asset contained in the Purchase Agreement or any sale agreement pursuant to the exercise of the Purchase Undertaking. The sum of (i) the aggregate market value of the Real Estate Ijarah 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: (a) the value of the Ijarah Assets and (b) the value of any Tangible Investment Sukuk, both in the nature of capital or principal payments, shall comply with the Tangibility Ratio to be maintained by the Managing Agent on a best effort basis throughout the entire tenure of the Sukuk Wakalah, in accordance with the Management Agreement.
2	Under a management agreement (the "**Management Agreement**") KT Kira will appoint Kuveyt Türk as the managing agent for a one-off fixed fee (in such capacity, the "**Managing Agent**") in respect of the Assets Portfolio. The Managing Agent may also be entitled to an incentive payment as described below.
3	KT Kira will lease the Real Estate Ijarah Assets to Kuveyt Türk (in such capacity, as the "**Lessee"**) pursuant to a Lease Agreement. Rental, payable under the Lease Agreement will be paid to the Managing Agent for the account of KT Kira as lessor (in such capacity, as the "**Lessor**"). In the event of the occurrence of a Total Loss Event for Real Estate Ijarah Assets, the Lease Agreement will be terminated and the affected Real Estate Ijarah Assets will be substituted in accordance with the Management Agreement. For the avoidance of doubt, the Lease Agreement will not be terminated in the event of the occurrence of a Partial Total Loss Event for Real Estate Ijarah Assets.
4	On or before the issue date of each Sukuk Wakalah, KT Kira (for the benefit of Sukukholders) shall establish the following book-entry ledger accounts in respect of each series of Sukuk Wakalah: (i) Principal Collection Account; (ii) Income Collection Account; and (iii) Reserve Collection Account. **(I) Portfolio Revenues** The services to be provided by the Managing Agent in managing the Assets Portfolio will include the crediting of all revenues received in respect of the Assets Portfolio in the nature of capital or principal, including all amounts received in respect of Murabahah Assets (the "**Portfolio Principal Revenues**") to the Principal Collection Account as and when received. Amounts received in respect of Murabahah Assets will constitute Portfolio Principal Revenues for these purposes on the basis that such amounts will not represent a profit on the invesment by the Sukukholders' Agent (or the Managing Agent on its behalf) in those Murabahah Assets, as the purchase price of any Murabahah Assets on such investment will be equal to the outstanding amounts payable in respect of that Murabahah Assets. All other revenues received in respect of the Assets Portfolio (the "**Portfolio Income Revenues**"), which will consist of any such other revenues received in respect of the Tangible Assets, will be credited by the Managing Agent to the Income Collection Account on the payment Business Day immediately prior to each Periodic Distribution Date. Pursuant to the Management Agreement, after the payment of any Periodic Distribution Shortfall if required, the Managing Agent, for and on behalf of the Sukukholders' Agent, will use all reasonable endeavours to apply all Portfolio Principal Revenues towards: (i) purchase from Kuveyt Türk (acting in its own capacity and for its own account) of additional Constituent Assets (the "**Additional Constituent Assets**") subject to the Tangibility Ratio (It is at the option of the Managing Agent whether and when to apply Portfolio Principal Revenues towards purchase from Kuveyt Türk of the Additional Constituent Assets as long as the Tangibility Ratio is achieved); and/or (ii) invest any remaining Portfolio Principal Revenues by placing the relevant amounts on deposit with Kuveyt Türk on a Shariah compliant basis (the "**Shariah Compliant Investments**") pending the availability of such Additional Constituent Assets, in the event that on the receipt of any Portfolio Principal Revenues Kuveyt Türk has insufficient Additional Constituent Assets available for sale to KT Kira. Any Shariah

Compliant Investments shall be recorded by the Managing Agent and any returns generated from such investment will be credited to the Income Collection Account on the payment Business Day immediately prior to each Periodic Distribution Date.

(II) Periodic Distribution Payments

The Issuer will pay Periodic Distribution Amounts (as defined in paragraph 2(j) above) solely from the proceeds received in respect of the Assets Portfolio, which include payments by Kuveyt Türk as Lessee and as Managing Agent under the Lease Agreement and the Management Agreement, respectively.

In accordance with the Management Agreement, on each Periodic Distribution Date, the Managing Agent will pay to KT Kira from amounts then standing to the credit of the Income Collection Account, an amount equal to the Periodic Distribution Amounts payable by the Issuer under the Sukuk Wakalah on such Periodic Distribution Date.

To the extent the aggregate amounts standing to the credit of the Income Collection Account and the Reserve Collection Account are insufficient to fund the required Periodic Distribution Amounts (any such shortfall being the "**Periodic Distribution Shortfall**"), the Managing Agent shall

(a) first, using amounts standing to the credit of the Principal Collection Account, pay into the Transaction Account an amount equal to the lesser of the Periodic Distribution Shortfall and the balance of the Principal Collection Account;

(b) second, where the amount paid into the Transaction Account pursuant to (a) above is insufficient to cover the Periodic Distribution Shortfall, realise a portion of any Shariah Compliant Investments then held by the Managing Agent as selected by the Managing Agent equal in value to the remaining Periodic Distribution Shortfall or, where the aggregate value of such Shariah Compliant Investments is less than the remaining Periodic Distribution Shortfall, all such Shariah Compliant Investments (by terminating and demanding immediate payment of such Shariah Compliant Investments in compliance in all material respects with Shariah principles as interpreted by Kuveyt Turk's Sharia Advisory Board), and pay the amount so realised to the Transaction Account; and

(c) third, where the amounts paid into the Transaction Account pursuant to (a) and (b) above are insufficient to cover the Periodic Distribution Shortfall, realise a portion of the Assets Portfolio equal in value to the remaining Periodic Distribution Shortfall through the sale of Constituent Assets on behalf of the Sukukholders' Agent to Kuveyt Türk pursuant to the Purchase Undertaking (as defined below). Upon any such sale of Constituent Assets, the Murabahah Assets will be sold first for an amount equal to the value of those Murabahah Assets and in accordance with Shariah principles related to debt trading as approved by Kuveyt Turk's Sharia Advisory Board, then the Tangible Investment Sukuk, the Ijarah Assets and the Real Estate Ijarah Assets as applicable, but in each case only to the extent necessary to realise an amount equal to the remaining Periodic Distribution Shortfall, and shall pay the amount so realised to the Transaction Account.

On each Periodic Distribution Date, any excess arising from Income Collection Account shall be debited from the Income Collection Account and credited to the Reserve Collection Account. The Managing Agent will be entitled to deduct amounts standing to the credit of the Reserve Collection Account at any time and use such amounts for its own account, provided that the Managing Agent shall be required to, *inter alia*, repay such amounts if so required to fund a Periodic Distribution Shortfall. Following payment of all amounts due and payable under the Sukuk Wakalah on the termination date, the Managing Agent shall be entitled to retain any amounts standing to the credit of the Reserve Collection Account as an incentive payment for acting as Managing Agent.

5	Pursuant to the "**Purchase Undertaking**", Kuveyt Türk as the Obligor undertakes, at the option of the Sukukholders' Agent, to purchase the Assets Portfolio (or part thereof) from KT Kira at the relevant Exercise Price and execute a sale agreement for such purchase in case of: (i) the occurrence of a Periodic Distribution Shortfall on any Periodic Distribution Date, Kuveyt Türk is required to purchase an amount of Constituent Assets (with the Murabahah Assets to be sold first for an amount equal to the value of those Murabahah Assets and in accordance with Shariah principles related to debt trading as approved by Kuveyt Turk's Sharia Advisory Board, then the Tangible Invesment Sukuk the Ijarah Assetsfinally, the Real Estate Ijarah Assets, as applicable) equal in value to the remaining Periodic Distribution Shortfall; (ii) the occurrence of a Dissolution Event or at the maturity of the Sukuk Wakalah; and (iii) the occurrence of a Change of Control Event. In respect of (i) above, the Exercise Price shall equal to the Periodic Distribution Shortfall less any amounts paid into the Transaction Account pursuant to paragraphs 4(II)(a) and (b) above in accordance with the Management Agreement ("**Periodic Distribution Shortfall Exercise Price**"). In the case of (ii) above, the Exercise Price shall be the Assets Portfolio Exercise Price. In the case of (iii) above, the Exercise Price shall be the Change of Control Exercise Price.
6	Pursuant to the "**Sale Undertaking**", Kuveyt Türk has the right to oblige the Sukukholders' Agent to transfer or sell the Assets Portfolio (or part thereof) to Kuveyt Türk and execute a transfer agreement or sale agreement for such transfer or sale upon the occurrence of the following events: (i) Kuveyt Türk exercising its rights to effect the in-kind substitution of the constituent assets; or (ii) if Kuveyt Türk, its Subsidiaries or any of their agents purchases the Sukuk Wakalah in the open market, in which case Kuveyt Türk may request the Sukukholders' Agent to transfer the assets corresponding to the cancelled Sukuk Wakalah in consideration for the Sukuk Wakalah being surrendered to the Issuer and subsequently cancelled.
7	**Termination Payment by Kuveyt Türk** Kuveyt Türk may be required to purchase all of the Assets Portfolio prior to the scheduled termination date following a Dissolution Event or Change of Control Event. In each case, the amounts payable by the Issuer on the due date for termination will be funded, *inter alia*, by Kuveyt Türk purchasing the Assets Portfolio from the Sukukholders' Agent at the Exercise Price and paying the Exercise Price to the Sukukholders' Agent pursuant to the terms of the Purchase Undertaking. On the scheduled termination date, the Sukukholders' Agent will have the right under the Purchase Undertaking to require Kuveyt Türk to purchase the Assets Portfolio and pay the Exercise Price payable by Kuveyt Türk to KT Kira together with the amounts realised upon the termination of any Shariah Compliant Investments by the Managing Agent and the payment of such amounts by Kuveyt Türk, and any Portfolio Principal Revenues and Portfolio Income Revenues then held by the Managing Agent, to KT Kira, in each case pursuant to the Management Agreement, is intended to fund the aggregate outstanding nominal value of the Sukuk Wakalah plus all accrued and unpaid Periodic Distribution Amounts in respect of such Sukuk Wakalah (the "**Termination Distribution Amount**") payable by the Issuer under the Sukuk Wakalah. Upon full payment of the Termination Distribution Amount, in the case of excess, any amounts standing to the credit of the Reserve Collection Account shall be retained by the Managing Agent as an incentive payment. For the avoidance of doubt, any double counting shall be disregarded.

3. INVESTMENT CONSIDERATIONS

The purchase of any Sukuk Wakalah 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 Sukuk Wakalah. Before making an investment decision, prospectiveinvestors should consider carefully, in the light of their own financial circumstances and investment objectives, all of the information in this Information Memorandum.

Each of the Issuer and Kuveyt Türk believes that the factors described below represent the principal risks inherent in investing in the Sukuk Wakalah issued under the Sukuk Wakalah Programme, but the inability of the Issuer to pay any amounts on or in connection with any Sukuk Wakalah may occur for other reasons and neither the Issuer nor Kuveyt Türk represents that the statements below regarding the risks of holding any Sukuk Wakalah 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 Sukuk Wakalah.

Prospective investors should also read the detailed information set out elsewhere in this Information Memorandum and reach their own views prior to making any investment decision. Words and expressions defined in the PTC shall have the same meanings in this section.

3.1 RISK FACTORS RELATED TO THE ISSUER

3.1.1 The Issuer is dependent upon the performance by Kuveyt Türk of its obligations under the Transaction Document to make payments on the Sukuk Wakalah

The Issuer was incorporated on 3 September 2013 as an asset leasing company (an "**Asset Leasing Company**") under the Sukuk Communiqué and has a limited operating history. For a further description of the Issuer and its activities, see "*Description of the Issuer*". The Issuer will not engage in any business activity other than the issuance of the Sukuk Wakalah, the acquisition of the Sukuk Assets as described herein, acting in its capacity as Sukukholders' Agent, and other activities incidental or related to the foregoing as required under the Transaction Documents, and similar such activities in relation to the issue of other series of lease certificates in accordance with the Sukuk Communiqué ("**Lease Certificates**").

The Issuer's only material assets in respect of the Sukuk Wakalah, which it will hold in its name and on behalf and for the account of Sukukholders in its capacity as Sukukholders' Agent, will be the Sukuk Assets, including its right to receive payments under the Management Agreement and the Sale Agreement pursuant to 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 to which it is a party. 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 Sukuk Wakalah will primarily be dependent upon receipt by the Issuer from the Managing Agent and the Obligor under the Management Agreement and the Sale Agreement pursuant to the Purchase Undertaking, respectively, which, in the aggregate, may not be sufficient to meet all claims under the Sukuk Wakalah and the Transaction Documents.

3.1.2 The Issuer has issued other series of Lease Certificates and may issue further such series

The activities of the Issuer are not limited to the issue of the Sukuk Wakalah and as at the date of this Information Memorandum the Issuer has five other series of Lease Certificates outstanding (see "*Description of the Issuer*"). The Issuer may also issue further series of Lease Certificates.

Under the Sukuk Communiqué, all assets, rights and obligations of an Asset Leasing Company relating to a series of Lease Certificates, and all income generated therefrom and expenditure in respect thereof must be accounted for separately for each series of Lease Certificates issued by the Asset Leasing Company. Such assets cannot be subject to any form of attachment (including for the collection of public claims), included in the bankruptcy estate of the Asset Leasing Company or the subject of any precautionary injunction even if the administration or supervision of the Asset Leasing Company is transferred to public institution.

Holders of Lease Certificates are entitled to share in the revenues from the assets and rights relating to the Lease Certificates, and the proceeds of their sale to the originator or any third party (which in the case of the Sukuk Wakalah will be realised through the sale of the Assets Portfolio to Kuveyt Türk pursuant to the Purchase Undertaking) on a *pro rata* basis. The Asset Leasing Company may further not create any interest in such assets or rights in favour of any third party or dispose of them in a manner detrimental to holders of the Lease Certificates. The permitted expenditures of the Asset Leasing Company are limited to those required in respect of the Lease Certificates and for the continuance of its operations, and an Asset Leasing Company cannot be liquidated unless and until the assets and rights relating to Lease Certificates have been distributed to holders of the relevant Lease Certificates (including by way of the distribution of the proceeds of their sale).

The above provisions are untested and there is no precedent for the non-performance by an Asset Leasing Company of any of its obligations in respect of a series of Lease Certificates or what may be the consequences of such non-performance in respect of any other series of Lease Certificates issued by that Asset Leasing Company. No assurance can be given that these provisions will in practice provide for the separation of the assets and rights of an Asset Leasing Company relating to a series of Lease Certificates from those in respect of any other series of Lease Certificates or the segregation of any claims of holders of different series of Lease Certificates in these circumstances.

3.1.3 The Issuer is not a special purpose vehicle and may issue Lease Certificates for company other than Kuveyt Türk

In the past, the Lease Certificates Communiqué (Serial No. III/43) (the "**Previous Communiqué**") under Turkish law did not allow for the issuance of multiple sukuk certificates by an Asset Leasing Company. However, the Sukuk Communiqué which has now replaced the Previous Communiqué, has no prohibition on an Asset Leasing Company issuing multiple lease certificates subject to the requirement that each issuance and the related assets in respect of such issuance are to remain fully segregated under the Sukuk Communiqué. Article 13(1) of the Sukuk Communiqué further allows for the formation of a legal structure which enables an Asset Leasing Company to undertake multiple fund raising transactions and to use the same asset leasing company for different transactions, even if the obligors are a separate party and not its shareholder. Accordingly, the Issuer is now no longer a special purpose vehicle as it has undertaken multiple fund raising transactions since the Sukuk Communiqué came into force. In respect of the issuances of Lease Certificates by the Issuer with the source of payment to the holder of such Lease Certificates backed or supported by the underlying payments from obligors other than Kuveyt Türk, such issuances will be undertaken by the Issuer as a conduit/pass through/representative for and on behalf such obligors and such investors would not have any legitimate grounds or benefit for initiating winding-up procedures against KT Kira as such investors are not creditors of KT Kira.

The Sukuk Communiqué provides that Asset Leasing Companies are required to identify separately the assets related to each issuance. Additionally, pursuant to the terms of Article 61(3) of the Capital Markets Law of Turkey and Article 4(3) of the Sukuk Communiqué, each issuance remains segregated from the others until all non-defaulting issuances have been paid in full. Therefore, the assets, revenue, expenses and rights under each transaction and/or issuance by the Issuer shall be tracked in the Issuer's accounting records separately. Further, pursuant to Article 61 of the Capital Markets Law of Turkey, until the certificates are paid, the assets and rights in the portfolio underlying that issuance, even in the event the Issuer's management is transferred (where the duties and authority of the Issuer's management are taken over by the Investment Compensation Center ("**ICC**")) to the ICC in the event of a gradual liquidation of the Issuer as authorised by the CMB, may not be disposed of, pledged or collateralised. Additionally, the assets and rights in the underlying portfolio of an issuance may not be seized for any purpose including for the purpose of collecting public

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debts/receivables, and will not form part of the estate of a bankrupt entity. In addition, temporary injunction decisions cannot be put in place regarding the assets and rights in the underlying portfolio for that issuance. Accordingly, pursuant to Article 61 of the Capital Markets Law of Turkey, revenue generated from the assets in the underlying portfolio of an issuance shall be used primarily for payment to the investors of such issuance in the event of (i) failure of the Issuer to fulfill its obligations to the relevant investors including a failure to make payments in relation to a particular issuance when they are due and payable, (ii) a transfer of the Issuer's management to public institutions (i.e. the ICC), (iii) cancellation of its operation license, or (iv) the Issuer's bankruptcy.

However, there have been no Turkish precedent decisions in relation to segregation of each issuance and accordingly there can be no assurances that the Turkish courts will treat each issuance by KT Kira as segregated from each other. Further, there is no assurance that there would not be any changes to the protection provided under Turkish laws in relation to the segregation of the multiple fund raising transactions undertaken by an Asset Leasing Company after the date of this Information Memorandum. In the event that the Turkish courts do not treat each issuance by KT Kira as segregated from each other, the interests of the Sukukholders may be adversely affected.

3.2 RISK FACTORS RELATING TO KUVEYT TÜRK AND ITS BUSINESS

3.2.1 Kuveyt Türk's cash loans have increased rapidly in recent years and are expected to further expand and will require it to continue to develop more sophisticated monitoring systems to manage Kuveyt Türk's credit exposure

Kuveyt Türk's cash loans (which corresponds to the total due from financing activities, net and minimum finance lease payments receivable, net in the IFRS Accounts) have increased rapidly in recent years, growing to TRY16,329.91 million as at 31 December 2013 from TRY11,766.24 million as at 31 December 2012. The growth in Kuveyt Türk's cash loans is attributable to an overall increase in the growth of Kuveyt Türk's lending activity 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 2013, Kuveyt Türk's ratio of funds in arrears to due from financing activities, net (based on BRSA Accounts) was 2.62 per cent., compared to 2.89 per cent. as at 31 December 2012. As a participation bank, the monthly principal repayment structure of Kuveyt Türk's cash loans (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 loans has increased Kuveyt Türk's credit exposure and will require continued analysis and monitoring of its 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.

Kuveyt Türk's credit risk management policies may nevertheless be insufficient to protect it against material cash loan losses and any negative macro-economic developments could have a more significant impact on SME customers compared to larger corporate and commercial type customers (see *"Description of Kuveyt Türk – Risk Management"* for further details). The appropriate level of allowances for cash loan losses in respect of financial statements prepared in accordance with IFRS necessarily requires the exercise of judgment, including assumptions and estimates made in the context of changing political and economic conditions in the regions in which and the sectors to which Kuveyt Türk lends in Turkey. On the other hand, the allowances for cash loan losses in respect of financial statements prepared in accordance with BRSA Principles follows a prescribed allowance level as specified by the BRSA (see "*Description of Kuveyt Türk – Risk Management — Credit Classification and Provisioning Policy—IFRS/BRSA Provisioning*"). 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.

3.2.2 *Kuveyt Türk's business, financial condition, results of operations and prospects 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 2013, loans to corporate and SME customers constituted 81.27 per cent. of Kuveyt Türk's total assets with corporate loans contributing 33.44 per cent. and SME loans contributing 47.83 per cent. (based on BRSA Accounts). 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.

3.2.3 *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 2013, 47.83 per cent. of Kuveyt Türk's total loan portfolio consisted of loans to SMEs compared to 52.26 per cent. as at 31 December 2012 (based on BRSA Accounts). 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.

Lending to SMEs generally includes a higher degree of risk than lending to larger corporate customers, and there can be no guarantee that Kuveyt Türk's non-performing loans ("**NPLs**") for SMEs, or any of its other customers, will not materially increase in the near to medium term, particularly if there is a significant deterioration in macroeconomic conditions in Turkey or if Kuveyt Türk is unable to accurately model the risk associated with the SMEs 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"*).

3.2.4 *Security interests, collateral or loan guarantees provided in favour of Kuveyt Türk may not cover all losses in the event of default 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.

3.2.5 Kuveyt Türk's loans and deposit portfolio has significant geographic, currency and industry sector concentration

Kuveyt Türk has a high concentration of loans and deposits in geographic, currency and industry sector terms. Geographically, Kuveyt Türk's total loans are highly concentrated in Turkey with 97.09 per cent. of such loans being cash loans of which 87.64 cent. are Turkey based financings as at 31 December 2013. Kuveyt Türk's deposits are also concentrated in Turkish lira accounts, which represented 54.84 per cent. of total deposits as at 31 December 2013.

As at 31 December 2013, the percentage of Kuveyt Türk's total loans (both cash and non-cash loans) to customers in the construction industry sector and the financial services sector were 22.83 per cent. and 28.02 per cent., respectively (as compared to 23.50 per cent. and 23.91 per cent., respectively as at 31 December 2012).

Accordingly, Kuveyt Türk is particularly exposed to adverse changes in the Turkish economy, particularly in the construction and financial services sectors, and any such changes could have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects. Kuveyt Türk's business may be further affected by the financial, political and general economic conditions prevailing from time to time in Turkey.

3.2.6 Kuveyt Türk's business entails operational risks

Kuveyt Türk is exposed to operational risk, which is the risk of loss resulting from inadequacy or failure of internal process or systems or from external events. Such 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 *"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 allocated substantial resources 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. Given Kuveyt Türk's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult for any bank to detect quickly or at all. 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.

3.2.7 Kuveyt Türk's business, financial condition, results of operations and prospects have been affected by liquidity risks in the Turkish market and may be further affected by liquidity risks, particularly if Turkish or international financial market conditions deteriorate

Liquidity risk comprises uncertainties in relation to Kuveyt Türk's ability, under adverse conditions, to access the funding necessary to cover its obligations to customers, meet the maturity of liabilities and to satisfy capital requirements. This risk is inherent in banking operations and can be heightened both by macroeconomic conditions and by a number of enterprise-specific factors, including over-reliance on a particular source of funding (such as short-term funding), market disruptions or credit downgrades which may adversely affect the availability of certain types of funding.

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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 Turkish banking industry, Kuveyt Türk accepts deposits from its customers which are short-term in nature. Accordingly, 91.16 per cent. of its TRY17,079.04 million in customer deposits at 31 December 2013 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 longer duration. Kuveyt Türk cannot be certain, though, that its customer will continue to roll over or maintain their deposits with Kuveyt Türk. In relation to Kuveyt Türk's cash loans, 70.01 per cent. of its TRY16,329.91 million in such loans at 31 December 2013 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.

A rising interest rate environment could compound the risk of Kuveyt Türk not being able to access funds at favourable rates. Kuveyt Türk's ability to raise or access funds may be impaired by factors that are not specific to its operations such as general market conditions, severe disruption of the financial markets or negative views about the prospects of the sectors to which Kuveyt Türk provides its loans.

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. There can also be no assurance that Kuveyt Türk will not experience significant liquidity constraints in the future. In the event that Kuveyt Türk experiences liquidity issues, market disruptions and credit downgrades may cause certain sources of funding to become unavailable. For example, in the case of a liquidity crisis, wholesale funding becomes increasingly costly and more difficult to obtain which may adversely affect borrowings via capital markets instruments including sukuk certificates. Kuveyt Türk's inability to refinance or replace deposits and devalued assets with alternative funding available on commercially reasonable terms, if at all, could have an adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

3.2.8 Market risks arising from the indirect effects of currency exchange rates, interest rates and fluctuations in the prices of financial products affect Kuveyt Türk

Kuveyt Türk is exposed to market risks, the most significant of which 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 Kuveyt Türk to minimise the impact of currency exchange rate and interest rate volatility. See *"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 give rise to material adverse effect on Kuveyt Türk's business, financial position, results of operations and prospects.

3.2.9 Kuveyt Türk is controlled by KFH whose interests may not be aligned with the interests of the Sukukholders

As at the Latest Practicable Date, KFH owns 62.24 per cent. of Kuveyt Türk's share capital, see *"Description of Kuveyt Türk—Shareholders"* for further details. There can be no guarantee that the interests of KFH will coincide with these of the Sukukholders and, if they do not, the Sukukholders may be disadvantaged.

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 KFH conflict with the interests of the Sukukholders, the Sukukholders may be disadvantaged by any such conflict.

3.2.10 *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 31 December 2013, participation banks have a total market share of approximately 5 per cent. and Kuveyt Türk has a market share of approximately 1.5 per cent., in each case of the Turkish banking sector in terms of asset size. 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.

3.2.11 *The policy of the CBT on reserve requirements and interest rates could negatively affect Kuveyt Türk's business, financial condition, results of operations and prospects*

In order to simplify the structure of reserve requirements that are used as monetary and macro prudential policy tools, the CBT has adopted a new approach whereby instead of deducting specified items from total domestic liabilities, only the items subject to reserve requirements are directly taken into account while calculating liabilities subject to reserve requirements. Thus, immaterial items, which do not have a direct impact on the monetary policy but reduce the efficiency of the operational processes, have been excluded from reserve requirements coverage. In addition, the CBT has revised the reserve option coefficients for foreign exchange reserves held for Turkish Lira required reserves, by an increase of 0.4 basis points for each tranche above 40 per cent.

In addition to these regulatory measures, the CBT has tightened monetary policy by raising short term interest rates and simplifying the operational framework in order to contain the negative impacts of recent developments in domestic and international markets on risk perception and inflation outlook. The marginal funding rate remained the same at 11.25 per cent., the borrowing rate was maintained at 7.5 per cent., the interest rate on borrowing facilities provided for primary dealers via repo transactions remained constant at 10.75 per cent. and the one-week repo rate was decreased to 7.75 per cent. from 8.25 per cent.

Kuveyt Türk might not be able to pass on any increased costs associated with such regulatory changes to its customers, particularly given the high level of competition in the Turkish banking market (see "*Overview of the Turkish Banking Sector and Regulations*" for further details). Accordingly, Kuveyt Türk might not be able to sustain its level of profitability in light of these regulatory changes and Kuveyt Türk's profitability might be materially adversely impacted until such changes are incorporated into Kuveyt Türk's pricing.

The CBT's increase in initial rates and regulatory changes such as increased reserve requirements, the non-payment of interest on reserves and caps on interest rates charged on credit cards may have an adverse impact on Kuveyt Türk's net interest income, thereby exerting downward pressure on Kuveyt Türk's net interest margins. New laws and regulations may increase Kuveyt Türk's cost of doing business or limit its activities and might be adopted, enforced or interpreted in a manner that could have an adverse effect on Kuveyt Türk's business, financial condition, cash flows and results of operations. In addition, such measures could also limit or reduce growth of the Turkish economy and consequently the demand for Kuveyt Türk's products and services.

In addition to the recent devaluation of the Turkish lira, as a consequence of certainchanges, Kuveyt Türk was required to increase its capital reserves and may need to access more expensive sources of financing to meet its funding requirements. Any failure by Kuveyt Türk to adopt adequate responses to these or future changes in the regulatory framework could have an adverse effect on Kuveyt Türk's business, financial condition and results of operations. In addition, non-compliance with regulatory guidelines could expose Kuveyt Türk to potential liabilities, fines and damage its reputation.

3.2.12 *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 and III criteria and the BRSA regulations.

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.

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

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 31 December 2013, there were a total of 49 banks (excluding the CBT) licensed to operate in Turkey, 24 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. A small number of banks in the Turkish banking sector dominate the market. According to the BRSA, as at 30 September 2013, the top five banks in Turkey (in terms of asset size), one of which were state controlled, held approximately 52 per cent. of the banking sector's total credit portfolio, approximately 55 per cent. of total bank assets in Turkey and approximately 60 per cent. of total depositors in Turkey.

State-controlled banks in Turkey have historically focused on government and government-related projects but are increasingly focusing on the private sector, leading to increased competition and pressure on margins. The Government of Turkey has also announced plans for state-controlled banks to enter the participation banking market through the establishment of subsidiaries which will operate as participation banks. In addition, state-controlled banks in Turkey have historically had access to very inexpensive funding in the form of very significant Turkish government deposits, which has provided a competitive advantage over private banks. This competitive advantage has often resulted in such banks adopting aggressive pricing strategies on both deposit and loan products.

International banks have shown an increased interest in the banking sector in Turkey. For example, Standard Chartered Bank of the United Kingdom acquired Credit Agricole's Turkish banking operations (announced in August 2012), and Bank Audi of Lebanon launched retail operations in Turkey through its Odea Bank subsidiary after receiving its operating licence from the BRSA in October 2012. In December 2012, the BRSA approved the incorporation of a bank (with a deposit taking licence) by the Bank of Tokyo-Mitsubishi UFJ, Ltd and The Bank of Tokyo-Mitsubishi UFJ, Ltd was granted an operational permit in September 2013. The Commercial Bank of Qatar (Q.S.C.) acquired 70.84 per cent. of Alternatif Bank A.Ş. in July 2013. In August 2013, Rabobank International Holding B.V. was granted an authorisation to establish a deposit bank in Turkey. In April 2014, Industrial and Commercial Bank of China Ltd. announced that it had signed an agreement to acquire 75.5 per cent. of Tekstilbank from GSD Holding A.Ş. The entry of foreign-owned banks to the sector, either directly or in collaboration with existing Turkish banks, may increase the already significant competition in the market, especially given that some of these foreign competitors have significantly greater resources and less expensive funding sources than Turkish banks.

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. Competitors may also direct greater resources and be more effective in the development and/or marketing of technologically advanced products and services that may compete directly with Kuveyt Türk's products and services, adversely affecting the acceptance of Kuveyt Türk's products and/or leading to adverse changes in the spending habits of Kuveyt Türk's customer base. There can be no assurances that further competition pressures will not result in margin compression or that Kuveyt Türk will be able to keep pace with competitors' development of new products and services, which could have a material adverse effect on Kuveyt Türk's business, financial condition and results of operations.

3.2.14 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, 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 Kuveyt Türk's capital adequacy ratios and its reported income and assets and liabilities are affected by changes in the value of the Turkish lira with respect to foreign currencies similar to other banks dealing with 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.

3.2.15 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 to 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 to 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.

3.2.16 *Volatility in interest rates may adversely affect Kuveyt Türk's net income attributable to its mark-ups or margins 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 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 or margins.

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.

3.2.17 *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.

3.2.18 *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.

3.2.19 *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.

3.2.20 *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 Information Memorandum, 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.

3.2.21 *Kuveyt Türk's strategy to grow its non-cash loans may cause its capital adequacy ratios to decline*

Kuveyt Türk's non-cash loans (which, in accordance with the IFRS Accounts, consist of the total of letters of guarantee issued by the bank, letters of credit, commitments, acceptance credits and other guarantees) have increased significantly to TRY11,083.93 million as at 31 December

2013 compared to TRY7,754.99 million as at 31 December 2012. Kuveyt Türk intends to continue to expand and develop its non-cash loan product offerings, consisting of 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, 14.43 per cent. as at 31 December 2013 and 14.16 per cent. as at 31 December 2012 (based on BRSA Accounts)), 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.

3.2.22 *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 Sukuk Wakalah 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.

3.2.23 *Kuveyt Türk maintains a reputation as a pre-eminent participation bank in Turkey, 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 *Shariah*, Kuveyt Türk maintains a supervisory board to ensure that the respective entities adhere to the principles of *Shariah* at all times. However, any failure to comply with the principles of a participation bank or *Shariah* 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.

3.2.24 *Kuveyt Türk's credit ratings may not reflect all risks, and changes to Turkey's and/or Kuveyt Türk's credit ratings may affect Kuveyt Türk's ability to obtain funding*

Changes to Turkey and/or Kuveyt Türk's credit ratings may affect the cost and other terms favourable to Kuveyt Türk upon which Kuveyt Türk 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 the Latest Practicable Date, Kuveyt Türk's long-term local currency rating was BBB+ from Fitch Ratings. Any ratings of either Kuveyt Türk or the Sukuk Wakalah may not reflect the potential impact of all risks related to the Sukuk Wakalah, 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 credit ratings or outlooks.

In addition, a downgrade or potential downgrade of the Turkish sovereign rating could negatively affect the perception of Kuveyt Türk's ratings. 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.

3.2.25 *Kuveyt Türk may be unable to maintain or secure the necessary licences for carrying on its business*

All banks established in Turkey require licensing by the BRSA. Each of Kuveyt Türk and, to the extent applicable, each of its subsidiaries has a current Turkish and/or other applicable licence for all of its banking and other operations. Kuveyt Türk believes that it and each of its subsidiaries is currently in compliance with its existing material licence and reporting obligations. If Kuveyt Türk and, to the extent applicable, any of its subsidiaries were to suffer a future loss of any licence, breach the terms of any licence or fail to obtain any further required licences, then this could have a material adverse effect on Kuveyt Türk's business, financial condition and results of operations.

3.3 RISK FACTORS RELATING TO THE REPUBLIC OF TURKEY AND THE TURKISH BANKING SECTOR

Any claims against Kuveyt Türk under the Sukuk Wakalah 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 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 Kuveyt Türk's ability to make payment of periodic distribution payments and principal under the Sukuk Wakalah.

Kuveyt Türk's business is predominantly engaged 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.

3.3.1 *Turkey's economy has been subject to significant inflationary pressures in the past and may become subject to significant pressures in the future*

The Turkish economy has experienced significant inflationary pressures in the past with year-over- year consumer price inflation rates as high as 69 per cent. in the early 2000s. However, weak domestic demand and declining energy prices in 2009 caused the domestic year-over-year consumer price index to decrease to 6.5 per cent. at the end of 2009, the lowest level in many years. Consumer price inflation was 6.4 per cent. in 2010, 10.5 per cent. in 2011, 6.2 per cent. in 2012 and rose to 7.4 per cent. in 2013. Significant global price increases in major commodities such as oil, cotton, corn and wheat are likely to increase supply side inflation pressures throughout the world. These inflationary pressures may result in Turkish inflation exceeding the CBT's inflation target, which may cause the CBT to modify its monetary policy. Inflation-related measures that may be taken by the Turkish government in response to increases in inflation could have an adverse effect on the Turkish economy. If the level of inflation in Turkey were to fluctuate or increase significantly, then this could have a material adverse effect on Kuveyt Türk's business, financial condition and results of operations.

3.3.2 Turkey's high current account deficit may result in governmental policies to decrease economic activity

In 2010, Turkey's current account deficit was U.S.$45.4 billion, which increased to U.S.$75.1 billion in 2011, before decreasing to U.S.$48.5 billion in 2012 according to the CBT. The decline in the current account deficit in 2012 was largely the result of coordinated measures initiated by the CBT, BRSA and Turkey's Ministry of Finance to lengthen the maturity of deposits, reduce short-term capital inflows and curb domestic demand. The main aim of these measures has been to slow the rate of growth in the current account deficit by controlling the rate of loan growth. The current account deficit increased from U.S.$48.5 billion in 2012 to U.S.$65.1 billion in December 2013 primarily driven by strong domestic demand and banking sector credit expansion. As a result of the markedly weaker Turkish Lira in 2014 and the ensuing import moderation, the current account deficit has declined, amounting to U.S.$30.9 billion in the first nine months of 2014. Further regulations may be introduced by the BRSA or the CBT with respect to loan growth ratios that could have a material adverse effect on Kuveyt Türk's business, financial condition and results of operations.

As a result of the current financial situation in the EU, a decline in demand for imports could have a material adverse effect on Turkish exports and Turkey's economic growth and result in an increase in Turkey's current account deficit. However, during 2013, according to TurkStat, year-on-year imports to Turkey increased by 6.4 per cent., which was due, in part, to currency fluctuations.

Financing the high current account deficit might be difficult in the event of a global liquidity crisis and/or declining interest of foreign investors in Turkey. Any such difficulties may lead the Turkish government to seek to raise additional revenue to finance the current account deficit or to seek to stabilise the Turkish financial system, and any such measures might adversely affect Kuveyt Türk's business, financial condition and results of operations.

3.3.3 The Financial Action Task Force may call upon its members to take measures against Turkey

As a result of Turkey's high-level political commitment to work with the Financial Action Task Force ("**FATF**") to seek to address Turkey's deficiencies in combating the financing of terrorism, the Law on Prevention of Financing of Terrorism numbered 6415 and dated 7 February 2013 (the "**Terrorism Law**") has been enacted by Turkey and it has been published on the Official Gazette on 16 February 2013 in order to make sufficient progress in: (a) adequately criminalising terrorist financing; or (b) implementing an adequate legal framework for identifying and freezing terrorist assets before 22 February 2013. Otherwise, the FATF may call upon its members to apply counter measures proportionate to the risks associated with Turkey (for example, the FATF may require banks in member states to apply extra procedures on any transactions with banks in Turkey).

The Terrorism Law introduces an expanded scope to the financing of terrorism offence (as currently defined under Turkish anti-terrorism laws) and strictly prohibits the financing of terrorism and imposes a criminal penalty of imprisonment for any person conducting such crimes under the Terrorism Law. Furthermore, it facilitates the implementation of United Nations Security Council decisions, in particular those relating to entities and/or individuals placed on sanction and the claims of other foreign governments in relation to "freezing assets" of any person conducting financing of terrorism and imposes a sanction of imprisonment on those persons.

It is likely that the Terrorism Law will sufficiently address the inadequacies identified by the FATF to deter the FATF countermeasures, however the FATF may further request that Turkey adopt additional measures and procedures to ensure full compliance with FATF requirements.

3.3.4 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.

3.3.5 *Adverse political, economic and related considerations in Turkey 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.

In May 2013, protests against plans to replace Gezi Park, an urban park in Istanbul's central Taksim Square, with a commercial development started in İstanbul and soon spread to Ankara and other major cities in Turkey, with a commercial development. These protests resulted in confrontations among protestors and security forces and contributed to increased volatility in Turkish financial markets. Related and similar protests have occurred from time to time since the original Gezi Park events. While the Kuveyt Türk's management does not believe that these conflicts will have a material long-term negative impact on Turkey's economy or the Kuveyt Türk's business, financial condition or results of operation, it is possible that these (or other) protests and related circumstances could have such an impact and/or a negative impact on investors' perception of Turkey, the strength of the Turkish economy and/or the value and/or price of the Sukuk Wakalah.

Beginning in late 2013, Turkish politics have been particularly volatile, commencing with a series of arrests of prominent businessmen and family members of some cabinet ministers (who have since resigned) on suspicions of corruption. While the causes of these events are uncertain, there is speculation that it reflects a division among important elements of the Turkish government, police and judiciary. The government's responses to these events have included the removal of certain prosecutors and police from their offices and proposals to change the manner in which the police and judicial authorities are supervised by the national government, which has led to concerns about the separation of powers. These events have contributed to significant declines in the value of the Turkish stock market and the Turkish lira. The occurrence of these events, and when and in what manner they are resolved, may have: (a) a material negative impact on the Kuveyt Türk's business, financial condition and/or results of operation and (b) a negative impact on investors' perception of Turkey, the strength of the Turkish economy and/or the value and/or price of the Sukuk Wakalah.

These events are particularly noteworthy as presidential elections are scheduled to be held in Turkey in 2015 and the events surrounding such elections and/or the results of the elections could contribute to the volatility of Turkish financial markets and/or have an adverse effect on investors' perception of Turkey. Actual or perceived political instability in Turkey could have a material adverse effect on Kuveyt Türk's business, financial condition and/or results of operations and on the value of the Sukuk Wakalah.

3.3.6 *Terrorism and Conflicts - Turkey and its economy are subject to external and internal unrest and the threat of terrorism*

Turkey is located in a region which has been subject to ongoing political and security concerns especially in recent years. Political uncertainty within Turkey and in certain neighbouring countries, such as Iran, Iraq, Georgia, Armenia and Syria, has historically been one of the potential risks associated with investment in securities issued by Turkey.

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, Iraq and Libya. Political instability in the Middle East and elsewhere remains a concern, most recently exemplified by the internal conflict in Syria and Iraq, and tension between Iran and Israel.

Unrest in those countries and regions may also have implications for the wider global economy and may negatively affect market sentiment towards other countries in the region, including Turkey. The conflict in Syria has been the subject of significant international attention and is inherently volatile and its impact and resolution is difficult to predict. In early October 2012, Turkish territory was hit by shells launched from Syria, some of which killed Turkish civilians. On 4 October 2012, the Turkish Parliament authorised the government for one year to send and assign military forces in foreign countries should such action be considered appropriate by the government, and on 3 October 2013, the authorisation was extended for one year.

In early 2014, political unrest and demonstrations in Ukraine led to a change in the national government. While the United States and the EU recognised the new government, Russia claimed that the new government was illegitimate and was violating the rights of ethnic Russians living in the Crimean peninsula and elsewhere in Ukraine. Escalating military activities in Ukraine and on its borders, including Russia effectively taking control of Crimea (and Crimea's independence vote and absorption by Russia), have combined with Ukraine's very weak economic conditions to create great uncertainty in Ukraine and the global markets. Resolution of Ukraine's political and economic conditions will likely not be obtained for some time, and the situation could even degenerate into increased violence and/or economic collapse. While not directly impacting Turkey's territory, the disputes could materially negatively affect Turkey's economy, including through its impact on the global economy and the impact it might have on Turkey's access to Russian energy supplies.

Turkey has also experienced problems with domestic terrorist and ethnic separatist groups. For example, Turkey has been in conflict for many years with the People's Congress of Kurdistan, formerly known as the PKK (an organisation that is listed as a terrorist organisation by states and organisations including Turkey, the EU and the United States). Most recently, on 9 January 2013, three PKK activists were killed in Paris jeopardising Turkish-Kurdish peace talks. Furthermore, tensions between Syria and Turkey have intensified following the shooting down of a Turkish aircraft by Syrian forces in June 2012 and more recently a mortar attack on the Turkish border town of Akcakale which killed five civilians. In response to this, the Turkish Parliament authorised the government on 4 October 2012 to task the military and send troops outside Turkey for a one year period, if deemed necessary, while the United Nations Security Council issued a statement condemning the attack on Akcakale by the Syrian armed forces. Such circumstances and domestic terrorist attacks have had and could continue to have a material adverse effect on the Turkish economy and Kuveyt Türk's business, financial condition and results of operations.

While regional conflicts, terrorist attacks and the threat of future terrorism have not had a major negative impact on Turkey's capital markets, the level of tourism, foreign investment and other elements of the Turkish economy, additional attacks or conflicts may occur in the future with such a negative impact which could have an adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects. While Kuveyt Türk's property and business interruption insurance covers damage to insured property directly caused by terrorism, there can be no assurance that such amounts will be sufficient to cover any losses that may occur.

Kuveyt Türk may also 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.

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

The global financial crisis has affected the banking sector in Turkey. Turkey has diversified its export markets in recent years but the EU remains Turkey's largest export market and as a result, the recent financial crisis being experienced within countries in the EU, particularly Greece, had, and may in the future have, an adverse impact on the Turkish economy as demand for Turkish exports may decrease from the EU.

During the global financial crisis, Turkey suffered reduced domestic consumption and investment and a sharp decline in exports, which led to an increase in unemployment. Turkey's GDP contracted by 7.0 per cent. in the fourth quarter of 2008 and declined 4.8 per cent. in 2009. Following the implementation of fiscal and monetary measures during 2009, the Turkish economy began to recover in the fourth quarter of 2009, resulting in Turkey's GDP growing by 9.2 per cent. in 2010, 8.8 per cent. in 2011, 2.1 per cent. in 2012 and 4 per cent. in 2013. Real GDP growth decelerated in year on year terms to 1.7 per cent. in the third quarter of 2014, decreasing from 2.2 per cent. in the second quarter of 2014 and 4.8 per cent. in the first quarter of 2014.. Private consumption and investment as well as imports have remained soft as compared to 2013, dampened by a weaker exchange rate and higher interest rates. However, in quarter to quarter terms, real GDP growth recovered to 0.4 per cent. in the third quarter of 2014, after contracting by 0.5 per cent. in the second quarter of 2014, due to a rebound in domestic demand which had declined in first half of 2014 as a result of monetary tightening (which has been relaxed somewhat since May 2014). Private consumption expanded by 1.7%, government consumption by 2.1 per cent. and fixed investment by 1.9 per cent. in quarter to quarter terms in the third quarter of 2014. Net exports also made a positive contribution to third quarter growth as imports contracted markedly by 3.1 per cent. while exports increased by 0.6 per cent. in quarter to quarter terms in 2013. Going forward, a more stable exchange rate and lower global oil prices are expected to support economic activity.

Its unemployment rate decreased from 16.1 per cent. in February 2009 to 9.1 in October 2012 but increased slightly in 2013 to 9.7 per cent, and further increased to 10.4 per cent. in October 2014. There can be no assurance that the unemployment rate will, in fact, improve, or even that it will not increase further in the future. Continuing high levels of unemployment may affect Kuveyt Türk's retail customers and business confidence, which could impair its business strategies and have a material adverse effect on its business, financial condition and results of operations.

Although there has been economic recovery, the recovery may not continue. Any deterioration in the condition of the global or Turkish economies, or continued uncertainty around the potential for such deterioration, could have a material adverse effect on Kuveyt Türk's business and customers in a number of ways, including, among others, the income, wealth, employment, liquidity, business, prospects or financial condition of Kuveyt Türk's customers, which, in turn, could reduce Kuveyt Türk's asset quality and demand for Kuveyt Türk's products and services and negatively impact Kuveyt Türk's growth plans. Kuveyt Türk's business, financial condition and results of operations may also continue to be adversely affected by conditions in the global and Turkish financial markets as long as they remain volatile and subject to disruption and uncertainty.

3.3.8 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 replaced the 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.

3.3.9 *Recent changes in Turkish law may have a significant impact on Kuveyt Türk's business, financial condition, results of operations and prospects*

Recently, four significant pieces of legislation have been subject to substantial amendment, namely the Turkish Code of Obligations, the Turkish Code of Civil Procedures, the Turkish Commercial Code and the Capital Markets Law of Turkey. Both the Turkish Code of Obligations and the Turkish Commercial Code came into effect on 1 July 2012, the Turkish Code of Civil Procedures came into effect on 1 October 2011, and the Capital Markets Law of Turkey came into effect on 30 December 2012. The new Consumer Protection Law came into effect on 28 May 2014. These amendments are expected to implement substantial changes in Turkish law and will have a significant impact on commercial life in Turkey. Accordingly, the amendments may adversely impact Kuveyt Türk's business, financial condition, results of operations and prospects although, at this stage, the potential impact cannot be quantified.

In addition, 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 an adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects or which could adversely affect the market price and liquidity of the Sukuk Wakalah.

3.3.10 *The activities of Kuveyt Türk are highly regulated and changes to applicable laws or regulations, the interpretation or enforcement of such laws or regulations or the failure to comply with such laws or regulations could have an adverse impact on Kuveyt Türk business*

As banks are highly regulated entities, Kuveyt Türk is subject to a number of banking, consumer protection, competition, antitrust and other regulations designed to maintain the safety and financial soundness of banks, ensure their compliance with economic and other obligations and limit their exposure to risk. These regulations include Turkish laws and regulations (and in particular those of the BRSA). Basel II regulations, which have been translated into national law in accordance with (where applicable) the capital requirements Directives of the European Community numbered 2006/48/EC and 2006/49/EC (the "**CRD**"), came into effect in Turkey for standardised approaches on 1 July 2012.

Turkish banks' capital adequacy requirements are further affected by Basel III, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements. Basel III has been introduced by the BRSA and the BRSA's regulations. There are various adoption periods set by the BRSA for the adoption of capital adequacy and liquidity rules. The regulations for the adoption of Basel III rules were put into effect at the beginning of 2014 and this transition period is expected to end at the beginning of 2019. Accordingly, the Issuer will be required to comply with capital adequacy and liquidity rules which may affect its capital structure and pricing of its products. The BRSA published five new regulations for the implementation of Basel III in Turkey; Regulation on Equity of Banks, Amendments to the Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks, Regulation on Capital Protection and Cyclic Capital Buffer, the Regulation on Measurement and Evaluation of Leverage Levels of Banks and the Regulation on the calculation of the Liquidity Ratio Coverage of banks. Apart from implementation of certain leverage ratios set out under the latter regulations that are effective as of 1 January 2015, these regulations are effective as of 1 January 2014.

The new Regulation on Equity of Banks introduces the following changes: (a) introducing core capital as a component of equity; (b) determining which additional Tier 1 capital items are included as Tier 1 capital along with core capital; (c) determining detailed correction principles; (d) changing the principles by which minority rights and shares owned by third persons are considered within the consolidated open funds account; and (e) ensuring that the debt instruments included in additional Tier 1 capital and Tier 2 capital are convertible to share certificates or could be written- off in exchange for share certificates should a bank's core capital adequacy ratio, calculated on a consolidated or non-consolidated basis, fall below 5.125 per cent. The capital instruments that have already been included within the equity of the bank before the effective date of 1 January 2014 in the regulation would be subject to a different equity calculation method. If such instruments no longer qualify as Tier 1 or Tier 2 Capital; for each remaining year of the instrument, 10 per cent. of the instrument will cease to be taken into account for the purpose of the equity calculations of the bank.

In light of the foregoing changes, the Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks required amendment and the regulation amending the Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks introduced: (i) a minimum core capital adequacy standard ratio (4.5 per cent.) and a minimum Tier 1 capital adequacy standard ratio (6 per cent.) to be calculated on a consolidated and non-consolidated basis; and (ii) instead of deducting certain items from equity, to risk weight such items in determining capital adequacy. See "*Overview of the Turkish Banking Sector and Regulations*" for a description of the Turkish banking regulatory environment.

As a result of the recent global financial crisis, policy makers in Turkey, the EU and other jurisdictions have enacted or proposed various new laws and regulations, including those that limit the fees and commissions that banks may charge their customers, and there is still uncertainty as to what impact these changes may have. Whilst the BRSA has already implemented some important regulations in this regard, there have been ongoing studies on the impact these new regulations may have on the Turkish banking sector. In the second half of 2013, an increase in the general provision rate, higher risk weighting, limit to credit card instalment payments and the ceiling on maturity of consumer loans weighed on the Turkish banking sector's revenues. In addition, the ceiling on fees charged on consumers and overall household debt is expected to become effective this year. These regulations will probably limit the Turkish banking sector's incomes and profitability.

3.3.11 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.

Additionally, since 2010, there has been sustained growth in government support for the growth and development of the participation banking industry in Turkey. However, any negative change in the governments' support to participation banking may have a material adverse effect on Kuveyt Türk's business, financial condition, results of operation and prospects

3.3.12 Any introduction of exchange controls would have an adverse effect on Kuveyt Türk's business, financial condition or results of operations generally and 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.

3.3.13 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 International Monetary Fund ("**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.

3.3.14 Earthquakes - Turkey is subject to the risk of significant seismic events

A significant portion of Turkey's population and most of its economic resources are located in a first-degree earthquake risk zone and Turkey has experienced a large number of earthquakes in recent years, some quite significant in magnitude. For example, in October 2011, the eastern part of the country was struck by an earthquake measuring 7.2 on the Richter scale, causing significant property damage and loss of life Kuveyt Türk maintains earthquake insurance but does not have the wider business interruption insurance or insurance for loss of profits, as such insurance is not generally available in Turkey. In the event of future earthquakes, effects from the direct impact of such events on Kuveyt Türk and its employees, as well as measures that could be taken by the government (such as the imposition of taxes), could have a material adverse effect on the Kuveyt Türk 's business, financial condition and/or results of operations. In addition, an earthquake or other large-scale disaster might have an adverse impact on the Kuveyt Türk's customers' ability to honour their obligations to the Kuveyt Türk.

3.3.15 The Turkish banking sector has exhibited significant volatility in the past and may exhibit significant volatility in the future

The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001, this resulted in the collapse of several financial institutions. Following this crisis, the Turkish government made structural changes to the Turkish banking system to strengthen the private (i.e. non-governmental) banking sector and allow it to compete more effectively against the state-controlled banks. Notwithstanding such changes, the Turkish banking sector remains subject to volatility.

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

3.4 RISK FACTORS RELATED TO THE SUKUK WAKALAH

3.4.1 The Sukuk Wakalah are unsecured obligations

As the Sukuk Wakalah are unsecured obligations, their repayment may be compromised if:

- the Issuer and/or Kuveyt Türk enter into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's and/or Kuveyt Türk' future secured financing and its related payment obligations or other unsecured financing and its related payment obligations; or
- there is an acceleration of any of the Issuer's and/or Kuveyt Türk' indebtedness.

If any of these events occur, the Issuer and/or Kuveyt Türk' assets may not be sufficient to pay amounts due on the Sukuk Wakalah.

3.4.2 The terms of the Sukuk Wakalah may be subject to modifications and waivers

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

The conditions of the Sukuk Wakalah also provide, amongst others, that the Sukuk Trustee may, without the consent of Sukukholders, agree to (i) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorization of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Sukuk Trustee not materially prejudicial to the interests of the Sukukholders.

3.4.3 The rating assigned to the Sukuk Wakalah Programme may be downgraded by rating agencies in the future and ratings may not reflect all risks

The Sukuk Wakalah Programme has been assigned a rating by RAM Ratings. This rating may be reviewed and changed at any time. The rating addresses the Issuer's and Kuveyt Türk's ability to perform their respective obligations under the terms of the Sukuk Wakalah and credit risks in determining the likelihood that payments will be made when due under the Sukuk Wakalah. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. The Issuer and/or Kuveyt Türk cannot assure you that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. Any change leading to a downgrade would have a negative impact on the market trading prices of the Sukuk Wakalah. The Issuer and/or Kuveyt Türk is under no obligation to inform the Sukukholders of any such revision, downgrade or withdrawal. In addition, any ratings downgrade could adversely affect the Issuer's and/or Kuveyt Turk's ability to access the debt capital markets in the future and may result in higher costs of funding in respect of their credit facilities. This may have a material adverse effect on the Issuer's and/or Kuveyt Türk's financial condition and results of operations.

3.4.4 There has been no prior public market for the Sukuk Wakalah; the liquidity and price of the Sukuk Wakalah following the issue of a series of Sukuk Wakalah may be volatile

There is no existing market for the Sukuk Wakalah and there can be no assurance that a secondary market for the Sukuk Wakalah will develop, or if a secondary market does develop, that it will provide the Sukukholders with liquidity of investment or that it will continue for the life of the Sukuk Wakalah. The value of the Sukuk Wakalah may develop at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates and the market for similar securities. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Sukuk Wakalah and an investor in the Sukuk Wakalah must be prepared to hold the Sukuk Wakalah for an indefinite period of time or until their maturity, nor any assurance can be given as to the ability of the Sukukholders to sell their Sukuk Wakalah, or prices at which the Sukukholders would be able to sell their Sukuk Wakalah.

3.4.5 The price of the Sukuk Wakalah may be subject to fluctuation

Trading prices of the Sukuk Wakalah may be influenced by numerous factors, including the operating results and/or financial condition of the Issuer, Kuveyt Türk and/or KFH, political, economic, financial and any other factors that can affect the capital markets, the industry, the Issuer, Kuveyt Türk and/or KFH generally. Adverse economic developments could have a material adverse effect on the market value of the Sukuk Wakalah.

3.4.6 An investment in the Sukuk Wakalah is subject to market rate risk

The Sukuk Wakalah may suffer unforeseen losses due to fluctuations in market rates. Generally, a rise in market rates may cause a fall in Sukuk prices. The Sukuk Wakalah may be similarly affected resulting in a capital loss for the Sukukholders. Conversely, when market rates fall, Sukuk prices and the prices at which the Sukuk Wakalah trade may rise. The Sukukholders may enjoy a capital gain but profit received may be reinvested for lower returns.

3.4.7 There is no assurance that the Sukuk Wakalah will be Shariah compliant

The Joint Shariah Advisers have issued Shariah pronouncements in respect of the Sukuk Wakalah and the related structure and mechanism of the Sukuk Wakalah and its compliance with Shariah. However, the Shariah pronouncements are only an expression of the view of the Joint Shariah Advisers and there can be no assurance that the transaction structure or issue and trading of the Sukuk Wakalah will be deemed Shariah compliant by any other Shariah board or Shariah scholars. Investors are reminded that, as with any Shariah views, differences in opinion are possible. Investors are advised to obtain their own independent Shariah advice as to whether the Sukuk Wakalah structure and mechanism meets their individual standards of compliance with Shariah and make their own determination as to the compliance of the structure, the issue and trading of the Sukuk Wakalah with Shariah.

3.4.8 The Sukuk Wakalah may not be a suitable investment for all investors

You must determine the suitability of the Sukuk Wakalah in light of your own circumstances. In particular, you should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Sukuk Wakalah, the merits and risks of investing in the Sukuk Wakalah and the information contained or incorporated by reference in this Information Memorandum or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of your particular financial situation, an investment in the Sukuk Wakalah and the impact such investment will have on your overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Sukuk Wakalah, including where the currency for payment is different from your currency;

(d) understand thoroughly the terms of the Sukuk Wakalah 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 your investment and your ability to bear the applicable risks.

The Sukuk Wakalah is a complex financial instrument and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to your overall portfolios. You should not invest in the Sukuk Wakalah unless you have the expertise (either alone or with the help of a financial adviser) to evaluate how the Sukuk Wakalah will perform under changing conditions, the resulting effects on the value of such Sukuk Wakalah and the impact this investment will have on your overall investment portfolio.

Additionally, your investment activities may be subject to legal investment laws and regulations, or review or regulation by certain authorities. You should consult your legal advisers to determine whether and to what extent (1) Sukuk Wakalah are legal investments for you, (2) Sukuk Wakalah can be used as collateral for various types of borrowing and (3) other restrictions apply to your purchase of any Sukuk Wakalah. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Sukuk Wakalah under any applicable risk-based capital or similar rules.

3.4.9 Sukukholders may be adversely affected by a change of Malaysian and/or Turkish laws

The Sukuk Wakalah Programme is based on Malaysian law, Turkish law, tax and administrative practice in effect at the date hereof. No assurance can be given that Malaysian law, Turkish law, tax or administrative practice will not change after the date hereof or that such change will not adversely impact the treatment of the Sukuk Wakalah.

3.4.10 The Sukuk Wakalah are limited recourse obligations

The Sukuk Wakalah are not debt obligations of the Issuer. Instead, the Sukuk Wakalah solely represent the interests of Sukukholders in the Sukuk Assets. Accordingly, no payment of any amount whatsoever shall be made by the Issuer or any of its agents on its behalf except to the extent funds are available therefor from the Sukuk Assets and further agrees that no recourse shall be had for the payment of any amount payable hereunder, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Issuer to the extent the Sukuk Assets have been exhausted following which all obligations of the Issuer shall be extinguished.

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In addition, prior to the date which is one year and one day after the date on which all amounts payable by the Issuer under the Transaction Documents to which it is a party have been paid in full, Kuveyt Türk and the Sukuk Trustee will not institute against, or join with any other person in instituting against, the Issuer any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law.

There will also be no recourse (whether by institution or enforcement of any legal proceeding or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Issuer arising under or in connection with the Transaction Documents by virtue of any law, statute or otherwise shall be had against any shareholder, officer or director of the Issuer in their capacity as such and any and all personal liability of every such shareholder, officer or director in their capacity as such for any breaches by the Issuer of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law.

3.5 RISK FACTORS RELATING TO THE ASSETS PORTFOLIO

3.5.1 Interest in the Constituent Assets

In order to comply with the requirements of Shariah, an interest in the Constituent Assets comprised within the Assets Portfolio will pass to the Sukukholders' Agent under the Purchase Agreement and in respect of any Additional Constituent Assets. Article 27 of the Leasing, Factoring and Financing Companies Law (No. 6361) published in the Official Gazette No. 28496 dated 13 December 2012 prohibits the transfer of legal title to assets the subject of a financial lease ("**Financial Lease Assets**") unless such legal title is transferred to a financial lease company. However, legal title to the Constituent Assets (other than the Real Estate Ijarah Assets) comprised within the Assets Portfolio from time to time will at all times remain with Kuveyt Türk, which will hold such legal title in its own name on behalf and for the account of the Sukukholders' Agent on a fiduciary basis for so long as the Constituent Assets (other than the Real Estate Ijarah Assets) are comprised within the Assets Portfolio. The Sukukholders' Agent will hold its interests in the Assets Portfolio and the other Sukuk Assets in accordance with and for the purposes of the Sukuk Communiqué in its name and on behalf and for the account of the Sukukholders, including as further provided in the Declaration of Trust and Agency Agreement. In respect of the Real Estate Ijarah Assets, the legal and beneficial title to the Real Estate Ijarah Assets will be transferred from Kuveyt Türk to KT Kira in its capacity as the Sukukholders' Agent and is conditional on perfection of such purchase, sale and transfer before the relevant land registry in Turkey.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Constituent Assets comprised within the Assets Portfolio. Only limited representations will be obtained from Kuveyt Türk in respect of the Constituent Assets. In particular, the precise terms of the Constituent 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 Constituent Assets). No steps will be taken to perfect the transfer of any interest in the Constituent 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 the Issuer, the Sukukholders' Agent, the Sukuk Trustee or any Sukukholders on the basis of a legal or beneficial interest in the Constituent Assets, Kuveyt Türk has agreed in the Declaration of Trust and Agency Agreement to indemnify the Issuer, the Sukukholders' Agent, the Sukuk Trustee and the Sukukholders against any such liabilities. In the event that Kuveyt Türk is unable to meet any such claims then the Sukukholders may suffer losses in excess of the original proceeds invested.

3.5.2 Transfer of the Constituent Assets

No investigation has been or will be made as to whether any interest in the Constituent Assets 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 the Constituent Assets together with the interest therein. Accordingly, no assurance is given that the Constituent Assets together with the interest therein has been or will be transferred to the Sukukholders' Agent.

It is agreed in the Purchase Agreement and the Purchase Undertaking that any purchase, sale and transfer of Real Estate Ijarah Assets together with interest therein is conditional on perfection of such purchase, sale and transfer before the relevant land registry in Turkey. Kuveyt Türk has undertaken in the Purchase Undertaking to indemnify the Sukukholders' Agent for the purposes of redemption in full of the outstanding Sukuk Wakalah in the event that any transfer of any relevant interest in any Constituent Assets is 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 relevant interest in any Constituent Assets together with interest therein is not effective in any jurisdiction for any reason, it will in consideration for the payment to Kuveyt Türk by the Sukukholders' Agent of the purchase price for that relevant assets make payment of an amount equal to the purchase price by way of restitution to the Sukukholders' Agent immediately upon request.

In the event that the Constituent Assets are not repurchased by Kuveyt Türk for any reason, the Sukuk Trustee will seek to enforce the payment and indemnity obligations of Kuveyt Türk under the Purchase Undertaking. For the avoidance of doubt, the Sukuk Trustee may enforce the payment and indemnity obligations of Kuveyt Türk under the Purchase Undertaking notwithstanding that the Constituent Assets have not been repurchased by Kuveyt Türk. Following the full payment of the indemnity which amount shall be equivalent to the relevant Exercise Price (as defined in the PTC in Section 2 of this Information Memorandum), the Constituent Assets shall be transferred to Kuveyt Türk via a sale agreement and the payment of such indemnity shall be construed as payment of the relevant Exercise Price (as defined in the PTC in Section 2 of this Information Memorandum) by Kuveyt Türk under the sale agreement.To the extent that it obtains a Malaysian 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*").

3.6 RISK FACTORS RELATING TO THE REAL ESTATE IJARAH ASSETS

3.6.1 Total Loss Event for Real Estate Ijarah Assets and Partial Total Loss Event for Real Estate Ijarah Asset

As owner of the Real Estate Ijarah Assets, KT Kira is required, among other things, to cover/insure the Real Estate Ijarah Assets. KT Kira has delegated this obligation to Kuveyt Türk, as its managing agent, which has undertaken in the Management Agreement, among other things, to cover/insure the Real Estate Ijarah Assets in the name of KT Kira against the occurrence of a Partial Total Loss Event for Real Estate Ijarah Asset and/or Total Loss Event for Real Estate Ijarah Assets for their full reinstatement value. A "**Total Loss Event for Real Estate Ijarah Assets**" is defined as the total loss or destruction of, or damage to the whole of, the Real Estate Ijarah Assets or any event or occurrence that renders the whole of the Real Estate Ijarah Assets permanently unfit for any economic use and (but only after taking into consideration any takaful/insurances or other indemnity granted by any third party in respect of the Real Estate Ijarah Assets) the repair or remedial work in respect thereof is wholly uneconomical. A "**Partial Loss Event for Real Estate Ijarah Asset**" is defined as the total loss or destruction of, or damage to only part of the Real Estate Ijarah Asset or any event or occurrence that renders only part of the Real Estate Ijarah Asset 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 Ijarah Asset) the repair or remedial work in respect thereof is wholly uneconomical.

Nevertheless, should a Total Loss Event for Real Estate Ijarah Asset or Partial Total Loss Event for Real Estate Ijarah Asset occur the Lease Agreement will terminate the Managing Agent will use best endeavours to apply any insurance proceeds received towards the purchase on behalf of the Sukukholders' Agent of replacement real estate assets from Kuveyt Türk (acting in its own capacity) on the immediately following Periodic Distribution Date (as defined in the PTC in Section 2 of this Information Memorandum) 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 Sukukholders' Agent by such Periodic Distribution Date (as defined in the PTC in Section 2 of this Information Memorandum), on the next following Periodic Distribution Date (as defined in the PTC in Section 2 of this Information Memorandum) on which the Managing Agent and Kuveyt Türk shall identify and provide for the acquisition by the Sukukholders' Agent of replacement assets which may include assets other than real estate assets. In this scenario, potential investors should be aware that: (i) in the event of a Total Loss Event for Real Estate Ijarah Asset, rental under the Lease Agreement will cease as the Lease Agreement will have terminated and accordingly the periodic distribution amount received by the Sukukholders will reflect this fact and (ii) there may be a delay in KT Kira receiving the proceeds of takaful/insurance claims. For the avoidance of doubt, in the event of a Partial Total Loss Event for Real Estate Ijarah Asset, the Lease Agreement will not be terminated. In this regard, the Management Agreement provides that if the takaful/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 for Real Estate Ijarah Assets, Kuveyt Türk, as Managing Agent, shall have failed in its responsibility to properly cover/insure the Real Estate Ijarah Assets and accordingly (unless it proves beyond any doubt that any shortfall in the takaful/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 Sukuk Trustee will be entitled to enforce this undertaking against Kuveyt Türk on behalf of the Sukukholders.

3.7 RISK FACTORS RELATING TO TAXATION

3.7.1 Taxation risks on payments

Payments made by Kuveyt Türk to the Sukukholders' Agent under the Transaction Documents to which it is a party or by the Sukukholders' Agent in respect of the Sukuk Wakalah could become subject to taxation. 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 Sukukholders' Agent which are intended to fund periodic distribution amounts and redemption amounts. 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 Sukuk Wakalah to Sukukholders, Kuveyt Türk has unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Sukukholders' Agent (for the benefit of the Sukukholders) 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 Sukuk Wakalah in respect of any withholding or deduction in respect of any tax.

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3.8 RISK FACTORS RELATING TO ENFORCEMENT

3.8.1 Enforcement risk

Ultimately the payments under the Sukuk Wakalah are dependent upon Kuveyt Türk making payments to the Sukukholders' Agent and the Issuer making payments to Sukukholders 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 (other than the instrument of transfer of legal title for the Real Estate Ijarah Asset) are governed by Malaysian law, with the courts of Malaysia stated to have jurisdiction to settle any disputes. Notwithstanding that a judgment may be obtained in a Malaysian court, there is no assurance that Kuveyt Türk or the Issuer has, or would at the relevant time have, assets in Turkey against which such judgment could be enforced.

3.8.2 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 the International Private and Procedural Law of Turkey (Law No. 5718), a judgment of a court established in a country other than the Republic of Turkey may not be enforced in Turkish courts in certain circumstances. There is no treaty between Malaysia and Turkey providing for reciprocal enforcement of judgments. See "*Enforcement of Foreign Judgments and Service of Process*".

3.8.3 Change of law

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

3.8.4 Claims for specific enforcement

In the event that any of Kuveyt Türk, the Sukukholders' Agent or the Issuer fails to perform its obligations under any Transaction Document, the potential remedies available to the Sukukholders' Agent and the Sukuk Trustee 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 Sukukholders' Agent or the Sukuk Trustee 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 any of Kuveyt Türk, the Issuer or the Sukukholders' Agent to perform its obligations as set out in the Transaction Documents.

4. DESCRIPTION OF THE ISSUER

4.1 GENERAL

The Issuer was incorporated in Turkey on 3 September 2013. The Issuer was incorporated under the laws of Turkey as an asset leasing company in the form of a joint stock company and with limited liability. Its trade registration number is 881355.

The Issuer's registered office and principal place of business is at Büyükdere Cad. No: 129/1 Kat. 3, 34394 Esentepe-Şişli, Istanbul, Turkey. The Issuer's telephone number is +902123547565. The articles of association of the Issuer may be inspected at the registered office of the Issuer.

Kuveyt Türk holds 100 per cent. of the Issuer's issued share capital. The Issuer has no subsidiaries. The ownership structure of the Issuer is as follows:

Shareholder	Percentage of Shares	Nominal Value of Shares (TRY)
Kuveyt Türk Katılım Bankası A.Ş.	100%	50,000
Total	100%	50,000

4.2 BUSINESS OF THE ISSUER AND PRINCIPAL ACTIVITIES

The Issuer's ongoing activities will principally be the issue of lease certificates (including the Sukuk Wakalah), the execution and performance of all documents relating thereto to which it is expressed to be a party (including the Transaction Documents), the exercise of related rights and powers and other activities incidental thereto.

The Sukuk Communiqué permits, amongst other things, asset leasing companies (such as the Issuer) to make multiple issuances of lease certificates.

As at the date of this Information Memorandum, the Issuer currently has outstanding the below listed issuances of lease certificates (together, the "**Outstanding Certificates**"). The Issuer's ability to pay amounts due on the Outstanding Certificates is primarily dependent upon receipt by the Issuer of all amounts due under the documents in relation thereto, which, in respect of the Outstanding Certificates, is dependent on the ability of Kuveyt Türk, who is the obligor for each of the issuances listed below, to satisfy in full and on a timely basis its obligations in respect of the Outstanding Certificates and/or, as the case may be, the documents in relation thereto. See "*Risk Factors — Risks factors relating to the Issuer*" for further details.

Description of lease certificates	Date of Issuance
U.S.$500,000,000 certificates due June 2019	26 June 2014
TRY50,000,000 certificates due 29 December 2014	29 September 2014
TRY100,000,000 certificates due 23 March 2015	29 September 2014
TRY57,000,000 certificates due 14 May 2015	20 November 2014
TRY30,000,000 certificates due 19 November 2015	20 November 2014
TRY50,000,000 certificates due 23 March 2015	30 December 2014

Other than as disclosed above, the Issuer has no prior operating history or prior business.

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4.3 DIRECTORS OF THE ISSUER

As at the Latest Practicable Date, the directors of the Issuer and their respective nationalities, business addresses and occupation are as follows:-

Name	Nationality	Business Address	Occupation
Ruşen Ahmet Albayrak	Turkish	Kuveyt Türk Büyükdere Cad. No:129/1, 34394 Şişli – İstanbul	Executive Vice President, Kuveyt Türk
Mehmet Keleş	Turkish	Kuveyt Türk Büyükdere Cad. No:129/1, 34394 Şişli – İstanbul	Head of Budgeting and MIS Reporting, Kuveyt Türk
Ömer Asim Özgözükara	Turkish	Kuveyt Türk Büyükdere Cad. No:129/1, 34394 Şişli – İstanbul	Chartered Accountant

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

4.4 SHARE CAPITAL

The issued and fully paid share capital of the Issuer as at the date of this Information Memorandum is TRY50,000, comprising 50,000 shares of TRY1 each.

4.5 FINANCIAL STATEMENTS

Since the date of its incorporation, financial statements of the Issuer for the year ended 31 December 2013 and the nine months ended 30 September 2014 have been prepared. These financial statements have been prepared in Turkish and are not included in this Information Memorandum.

4.6 SELECTED FINANCIAL INFORMATION

The following tables set forth, for the periods indicated, selected consolidated financial information of Kuveyt Türk derived from its IFRS Accounts incorporated by reference in this Information Memorandum. Prospective investors should read the following information in conjunction with the "*Financial Review*" section and the IFRS Accounts.

Income Statement Data

The table below sets out selected consolidated income statement data for Kuveyt Türk for the periods indicated.

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	For the year ending 31 December	
	2013	**2012**
	(TRY in thousands)	
Income from financing activities:		
Profit oil originated loans from profit / loss sharing accounts	629,650	641,673
Profit on originated loans from current accounts and equity	668,840	516,823
Profit on deposits with other banks and financial institutions	11,307	12,368
Profit on finance leases	22,266	11,372
Total income from financing activities	**1,332,063**	**1,182,236**
Profit shares distributed to participation accounts	(455,614)	(475,914)
Profit shares distributed to other banks and financial institutions.....	(155,656)	(134,648)
Net financing income	**720,793**	**571,674**
Provision for impairment of amounts due from financing activities and lease receivables...	(123,219)	(109,331)
Net financing income after provision for impairment in due from financing activities and lease receivables	**597,574**	**462,343**
Foreign exchange gain, net..	133,051	82,526
Net financing income after net foreign exchange gain / (loss)	**730,625**	**544,869**
Fees and commission income	318,401	276,629
Income/(loss) from construction projects, net	-	(810)
Net trading income	39,200	21,119
Other income	62,404	33,888
Total other operating income	**420,005**	**330,826**
Fees and commission expense	(77,924)	(56,111)
Staff costs	(339,846)	(262,892)
Depreciation and amortization expense	(39,950)	(32,633)
Withholdings and other taxes	(26,670)	(21,502)
Rent expense	(59,739)	(42,367)
Other expenses	(172,660)	(137,965)
Share of (loss) of a joint venture	(436)	-
Total other operating expense	**(717,225)**	**(553,470)**
Income before taxation	**433,405**	**322,225**

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	For the year ending 31 December	
	2013	**2012**
Current tax charge	(73,153)	(50,379)
Deferred tax (charge)/credit	923	(9,618)
Net income for the year	**361,175**	**262,228**
Other comprehensive income for the year	**(12,134)**	**11,648**
Total comprehensive income for the year	**349,041**	**273,876**
Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TRY per share)	**0.224**	**0.238**

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Balance Sheet Data

The table below sets out selected consolidated balance sheet statement data for Kuveyt Turk for the periods indicated.

	As at 31 December	
	2013	2012
	(TRY in thousands)	
Assets		
Cash and balances with the Central Bank	858,686	478,136
Balances with other banks and financial institutions	2,715,572	1,585,434
Reserve deposits at the Central Bank	2,988,091	1,853,649
Financial assets – held for trading	115,936	61,811
Derivative financial instruments	108,739	39,189
Share Certificates	181	181
Gold Fund	7,016	22,441
Financial assets – available-for-sale	1,323,516	549,316
Due from financing activities, net	15,929,143	11,583,902
Minimum finance lease payments receivable, net	400,766	182,338
Precious metals	466,834	1,655,798
Construction projects, net	46,244	41,226
Joint ventures	5,064	–
Investment properties, net	20,815	31,315
Property and equipment, net	321,179	209,388
Intangible assets, net	55,775	43,729
Deferred tax assets	32,307	25,520
Other assets	294,651	265,536
	25,574,579	18,567,098
Assets and a disposal group held for sale	**27,946**	**28,951**
Total assets	**25,602,525**	**18,596,049**
Liabilities and equity		
Due to other financial institutions and banks	4,040,526	2,347,811
Sukuk securities issued	905,841	811,540
Subordinated loans	433,080	361,661
Money market balances	221,428	–
Current and profit / loss sharing investors' accounts	17,079,036	12,867,190
Derivative financial instruments	58,948	7,393
Employee benefit obligations	66,943	39,802
Income taxes payable	20,096	15,694
Other liabilities and provisions	358,121	416,621
Total liabilities	**23,184,019**	**16,867,712**
Share capital	1,700,000	1,100,000
Share premium	23,250	23,250
Available for sale investments reserve, net of tax	2,025	13,208
Employee termination benefits reserve, net of tax	(12,276)	–
Legal reserves and retained earnings	713,655	611,352
Currency translation differences	14,441	3,116
Other reserve	(22,589)	(22,589)
Total equity attributable to equity holders of the parent	**2,418,506**	**1,728,337**
Total liabilities and equity	**25,602,525**	**18,596,049**

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5. FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with the information set out in "Presentation of Financial and Other Information", "Selected Financial Information" and the IFRS Accounts.

As used herein, all references to 2012 and 2013 are references to the years ended 31 December 2012 and 31 December 2013, respectively.

With the exception of the section entitled "Recent Developments" (which is based on the Interim BRSA Accounts and where, unless otherwise specified, the financial information presented therein has been extracted or derived without material adjustment from the Interim BRSA Accounts), this discussion of Kuveyt Türk's financial condition and results of operations is based on the IFRS Accounts and, unless otherwise specified, the financial information presented in this discussion has been extracted or derived without material adjustment from the IFRS Accounts, see "Presentation of Financial and Other Information".

This discussion 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 Information Memorandum, particularly under the headings "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors".

Overview

Kuveyt Türk's core business segments are Retail Banking, Commercial Banking and Corporate & International Banking. Kuveyt Türk operates primarily in Turkey but also has an international presence in Bahrain, Dubai and Germany.

Kuveyt Türk provides full banking services to its Retail Banking, Commercial Banking and Corporate & International Banking customers. Kuveyt Türk also provides insurance and pension products through its subsidiaries (see "*Description of Kuveyt Türk — Group Structure, Subsidiaries, International Branches and Strategic Relationships — Subsidiaries*" for further details). Kuveyt Türk's principal source of funding is derived from both the domestic and international wholesale funding markets and customer deposits (see "*Risk Management — Funding*" for further details).

Despite challenging global economic conditions, Turkey has continued to demonstrate growth with GDP increasing by 4 per cent. (year-on-year) in 2013 and 2.1 per cent. in 2012 *(source: TurkStat).* This economic growth has stimulated demand for banking services and led to increased competition in the banking sector from both private sector and public sector banks in Turkey as well as greater participation of foreign banks.

Kuveyt Türk's management is focused on expanding its domestic branch network and alternative distribution channels. Kuveyt Türk also intends to continue to grow its lending business, primarily loans and lease finances to the SME sector. For further details of Kuveyt Türk's strategy see "*Description of Kuveyt Türk — Strategy*".

Significant Factors Affecting Results of Operations

Numerous factors affect Kuveyt Türk's results of operations, some of which are outside its control. The significant factors that have affected Kuveyt Türk during the periods under review are discussed below.

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.

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In 2010, Turkey's economy experienced real GDP growth of 9.2 per cent., a significant recovery from the contraction of 4.8 per cent. in 2009. The inflation rate in 2010 was 6.4 per cent., and the CBT policy rate at the end of the year was 6.5 per cent., the same level as at the start of that year.

In 2011, real GDP growth was 8.8 per cent., and inflation was 10.45 per cent. The CBT's policy rate reduced slightly during 2011 and stood at 5.75 per cent., at the end of the year. During 2011, the CBT implemented monetary policy and regulatory changes aimed at controlling the widening current account deficit (which increased to 10 per cent., of GDP in 2011 compared to 6.5 per cent., of GDP in 2010) and discouraging short term capital inflows. The policy measures included increased reserve requirements, increased general provisioning requirements, higher risk-weighting for general purpose loans (other than mortgage and auto loans) and an unofficial limit of credit growth in 2011 of 25 per cent. Notwithstanding these measures, overall loan growth rates were still strong at 32.7 per cent., for 2011 according to BRSA data. According to the BRSA, asset quality also improved in 2011 with the banking sector's NPL ratio down to 2.6 per cent., as at 31 December 2011 from 3.6 per cent., as at 31 December 2010.

Global uncertainties continued during 2012, driven by the European sovereign debt crisis, U.S. monetary policies and high inflation risk in emerging markets. In Turkey, growth slowed with real GDP increasing by 2.1 per cent. for 2012. Inflation also fell in 2012 reflecting reduced domestic demand and a more stable exchange rate and was 6.16 per cent., in 2012. According to BRSA data, moderate credit growth in the Turkish banking sector continued in 2012, with loans increasing by 16.4 per cent., during 2012 and the NPL ratio for the banking sector was 2.9 per cent.

With improved global economic conditions, real GDP growth recovered to 4.0 per cent. in 2013. Inflation increased in 2013 to 7.4 per cent. According to BRSA data, a strong credit growth in the Turkish banking sector was observed in 2013, with loans increasing by 31.8 per cent., during 2013 and the NPL ratio for the banking sector was 2.7 per cent.

The following table sets forth key Turkish economic indicators for the periods presented.

	For the year ending 31 December	
	2013	**2012**
Nominal GDP at current prices (in Turkish Lira millions)	1,561,510	1.416,798
Real GDP growth	4%	2.1%
GDP per capita (in U.S. dollars)	10,782	10,459
Unemployment	10%	9.2%
Turkish Central Bank policy rate (year-end)	4.5%	5.5%
Inflation	7.4%	6.16%
Exports (in U.S. dollars billion)	151.8	152.5
Imports (in U.S. dollars billion)	251.7	236.5
Trade deficit (in U.S. dollars billion)	99.84	84.08
Current account deficit (in U.S. dollars billion)	65	46.9
Budget deficit (in Turkish Lira billion)	19.4	28.79

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(1) (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).

As the Turkish economy recovered rapidly from the global economic crisis, the unemployment rate has been declining since 2010 and the budget revenues rose above budget in 2011, 2012 and 2013. This has resulted in a lower than anticipated budget deficit for the Turkish government since 2010. Reflecting the recovery of the Turkish economy, Kuveyt Türk's customer cash loans increased from TRY11,766.24 million as at 31 December 2012 to TRY16,329.91 million as at 31 December 2013.

Declining Interest Rate Environment in Turkey

Kuveyt Türk's income from its loans and leasing receivables is a significant component of its total income. A significant factor affecting Kuveyt Türk's net financing income margin and loans and leasing receivables is the fluctuation in interest rates in Turkey. In general, increases in interest rates in Turkey 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 and leasing receivables resulting from increased demand for loans and by a decrease in Kuveyt Türk's funding costs.

The table below sets out Kuveyt Türk's expense from profit sharing accounts, profit share from loans and finance lease income and net income margin (calculated as its net profit share from loans and finance lease income divided by the average of net cash loans (which is the total of net cash loans at the beginning and at the end of the period divided by two)).

	For the year ending 31 December	
	2013	**2012**
	(TRY in thousands)	
Expense from profit sharing accounts	(611,270)	(610,562)
Profit share from loans and finance lease income	1,332,063	1,182,236
Net profit share from loans and finance lease income	720,793	571,674
Net income margin (per cent.)(*)	4.41%	4.86%

(*) Net interest margin is calculated as: net profit share from loans and finance lease income divided by the average of net cash loans, which is the total of net cash loans at the beginning and the end of the period divided by two.

The CBT reference overnight interest rate was 6.5 per cent., as at 31 December 2009. In May 2010, the CBT policy rate changed to the one week lending reference rate, which was 6.5 per cent., as of 31 December 2010 and 6.25 per cent., as of 30 June 2011. On 4 August 2011, the CBT reduced its policy rate by 50 basis points to 5.75 per cent., in response to concerns regarding European sovereign debt levels and anticipated lower levels of global growth while at the same time increasing the overnight borrowing rate significantly from 1.5 per cent., to 5.0 per cent., to narrow the interest rate gap from the overnight lending rate of 9 per cent. The overnight lending rate was later increased to 12.5 per cent., on 20 October 2011 in order to widen the interest rate corridor to protect mid-term inflation expectations in light of a decline in the Turkish lira exchange rate. During 2012, the CBT kept the policy rate stable at 5.75 per cent. In February 2012, the CBT reduced the overnight lending rate to 11.5 per cent., and, on 18 September 2012, the CBT reduced the overnight lending rate to 10 per cent. On 18 October 2012, the CBT reduced the overnight lending interest rate to 9.5 per cent. On 21 November 2012, the CBT reduced the overnight lending rate again to 9.0 per cent. whilst maintaining a stable overnight borrowing rate at 5 per cent. During 2013, the CBT consistently reduced the overnight rate of borrowing and lending with the overnight rate of lending being reduced to 7.75 per cent. and the overnight borrowing rate being retained at the reduced rate of 3.50 per cent. on 21 August 2013. On 22 May 2014, the CBT decreased the one week repo rate from 10.00 per cent. to 9.50 per cent. and kept the overnight rate of lending to 12.00 per cent. On 20 January 2015 The marginal funding rate remained the same at 11.25 per cent, the borrowing rate was maintained at 7.5 per cent., the interest rate on borrowing facilities provided for primary dealers via repo transactions remained constant 10.75 per cent and the one-week repo rate was decreased to 7.75 per cent. from 8.25 per cent.

The recent low interest rate environment in Turkey has helped support Kuveyt Türk's asset growth as it has been able to grow its portfolio of cash loans, finance leases and advances to customers. Despite the low interest rate environment, customer deposits for 2013 increased by 32.73 per cent., compared to 2012. This was achieved due to Kuveyt Türk's flexibility in being able to offer attractive profit share rates to its depositors which resulted in a substantial increase in Kuveyt Türk's deposits for the period ended 31 December 2013 compared to the same period in 2012.

Exchange Rates

A portion of Kuveyt Türk's assets and liabilities are denominated in foreign currencies. As at 31 December 2013, 53.45 per cent., of Kuveyt Türk's total assets and 56.26 per cent., of Kuveyt Türk's total liabilities were denominated in foreign currencies. Kuveyt Türk follows a square foreign exchange position policy (which is designed to ensure that foreign exchange assets are matched by foreign exchange liabilities denominated in the same currency after taking into account the effect of derivative instruments) to minimise its currency risk. Nevertheless, 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 its principal trading and financing currencies, as well as the successful implementation of Kuveyt Türk's exchange rate risk mitigation policy.

Significant Accounting Policies, Judgments and Estimates

For a discussion of the accounting policies applied by Kuveyt Türk generally in preparing its IFRS Accounts, see note 2 to the audited consolidated annual financial statements for the year ended 31 December 2013.

In preparing the IFRS Accounts, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of Kuveyt Türk's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements.

Results of operations for the years ended 31 December 2013 and 2012

Net financing income

Net financing income increased by 26.08 per cent. to TRY720.79 in 2013 from TRY571.67 million in 2012. This resulted from income increasing more than expenses in 2013 compared to 2012 due to Kuveyt Türk's collection of current accounts and gold accounts from its clients without any cost.

Kuveyt Türk's profit share distributed to accounts and to other banks and financial institutions (expenses on financing activities) remained almost the same between 2013 and 2012 due to a lower participation ratio being paid to customers on their deposits. Total income from financing activities increased by 12.67 per cent. during the same period due to Kuveyt Türk retaining a greater proportion of the profit ratio on customer deposits.

Income from financing activities

The following table sets out the principal components of Kuveyt Türk's income for the years ended 31 December 2013 and 2012.

	For the year ending 31 December	
	2013	2012
	(TRY in thousands)	
Income from financing activities:		
Profit on originated loans from profit / loss sharing accounts	629,650	641,673
Profit on originated loans from current accounts and equity	668,840	516,823
Profit on deposits with other banks and financial institutions	11,307	12,368
Profit on finance leases	22,266	11,372
Total income from financing activities	**1,332,063**	**1,182,236**

Kuveyt Türk's income from financing activities 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) minimum finance lease payments receivable, net (which relate to income earned by Kuveyt Türk from financing lease transactions entered into with its customers).

2013 and 2012 compared

Kuveyt Türk's primary sources of income from financing activities are returns on loans originated from profit and loss sharing accounts and returns on loans originated from current accounts and equity. Income from loans originated from profit and loss sharing accounts decreased by 1.87 per cent. in 2013 from TRY641.67 million in 2012 to TRY629.65 million in 2013. 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 29.41 per cent. in 2013 from TRY516.82 million in 2012 to TRY668.84 million in 2013. The increase in loans originated from current accounts and equity in 2013 was due to a cash capital contribution by Kuveyt Türk's shareholders of TRY360 million on 29 May 2014 and TRY240 million of retained earnings on 24 June 2013 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.

Profit on deposits with other banks and financial institutions decreased by 8.58 per cent., from TRY12.37 million in 2012 to TRY11.31 million in 2013. This decrease was due to a decrease in the total amount of deposits at banks and financial institutions.

Whilst the balance of minimum finance lease payments receivable (net) increased from TRY182.34 million in 2012 to TRY400.77 million in 2013, income from minimum finance lease payments receivable, net increased by 95.80 per cent. in 2013, from TRY11.37 million in 2012 to TRY22.27 million in 2013. The increase was primarily due to an increase in interest rates in Turkey.

The overall increase in Kuveyt Türk's total income from financing activities in 2013 was primarily due to an increase in cash loans of 38.79 per cent. from TRY11,766.24 million in 2012 to TRY16,329.91 million in 2013.

Financing expenses

Kuveyt Türk's financing expenses comprise amounts paid by it in respect of (a) deposits by customers in participation accounts; and (b) borrowings and deposits from other banks and financial institutions.

The following table sets out the components of Kuveyt Türk's financing expenses for the years ended 31 December 2013 and 2012.

	For the year ending 31 December	
	2013	**2012**
	(TRY in thousands)	
Profit shares distributed to participation accounts	(455,614)	(475,914)
Profit shares distributed to other banks and financial institutions	(155,656)	(134,648)

2013 and 2012 compared

Despite the increase in total liabilities, profit shares distributed to participation accounts decreased by 4.27 per cent. to TRY455.61 million in 2013 from TRY475.91 million in 2012 as a result of declining interest rates. Profit shares distributed to other banks and financial institutions increased by 15.60 per cent. to TRY155.66 million in 2013 from TRY134.65 million in 2012. This increase was as a result of an increase in total liabilities due to other financial institutions and banks.

The decrease in profit shares distributed to participation accounts in 2013 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 for those accounts as a result of lower interest rates which meant that Kuveyt Türk's profit distribution on these accounts also decreased. The increase in 2013 for profit shares distributed to other banks and financial institutions was mainly due to an increase in total liabilities due to financial institutions and banks.

Provision for Loan Losses

Kuveyt Türk's provisions for impairments due from financing activities and lease receivables increased by 12.70 per cent. to TRY123.22 million in 2013 from TRY109.33 million in 2012 primarily due to an increase in the amounts relating to loan payments due from customers that had to be written off.

Net fees and commission income

Kuveyt Türk generates fees and commission income from both its cash and non-cash businesses. The following table sets out Kuveyt Türk's net fees and commission income for the years ended 31 December 2013 and 2012.

	For the year ending 31 December	
	2013	**2012**
	(TRY in thousands)	
Fees and Commission Income	318,401	276,629
Fees and Commission Expense	(77,924)	(56,111)
Net Fees and Commission Income	**240,477**	**220,518**

Fees and commission income

The table below sets out the breakdown of fees and commission income for the years ended 31 December 2013 and 2012.

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	For the year ending 31 December	
	2013	2012
	(TRY in thousands)	
Commissions on loans	131,125	125,616
Commission income from commitments	75,166	61,590
Communication expense charges	32,007	24,698
POS commission income	23,099	22,078
Credit card fees and commissions	12,763	12,251
Income from agency activities	5,424	6,567
Import letter of credit commissions	3,614	5,007
Commissions from checks and notes	7,944	2,790
Other	27,259	16,032
Total	**318,401**	**276,629**

Kuveyt Türk's principal contributors to its fees and commission income are derived from: (a) commissions earned on loans (both cash and non-cash); (b) commission income from commitments including but not limited to letters of credit; (c) communication expense charges; (d) non-Kuveyt Türk credit cards used each time on Kuveyt Türk's credit card point-of-sale ("**POS**") terminals; and (e) the use of Kuveyt Türk's credit cards in the form of commission received.

2013 and 2012 compared

Total fees and commission income increased by 15.10 per cent. in 2013 to TRY318.40 million from TRY276.63 million in 2012. Fees 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 4.39 per cent. from TRY125.62 million in 2012 to TRY131.13 million in 2013. 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) increased by 29.59 per cent. to TRY32.01 million in 2013 from TRY24.70 million in 2012. Communication expense charges increased due to an increase in the volume of funds cleared by customer accounts which in turn resulted in an increase in fees charged to customers. POS commission income increased by 4.62 per cent. to TRY23.10 million in 2013 from TRY22.08 million in 2012. In the case of POS commission income, the increase was as a result of decreased costs from the reimbursement of merchants for charges on credit or debit cards as well as an increase in volume usage of credit cards in Turkey.

Credit card fees and commissions increased by 4.18 per cent. to TRY12.76 million for the year ending 31 December 2013 from TRY12.25 million for the year ending 31 December 2012. The increase in credit card fees and commissions was attributable to the general increase in the volume of credit cards issued by Kuveyt Türk in 2013.

Import letter of credit commissions decreased by 27.82 per cent. to TRY3.61 million for the year ending 31 December 2013 from TRY5.01 million for the year ending 31 December 2012. This was primarily due to the increasingly competitive nature of the non-cash loan sector within Turkey which has resulted in a decrease in the rate of commission charged. Income from agency activities decreased by 17.41 per cent. to TRY5.42 million for the year ending 31 December 2013 from TRY6.57 million for the year ending 31 December 2012. The decrease was primarily as a result of lower 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 expenses

Kuveyt Türk's principal fees and commission expenses relate to the payment of fees and expenses relating to credit card machines and brokerage fees on borrowing by Kuveyt Türk customers.

The following table sets out the breakdown of fees and commission expenses for the years ended 31 December 2013 and 2012.

	For the year ending 31 December	
	2013	**2012**
	(TRY in thousands)	
Credit card machine charges and fees paid for credit cards.............	31,552	30,206
Brokerage fees on borrowings...	16,174	10,975
ATM charges	16	40
Other..	30,182	14,890
Total..	**77,924**	**56,111**

2013 and 2012 compared

Total fees and commission expenses increased by 38.87 per cent. in 2013 from TRY56.11 million for the year ending 31 December 2012 to TRY77.92 million for the year ending 31 December 2013. The increase was primarily due to the increase in the volume of usage of Kuveyt Türk's credit cards. Brokerage fees on borrowings also increased by 47.37 per cent. in 2013 from TRY10.98 million for the year ending 31 December 2012 to TRY16.17 million for the year ending 31 December 2013.

Other operating income (net)

Kuveyt Türk's principal contributors to its other operating income (net) are derived from: (a) net income/(loss) from construction projects; (b) net trading income; and (c) other income.

The table below sets out the breakdown of other operating income for the years ended 31 December 2013 and 2012.

	For the year ending 31 December	
	2013	**2012**
	(TRY in thousands)	
Net income/(loss) from construction projects.................................	-	(810)
Net trading income	39,200	21,119
Other income	62,404	33,888
Total..	**101,604**	**54,197**

2013 and 2012 compared

Net income/loss from construction projects relates to revenues generated through the activities of Körfez Gayrimenkul Yatırım Ortaglığı A.Ş. ("**Körfez**") a wholly-owned subsidiary of Kuveyt Türk. This income/loss figure in 2013 was nil compared to a loss of TRY810 thousand in 2012. This was a result of relative improvements in the construction activity in Turkey.

Net trading income increased by 85.62 per cent. in 2013 from TRY21.12 million in 2012 to TRY39.20 million in 2013. This increased income is as a result of an increase in the volume of derivative transactions, composing mostly of forward and swap transactions.

Other income increased by 84.15 per cent. in 2013 from TRY33.89 million in 2012 to TRY62.40 million in 2013. Other income includes subsequent recovery of credit amounts previously written off and gain on sale of assets.

Other operating expense

The table below sets out the breakdown of other operating expenses for the years ended 31 December 2013 and 2012.

	For the year ending 31 December	
	2013	**2012**
	(TRY in thousands)	
Fees and commission expense	(77,924)	(56,111)
Staff costs	(339,846)	(262,892)
Depreciation and amortisation expense	(39,950)	(32,633)
Withholdings and other taxes	(26,670)	(21,502)
Rent expense	(59,739)	(42,367)
Other expenses	(172,660)	(137,965)
Share of (loss) of a joint venture	(436)	-
Total other operating expense	**(717,225)**	**(553,470)**

2013 and 2012 compared

Other operating expenses increased by 29.59 per cent. in 2013 to TRY717.23 million from TRY553.47 million in 2012. The main contributor to the increase was salary and employee benefits primarily driven by an increase in the total number of employees from 3,968 in 2012 to 4,662 in 2013. The increase in the number of employees reflects the increase in the number of branches opened by Kuveyt Türk in 2013.

Additionally, the increase in Kuveyt Türk's branch network also contributed to an increase in rent expenses from TRY42.37 million in 2012 to TRY59.74 million in 2013, reflecting an increase of 41 per cent. Insurance and fund premium expense also increased by 56.65 per cent. in 2013 to TRY32.67 million from TRY20.86 million as a result of the expansion of Kuveyt Türk's branch network.

Net foreign exchange gain, net

Kuveyt Türk, as a policy, seeks to maintain a square position in respect of its foreign exchange position to minimise its currency fluctuation risk. This is achieved by ensuring that its foreign currency participation accounts are generally matched directly with its foreign currency credits. Nevertheless, Kuveyt Türk is exposed to foreign exchange rate fluctuations which have an impact on Kuveyt Türk's income and expenses. See "—*Exchange Rates*" for further details.

2013 and 2012 compared

In 2013, Kuveyt Türk experienced foreign exchange gains from TRY133.05 million compared to a gain in 2012 of TRY82.53 million, an increase of 61.22 per cent. Such gains resulted from foreign exchange rate fluctuations.

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Taxation

Kuveyt Türk and its subsidiaries are subject to taxation in accordance with the tax rules and legislation effective in the countries in which Kuveyt Türk operates.

In Turkey, Kuveyt Türk is subject to Turkish corporate taxes. Corporate tax is applied on taxable corporate income which is determined from the statutory accounting profit by adding non-deductible expenses and by deducting dividends received from resident companies, other exempt income and investment incentives.

The statutory tax rate in Turkey for the years 2013 and 2012 was 20 per cent. Advance tax returns are filed on a quarterly basis in Turkey and the applicable corporate tax in 2013 and 2012 was 20 per cent.

Dividends paid to non-resident corporations, with no place of business in Turkey are subject to withholding tax at the rate of 15 per cent.

2013 and 2012 compared

Kuveyt Türk's tax expenses increased from TRY60.00 million in 2012 to TRY72.23 million in 2013 reflecting an increase of 20.39 per cent. compared to 2012. This increase in corporate tax payable by Kuveyt Türk was a result of an increase in Kuveyt Türk's taxable profit of TRY111.18 million from TRY322.23 million in 2012 to TRY433.41 million in 2013.

Net income for the year

Reflecting the various factors discussed above, Kuveyt Türk's net income for 2013 was TRY361.18 million, an increase of 37.73 per cent. as compared to net income of TRY262.23 million for 2012. This increase is principally attributed to an increase in total income from financing activities and an increase in total operating income.

Financial Condition

Total Assets

Kuveyt Türk's total assets grew in 2013 by 37.68 per cent., to TRY25,602.53 million in 2013 from TRY18,596.05 million in 2012.

Cash and balances with the CBT

As at 31 December 2013, cash and balances with the CBT was TRY2,988.09 million compared to TRY1,853 65 million as at 31 December 2012 reflecting an increase of 61.20 per cent. primarily as a result of an increase in funds placed as reserves with the CBT.

Due from financing activities, net

As at 31 December 2013, due from financing activities, net accounted for 62.22 per cent. of Kuveyt Türk's total assets. Due from financing activities, net increased by 37.51 per cent. in 2013, from TRY11, 583.90 million as at 31 December 2012 to TRY15,929.14 million as at 31 December 2013. These increases were primarily as a result of increased lending by Kuveyt Türk in conjunction with its branch growth, and the improving Turkish economy.

Net minimum finance lease payments receivable

As at 31 December 2013, net minimum finance lease payments receivables contributed 1.57 per cent. of Kuveyt Türk's total assets. Net minimum finance lease payments receivables increased by 119.79 per cent. from TRY182.34 million as at 31 December 2012 to TRY400.77 million as at 31 December 2013. The increase was as a result of the volume of Kuveyt Türk's finance lease transactions due to the improving Turkish economy as well as an increase in the number of branches.

Financial assets

Kuveyt Türk classifies its financial assets in the following categories: (i) held for trading; and (ii) available-for-sale.

Financial assets held for trading

Financial assets held for trading increased by 87.57 per cent. from TRY61.81 million as at 31 December 2012 to TRY115.94 million as at 31 December 2013.

Financial assets held for trading are recognised through: (i) derivative financial instruments; (ii) share certificates; and (iii) gold fund.

Derivative financial instruments

Kuveyt Türk's investments in derivative financial instruments forward contracts in relation to asset sales and purchases predominantly relate to swap agreements entered into to manage Kuveyt Türk's currency fluctuation risk as well as profit share amounts to be paid or to be received. Kuveyt Türk aims to maintain a net even position.

Notional amount of derivative financial instruments increased by 74.96 per cent. in 2013 from TRY9,521.56 million as at 31 December 2013 from TRY5,442.23 million as at 31 December 2012.

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					
	2013			2012		
	(TRY in thousands)					
	Fair value asset	**Fair value liabilities**	**Notional amount in TRY equivalent**	**Fair value asset**	**Far value liabilities**	**Notional amount in TRY equivalent**
Inflows	108,739	-	4,784,234	39,189	-	2,736,709
Outflows.............	-	58,948	4,737,323	-	7,393	2,705,519
Total	**108,739**	**58,948**	**9,521,557**	**39,189**	**7,393**	**5,442,228**

Share certificates

As at 31 December 2013, share certificates remained constant at TRY181.0 thousand compared to as at 31 December 2012.

Gold Fund

As at 31 December 2013, Kuveyt Türk's investment in the B Type Gold Fund listed on the İstanbul stock exchange was TRY7.02 million compared to TRY22.44 million as at 31 December 2012. This decrease in value was as a result of the sale of the B Type Gold Fund, as well as a global reduction in gold prices during 2013.

Financial Assets available-for-sale

Financial assets available-for-sale, which consist of unlisted shares and financial sukuk, increased by

140.94 per cent. in 2013 to TRY1,323.52 million from TRY549.32 million in 2012. This increase was primarily as a result of an increase in investments by Kuveyt Türk in financial sukuk. As at 31 December 2013, Kuveyt Türk's investments in financial sukuk increased by 143.01 per cent. from TRY541.06 million at 31 December 2012 to TRY1,314.82 million as at 31 December 2013.

As at 31 December 2013, Kuveyt Türk's holdings of unlisted shares comprised TRY8.69 million compared to TRY8.26 million as at 31 December 2012. The breakdown of Kuveyt Türk's holdings of unlisted shares is as follows:

		As at 31 December			
		2013		**2012**	
	Nature of business	**%**	**Amount**	**%**	**Amount**
Kredi Garanti Fonu A.S. ("**KGF**") .	Financial institution	1.75	4,211	1.67	4,211
Neova Sigorta A.S.	Insurance company	6.99	3,752	6.99	3,332
Islamic International Rating .... Agency ("**IRA**")	Financial institution	8.36	714	8.99	714
Borsa Istanbul AS	Exchange entity	0.0035	15	-	-
Total			**8,692**		**8,257**

Funding and Liquidity

Kuveyt Türk's principal sources of funding are described under "*Risk Management —Funding*".

The table below summarises Kuveyt Türk's cash flows for each of 2013 and 2012.

	For the year ending 31 December	
	2013	**2012**
	(TRY in thousands)	
Net cash (used in) operating activities	(474,613)	(284,603)
Net cash (used in) investing activities..	(878,936)	(626,738)
Net cash provided in financing activities	2,321,395	765,028
Net increase in cash and cash equivalents......................................	967,846	422,893
Net foreign exchange difference on cash and cash equivalents	69,953	8,755
Cash and cash equivalents at the beginning of the year	1,806,936	1,375,288
Cash and cash equivalents at the end of the year	2,844,735	1,806,936

The principal factor impacting Kuveyt Türk's operating cash flows was changes from financing activities. In 2013, the increase in Kuveyt Türk's loan portfolio was the principal reason for its negative operating cash flows.

The principal factor impacting Kuveyt Türk's investing cash flows was purchases of investment securities (predominantly comprising of sukuk), which exceeded its sales of investment securities.

Kuveyt Türk's cash flow from financing activities reflects the receipt of funds borrowed and financing sukuk issued. Kuveyt Türk received TRY150.0 million on 19 November 2013, U.S.$500 million on 26 June 2014, TRY150 million on 29 September 2014, TRY87 million on 20 November 2014 and TRY50 million on 30 December 2014 in proceeds from financing sukuk issued and syndicate loans of U.S.$275.0 million and EUR 83.0 million on 27 December 2013, and U.S.$300.0 million and EUR40.0 million on 29 December 2014.

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 31 December 2013 and 2012.

	As at 31 December	
	2013	**2012**
	(TRY in thousands)	
Letters of guarantee issued by Kuveyt Turk	7,127,080	5,208,667
Letters of credit	1,217,277	991,612
Commitments	2,411,581	1,433,114
Acceptance credits	57,587	86,812
Other guarantees	270,403	34,786
Total	**11,083,928**	**7,754,991**

Related Party Transaction

Kuveyt Türk entered into various banking transactions with related parties in its normal course of business including balances with financial institutions due from financing activities, due to other financial institutions and banks and profit/loss sharing investors' and current accounts. Details of related party transactions are set out in note 24 of the IFRS Accounts for the year ended 31 December 2013.

Recent Developments

On 21 November 2014 Kuveyt Turk released its Interim BRSA Accounts. The Interim BRSA Accounts disclosed an increase in net profit to TRY288.18 million for the period ended 30 September 2014 compared to TRY242.26 million for the corresponding period in 2013.

The Interim BRSA Accounts disclosed an increase in assets to TRY32,657.91 million as at 30 September 2014 compared to TRY25,779.55 million as at 31 December 2013. The shareholders' equity increased to TRY2,979.59 million as at 30 September 2014 compared to TRY2,323.68 million as at 31 December 2013.

As at the date of this Information Memorandum, the consolidated financial statements of Kuveyt Turk as at 30 September 2014 prepared in accordance with IFRS principles are not available and as such are not included in this Information Memorandum.

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6. DESCRIPTION OF KUVEYT TÜRK KATILIM BANKASI A.Ş.

6.1 OVERVIEW

Kuveyt Türk Katilim Bankasi 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) and is a subsidiary of KFH, a financial institution incorporated in Kuwait (see "—*Shareholders and Capital Structure—Shareholders—KFH*" 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's commercial registration number is 2504890. Its registered address is Büyükdere Cad. No. 129, 34394 Esentepe-Şişli, İstanbul and its telephone number is +90 212 354 11 11. As at the date of this Information Memorandum, Kuveyt Türk is regulated by the BRSA and in accordance with Banking Law No. 5411, dated 1 November 2005 ("**Banking Law**").

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:

- Retail Banking: which focuses on deposit taking (current and participation accounts), the granting of loans, credit card facilities and fund transfer facilities to both individual customers and to small and medium sized enterprises (SMEs) provided that the relevant SME has an annual turnover of less than TRY5.0 million and that the level of credit provided to such SME is below U.S.$500,000 (Retail SMEs) (see "—*Business Activities—Retail Banking*" for further details);

- Commercial Banking: which focuses on granting of loans, other credit facilities and banking services to SMEs provided that the relevant SME has an annual turnover in excess of TRY5.0 million and that the level of credit provided to such SME is over U.S.$500,000 (Commercial SMEs) (see "— *Business Activities—Commercial Banking*" for further details); and

- Corporate & International Banking: which focuses on: (i) financial products for corporates; (ii) banking services to corporate firms with an annual turnover in excess of TRY150.0 million; (iii) international banking services to Kuveyt Türk's retail and corporate customers such as international trade finance; (iv) international organisation in order to expand Kuveyt Türk's international network; (v) investment banking; and (vi) treasury services, which is responsible for managing Kuveyt Türk's liquidity and market risks (see "—*Business Activities—Corporate & Investment Banking*" for further details).

As at 31 December 2013, Kuveyt Türk had approximately 900,000 individual customers, 180,000 SME clients (comprising both Retail SMEs and Commercial SMEs) and 150 corporate clients, 99 per cent. of which originated from Turkey, to which it provided retail, commercial, corporate and international banking services. Kuveyt Türk expanded its branch network in Turkey by opening 20 branches in 2008, 19 branches in 2010, 41 branches in 2011 and 39 branches in 2012. In 2013 Kuveyt Türk added 47 new branches in 28 provinces bringing the total number of branches in Turkey to 266. The BRSA has granted Kuveyt Türk approval to open an additional 50 branches in Turkey in 2014, which is anticipated to contribute to an increase in Kuveyt Türk's market share. As at the Latest Practicable Date, Kuveyt Türk has 315 local branches in 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 in İstanbul and its branches spread across Turkey, Kuveyt Türk provides banking services to international customers through its wholesale banking branch in Bahrain, its subsidiary incorporated in the DIFC in the Emirate of Dubai ("**Dubai**") in the United Arab Emirates ("**UAE**") and its financial services branch in Mannheim, Germany (see "*Group Structure,* *Subsidiaries, International Branches and Strategic Relationships*" for further details).

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 Kuwait. (See "*—Shareholders and Capital Structure — 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).

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. On 28 August 2009, Kuveyt Türk received a financial services branch licence from the German Federal Financial Supervisory Authority (BaFin) which permitted Kuveyt Türk to convert its representative office into a financial services branch. The licence allows 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. Kuveyt Türk is in the process of establishing a subsidiary in Germany which has been conceptually approved by BaFin pending the assurance of some systematic capabilities. As at the date of this Information Memorandum, no other bank provides interest-free banking 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.

Shareholders and Capital Structure

Shareholders

As at the Latest Practicable Date, Kuveyt Türk's principal shareholders and their shareholdings were as follows:

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Shareholders	Per cent.
KFH	62.24
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	1.04
Total	100.0

KFH

As at Latest Practicable Date, KFH, one of the world's largest Islamic banks in terms of assets, held approximately 62.24 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"**).

GDF

As at Latest Practicable Date, the GDF held approximately 18.72 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 Latest Practicable Date, the PIFSS held approximately 9.00 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 Latest Practicable Date, the IDB held approximately 9.00 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.

Capital Structure

At the time of incorporation Kuveyt Türk's initial share capital was TRY15,000,000,000. The following table sets out the total share capital reflecting capital increases which have been undertaken since 2005. All shareholders have contributed to capital increases *pro rata* in accordance with their respective shareholding.

Date of registration	Capital (TRY)
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
19 April 2012	1,100,000,000
29 May 2013	1,460,000,000
24 June 2013	1,700,000,000
28 May 2014	2,060,000,000
26 June 2014	2,290,000,000

On each of 29 May 2013 and 28 May 2014, Kuveyt Türk increased its share capital by TRY360,000,000 by way of a cash injection from its shareholders. On 24 June 2013, Kuveyt Türk further increased its share capital by TRY240,000,000 from retained earnings to TRY1,700,000,000. On 28 May 2014 and 26 June 2014, Kuveyt Türk further increased its share capital by TRY360,000,000 by way of a cash injection from its shareholders and by TRY260,000,000 from retained earnings respectively to TRY2,290,000,000. This allowed Kuveyt Türk to extend additional cash loans, resulting in increased income from current accounts and equity.

As part of Kuveyt Türk's five year strategic plan to support its growth objectives, additional share capital increases of TRY800,000,000 and TRY1,300,000,000 are planned for 2015 and 2017 respectively. The exact dates and form of these increases will be decided by the shareholders in March of each respective year. While there is no guarantee that all the shareholders will approve each capital increase, the shareholders are aware and have been supportive thus far of Kuveyt Türk's medium term growth plans and objectives, it is anticipated that they will continue to support capital increases or otherwise support alternative methods of funding Kuveyt Türk's growth objectives.

As at 31 December 2013, Kuveyt Türk's authorised and issued share capital was TRY1,700,000,000 and each share has a nominal value of TRY1. 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.

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 355 branches within Turkey by the end of 2015 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 2015, Kuveyt Türk aims to have opened 40 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 Extended Teller Machines ("**XTMs**"), ATMs, internet banking, Automated Teller Safes, call centres and mobile banking. XTMs are satellite branches with mostly automated banking services which link to customer service assistants located in the head office. XTMs are minimally staffed with employees who are there to greet customers and assist with using the XTM terminals. The XTM project is unique to Kuveyt Türk and represents a cost efficient approach to providing banking services. Operating costs of an XTM are 20 per cent. of the cost of a traditional branch. There are currently 23 XTM branches in operation. Initial indications show that these XTM branches have had a high uptake rate by customers. Based on this success Kuveyt Türk plans to open 30 to 40 XTM branches in 2015 and more additional XTMs over the next couple of years, some of which will be XTM service centers without any staff. 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).

Selective growth focused on value generating and unique products

Kuveyt Türk believes that the SME and retail banking sector offer profitable opportunities in Turkey. By expanding its relationship with existing SME customers and offering bespoke financial service products, Kuveyt Türk hopes to experience significant growth opportunities. Kuveyt Türk also intends to further expand its retail customer base by focusing on developing unique products and services aimed at addressing their particular needs through its growing domestic branch network and alternative distribution channels.

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 complement 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, in 2011, opened its second corporate only branch in Ankara. As of year-end 2013, Kuveyt Türk had three corporate only branches to target high-value Turkish corporates and provide bespoke Commercial Banking and Corporate and International 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 also 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.

To further enhance Kuveyt Türk's product diversity and service quality, Kuveyt Türk established a research and development centre ("**R&D Centre**") (see "*—Research and Development*" for further details).

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 has initiated a cost optimisation project ("**Cost Optimisation Project**") to analyse its costs in comparison with the banking sector and use the results to optimise its costs. In addition, several other projects are underway for improved operational efficiency, such as an electronic invoicing system, its direct banking platform, the further expansion of XTM branches (see "—*Strategy—Growing local customer base through expansion of branch network and alternative distribution channels*" for further details) and mobile credit applications.

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 provide products which are ancillary to its banking services. 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. In addition, Kuveyt Türk established Katılım Emeklilik ve Hayat A.Ş., a pension fund company founded jointly with Albaraka Türk Katılım Bankasi A.Ş. (see "—*Group Structure, Subsidiaries, International Branches and Strategic Relationships*" 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 the GCC. In this regard, subject to the development of the regulatory market for interest-free financial institutions in Germany, Kuveyt Türk is in the process of establishing a subsidiary in Germany which has been conceptually approved by BaFin pending the assurance of certain systematic capabilities. Kuveyt Türk has also made applications to establish a branch in Erbil in Northern Iraq and in Qatar, both of 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 aims to target young customers, particularly university students and new workforce entrants, as well as female customers. In addition, Kuveyt Türk will target its existing high net worth clients and new high net worth individuals by offering *Sharia* compliant investment services focused on asset management and financing.

Commercial Banking

Kuveyt Türk intends to increase penetration in financing and deposits by enhancing its focus on commercial and mid-sized businesses, in particular by increasing the volume of its project financing, loans made available under leasing facilities and gradually building its commercial property financing. Kuveyt Türk intends to continue developing and enhancing its asset base and building a more diversified portfolio.

Corporate and International Banking

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

BRSA regulations prescribe a common segment reporting requirement with respect to financial statements by all banks in Turkey. These BRSA reporting segments are: (i) Retail Banking, (ii) Corporate and Commercial Banking and (iii) International and Investment Banking and Treasury. Accordingly, Kuveyt Türk reports its financial statements on the basis of these segments for both, its BRSA Accounts and IFRS Accounts. However, Kuveyt Türk believes its business activities are more accurately reflected as: (i) Retail Banking, (ii) Commercial Banking and (iii) Corporate and International Banking and therefore the description of Kuveyt Türk's business activities are described as such below.

The following table sets out income and profit and certain asset and liability information regarding the business segments (with such segments as reported in the IFRS Accounts) for the years ended 31 December 2013 and 31 December 2012 (see "*—Business Activities*" for more details).

For the year ended 31 December 2013	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
			(TRY in thousands)		
Net operating income............	482,733	614,656	(24,684)	-	1,072,706
Net profit for the year	252,549	758,904	(10,983)	(639.295)	361,175
Total assets...........................	5,266,657	9,716,138	9,884,518	735,212	25,602,525
Total liabilities......................	12,095,960	4,733,518	5,641,498	713,043	23,184,019

For the year ended 31 December 2012	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
			(TRY in thousands audited)		
Net operating income............	348,356	601,105	(129,877)	-	819,584
Net profit for the year	165,918	756,854	(109,461)	(551,083)	262,228
Total assets...........................	4,005,148	7,876,452	6,169,158	545,291	18,596,049
Total liabilities......................	9,331,261	3,423,782	3,528,506	584,163	16,867,712

(*) Items not directly attributable to a banking segment, such as, personnel costs, operational costs, finance leasing costs, etc. A large portion of this number is attributed to personnel costs and operational costs.

Retail Banking

Overview

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. Kuveyt Türk conducts its retail banking operations through its 266 branches located throughout Turkey, as well as through its alternative distribution channels including XTMs, ATMs, internet banking, 24-hour telephone banking, and POS terminal payment locations.

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.

For the year ended 31 December 2013, Retail Banking accounted for 21.18 per cent. of Kuveyt Türk's total assets (excluding unallocated assets), and 53.83 per cent. of Kuveyt Türk's total liabilities (excluding unallocated liabilities). As at 31 December 2012, Retail Banking accounted for 22.19 per cent. of Kuveyt Türk's total assets (excluding unallocated assets), and 57.30 per cent. of Kuveyt Türk's total liabilities.

For the year ended 31 December 2013, Kuveyt Türk had approximately 900,000 active retail customers (including individuals and retail SMEs) with outstanding cash or non-cash loan balances (as compared to 600,000 active retail customers for the same period in 2012). The customers of Kuveyt Türk's Retail Banking Department had total cash loans outstanding as at 31 December 2013 of TRY6,168 million, as compared to TRY4,171 million as at 31 December 2012 (including commercial instalment loans). Kuveyt Türk's deposits from customers are primarily denominated in Turkish lira, Euro and U.S. dollars.

Retail Products

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

- **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. 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 31 December 2014, Kuveyt Türk had 5,686,506 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 31 December 2014, Kuveyt Türk had 1,900,667 participation accounts opened for customers.

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- **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, account holders 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.$48,000. In addition, these accounts can have varying maturity dates, providing greater flexibility to customers and enabling them to convert their gold savings into TRY 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 Altin—Physical Gold*: Kuveyt Türk has commenced purchasing and selling physical gold denominated in 1, 1.5, 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 (a first of its kind product 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 a case by case basis.

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- **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 31 December 2014, Kuveyt Türk has issued a total of approximately 1,300,000 debit cards and 258,000credit 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. 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 to 20,000 units as at 31 December 2014. The volume of transactions increased to TRY4,300 million as at 31 December 2014 compared to TRY3,280 million for the same period in 2013.

As at 31 December 2013, Kuveyt Türk had TRY6,168 million in outstanding retail and SME loans as compared to TRY4,171 million as at 31 December 2012. Home financings accounted for 87.64 per cent., or TRY2,438 million, of Kuveyt Türk's total retail loans, as at 31 December 2013 as compared to 89.20 per cent., or TRY1,800 million, as at 31 December 2012. Auto financings accounted for 5.00 per cent., or TRY125 million, of Kuveyt Türk's total retail loans as at 31 December 2013, as compared to 6.00 per cent., or TRY126 million, as at 31 December 2012. 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 4.34 per cent., or TRY121 million, of Kuveyt Türk's total retail loans as at 31 December 2013, as compared to 4.04 per cent., or TRY81 million, as at 31 December 2012. As at 31 December 2013, the remaining 1.00 per cent. of Kuveyt Türk's retail loans was comprised of Retail loans and other personal credits.

Customers

Kuveyt Türk categorises its retail customers primarily based on the amount of their opening deposits with Kuveyt Türk as follows: Classic (minimum opening balance TRY150), Silver (TRY25,000), Gold (TRY150,000), Platinum (TRY375,000) and Platinum+ (TRY1,250,000). As a client's deposits increase, 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 2013, Kuveyt Türk provided retail banking services to approximately 800,000 individuals. For the year ended 31 December 2013, the total amount of its outstanding cash loans to individuals represented 45.10 per cent. of the cash loans of Kuveyt Türk's Retail Banking Department, amounting to TRY2,782 million. For the same period in 2012, the total amount represented 48.38 per cent. of the cash loans of its Retail Banking Department, amounting to TRY2,017 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 2013, the total amount of Kuveyt Türk's outstanding cash loans to Retail SME customers represented 54.90 per cent. of the cash loans of its Retail Banking Department, amounting to TRY3,386 million. For the same period in 2012, the total amount represented 51.62 per cent. of the cash loans of its Retail Banking Department, amounting to TRY2,153 million.

Commercial Banking

Overview

Kuveyt Türk's Commercial Banking Department designs and offers business solutions to both Commercial 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 Commercial Banking Department seeks to provide innovative financing solutions for the specific requirements of the customers.

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".

For the year ended 31 December 2013, Commercial Banking accounted for 39.07 per cent. of Kuveyt Türk's total assets (excluding unallocated assets) (as compared to 28.20 per cent. for the year ended 31 December 2012) and 21.07 per cent. of Kuveyt Türk's total liabilities (as compared to 18.12 per cent. for the year ended 31 December 2012).

Commercial Products and Services

Kuveyt Türk's principal commercial products and services are categorised into two sections: (i) Cash loans; and (ii) Non-Cash loans.

- *Cash Loans*

  Kuveyt Türk provides a broad range of cash loans facilities and financial leasing products to its corporate and commercial customers to meet their short and long- term financing requirements. Kuveyt Türk's cash loans are used to support the business activities of Kuveyt Türk's commercial customers and consist principally of loans 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 leasing subsidiaries. Consequently, Kuveyt Türk (as a participation bank) can enter into leasing transactions more efficiently with its customers compared to conventional banks. Kuveyt Türk also has 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 2013, Kuveyt Türk had TRY400.77 million in net minimum finance lease payments receivable, as compared to TRY182.34 million for the same period in 2012. Kuveyt Türk also provides commercial customers with a variety of credit card services.

Kuveyt Türk provides foreign cash loans 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 seeks to increase its cash loans for Turkish corporates conducting business in the GCC.

- *Non-Cash Loans*

Kuveyt Türk offers its corporate and commercial customers non-cash loans denominated in all major foreign currencies, principally comprised of letters of guarantee, letters of credit, acceptances and commitments. Non-cash loan 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 loans. 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.

Customers

For the year ended 31 December 2013, Kuveyt Türk had over 80,000 commercial clients to whom designated commercial 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 70,000 commercial clients for the same period in 2012). Kuveyt Türk’s commercial customers had cash loans outstanding with Kuveyt Türk of TRY9,043 million and total non-cash loans (comprising of letters of credit and letters of guarantee) outstanding with Kuveyt Türk of TRY5,122 million (as compared to TRY6,656 million cash loans and TRY4,471 million non-cash loans for the same period in 2012 outstanding with Kuveyt Türk).

The customers of Kuveyt Türk’s 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 loans, 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.

Corporate and International Banking

Overview

The corporate and international banking business segment is divided into four departments, the Corporate and Investment Banking Department, the International Banking Department, the Treasury Department and the Product Performance Management 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 2013, the Corporate and International Banking segment accounted for 39.75 per cent. of total assets (excluding unallocated assets). For the year ended 31 December 2012, the corporate and international banking segment accounted for approximately 49.62 per cent. of the total assets (excluding unallocated assets). For the year ended 31 December 2013, the corporate and international banking segment accounted for 25.11 per cent. of total liabilities.

Corporate and International Banking in Participation Banks

In accordance with the principles underlying Kuveyt Türk's participation banking status, its financings for the purposes of its Corporate and International Banking segment 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 corporate 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 corporate 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 corporate customers do not have the legal right to pre-pay their credit obligations. Under certain circumstances, however, Kuveyt Türk may permit a corporate 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".

Corporate and Investment Banking

Kuveyt Türk's Corporate and Investment Banking Department designs and offers business solutions to corporates through dedicated teams. Kuveyt Türk's principal products and services are categorised into two sections: (i) Cash Loans; and (ii) Non-Cash Loans.

- *Cash Loans*

  Kuveyt Türk provides the same cash loans as described in Commercial Banking but aimed at corporate customers covering their international needs (see "— *Commercial Banking - Cash Loans*" for further details).

  Kuveyt Türk provides foreign cash loans 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 seeks to increase its cash loans for Turkish corporates having business in these regions.

- *Non-Cash Loans*

  Kuveyt Türk offers its corporate customers non-cash loans denominated in all major foreign currencies, principally comprised of letters of guarantee, letters of credit, acceptances and commitments. Non-cash loan 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.

For the year ended 31 December 2013, Kuveyt Türk had over 150 corporate 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. Kuveyt Türk's corporate customers had cash loans outstanding with Kuveyt Türk of TRY 1,761 million and total non-cash loans (comprising letters of credit and letters of guarantee) outstanding with Kuveyt Türk of TRY2,847 million (as compared to TRY1,016 million cash loans and TRY1,451 million non-cash loans for the same period in 2012 outstanding with Kuveyt Türk).

The customers of Kuveyt Türk's Corporate and Investment Banking Department include Turkish companies in various sectors including energy, telecommunication, food stuff, metals, construction, machinery and plastic manufacturing, as well as the automotive industries. With respect to cash loans, Kuveyt Türk's highest corporate customer concentrations are in the energy and food-stuff sector. With respect to non-cash loans, a majority of Kuveyt Türk's customers are in the energy, textile and construction industry.

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 a number of innovative transaction types. The Investment Banking Department introduced the "matched Murabaha" to the Turkish market in 2005 followed by Kuveyt Türk's internationally syndicated commodity Murabaha transaction that was arranged to meet Kuveyt Türk's funding need. The U.S.$200 million facility, which reached commercial close in 2006 (and renewed in the amount of U.S.$115 million in 2009 and repaid in full in April 2010). Kuveyt Türk's U.S.$100 million Sukuk due 2013, which was listed on the London Stock Exchange was the first Sukuk issuance from Turkey. Following this inaugural Sukuk issuance out of Turkey, Kuveyt Türk issued its second international Sukuk (lease Certificates) through KT Sukuk Varlık Kiralama A.Ş. on October 2011 for U.S.$350 million and its third international Sukuk (Lease Certificates) through KT Kira in June 2014 for U.S.$500 million as the new benchmark paper for the Turkish corporate/financial institution Sukuk issuers. Besides these international wholesale funding activities, Kuveyt Türk's investment banking arm initiated five TRY denominated local Sukuk (Lease Certificates) issues through KT Kira with a total volume of TRY387 million sold to qualified investors and/or in public offering format.

Kuveyt Türk returned to syndicated murabaha markets in December 2013 and raised U.S.$275 million and EUR83.0 million through the club murabaha financing facility with dual currency and dual tranches.

The Investment Banking Department has also been involved in project finance transactions of considerable quantity and volume, such as being one of the four banks collaborating in the privatisation of Dicle Elektrik Dağıtım, one of Turkey's important privatisation projects in 2013 (this was Kuveyt Türk's first syndicated project finance in Turkey). Furthermore, the financing of hydroelectric and wind power plants remains a growing business line in the Investment Banking portfolio.

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.$500,000.0 to U.S.$10.0 million and so called "club deals", with transaction sizes ranging typically from U.S.$10.0 million to U.S.$50.0 million. In addition, Kuveyt Türk arranges internationally syndicated facilities with transaction values of over U.S.$50.0 million. Kuveyt Türk has arranged approximately U.S.$800.0 million of syndications and club deals 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).

International Banking Department

The International Banking Department is responsible mainly for establishing, monitoring, managing and improving relationships with domestic and foreign banks (financial institutions) in terms of products and other business areas. International Banking covers all relationship management efforts of Kuveyt Türk. In order to increase the efficiency of Kuveyt Türk's existing correspondent network, the International Banking Department concentrates efforts on product and service diversification, reciprocity and relationship continuity. Undertaking and managing these efforts together with correspondent banks are crucial for Kuveyt Türk in terms of maintaining a good international reputation. In addition to improving efficiency, the International Banking Department is also responsible for expanding the existing network. It takes into consideration the foreign trade policies of countries and particularly the target regions and countries specified in the Turkish government's medium term plan. The International Banking Department takes into account Kuveyt Türk's growth targets, targeted foreign markets as well as advice and suggestions of Credit, Marketing and Risk Management Departments.

The following additional business units are within the International Banking Department:

- **Corporate Sales**: Kuveyt Türk has established a Corporate Sales Unit under the International Banking Department. While not yet operational, the Corporate Sales Unit will be responsible for introducing and selling Kuveyt Türk's products and services to other banks as well as expanding the correspondent network for structured products such as club deals, syndicated loans, sukuk and bilateral financing facilities.

- **Foreign Trade Marketing**: Foreign Trade Marketing is another business unit operating within the International Banking Department. The Foreign Trade Marketing Unit reviews and takes into consideration the foreign trade policies of countries, particularly those of targeted countries. As a result of efforts over the past three years, foreign trade volume increased by 273 per cent. and exports rose to U.S.$702 million from U.S.$263 million. Kuveyt Türk introduced a new finance product specially designed for exporters, provided training and in a period of four months, paid out U.S.$3.715 million through a total of 30 deals. In 2014, Kuveyt Türk plans to expand the reach of its foreign trade marketing activities tailored to corporate and commercial customers to include small businesses as well.

- **Limit Allocation to Correspondent Banks**: Another function of the International Banking Department includes allocating, monitoring and overseeing limits to correspondent banks on behalf of Kuveyt Türk. Placing particular importance on this unit in 2013, Kuveyt Türk undertook intensive efforts to monitor and report limits and risk; limit allocations and/or limit increase demands were integrated into the system. Subsequently, the Counterparty Limit Management (**CLM**) module was developed and put into service to enable relevant units to monitor all transactions made with financial institutions. In this context, a total of 51 bank reports and 34 country reports were prepared and shared with relevant parties during 2013.

Treasury Department

The Treasury Department is responsible for managing Kuveyt Türk's liquidity and market risk and acts under the supervision of the Assets and Liabilities Committee ("**ALCO**") (see "*Risk Management*" for further details).

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. As at 31 December 2013, Kuveyt Türk's foreign exchange trade volume was U.S.$74,100.0 million, compared to U.S.$55, 900.0 million as at 31 December 2012.

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 carries out a variety of operations related to gold, including import and export, refining services, and contracts with international gold refiners and, in February 2013, Kuveyt Türk received authorisation for clearing transactions on the İstanbul Gold Exchange. Kuveyt Türk has also entered into a number of International Swaps and Derivatives Association ("**ISDA**") agreements with international counterparties and has been ranked first in terms of gold trading volume in BIST Precious Metals Market. As of 31 December 2013, Kuveyt Türk's total Murabaha transactions volume was U.S.$5,300.0 million and swap volume transactions amounted to U.S.$44,500.0 million, as compared to U.S.$11,200.0 million and U.S.$24,500.0 million respectively in 2012.

Product & Performance Management Department

The Product and Performance Management Department was established in December 2012 to monitor the performance of corporate branches, overseas branches and subsidiaries of Kuveyt Türk. It also analyses business models and requirements, develops new products that will contribute to growth and profitability targets, develops the IT system to meet the needs of these units and improves the current IT system infrastructure in line with the strategic and financial targets of the Corporate and International Banking segment.

Competition

As at 31 December 2013, according to the Banks Association of Turkey, there were 49 banks operating in Turkey, including four participation banks (see "*Overview of Turkish Banking Sector—Participation Banks*"). The private commercial banks in Turkey can be divided into three groups: (i) large private banks (with a bank-only asset size between TRY1.0 billion and TRY20.0 billion); (ii) small private banks (with a bank- only asset size less than TRY1 billion); and (iii) banks under foreign control.

In addition to 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 main competition faced by Kuveyt Türk is from the three other participation banks in Turkey and the medium-sized commercial banks (in terms of asset size) 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.

The Government of Turkey has also announced plans for state-controlled banks to enter the participation banking market through the establishment of subsidiaries which will operate as participation banks, which is likely to increase competition further.

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.

Competitive Strengths

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*"). KFH has over 35 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. Senior Management believe that the support provided by KFH 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. The shareholders provide periodic capital injections (see "*—Shareholders and Capital Structure—Capital Structure*" for frequency of capital injections).

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 and thereafter. 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 5.3 per cent. as at30 September 2014).

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. 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. 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, the first participation bank in Turkey to obtain financing through an internationally syndicated U.S.$200.0 million commodity Murabaha facility in 2006 (which was renewed in the amount of U.S.$115.0 million in 2009 and repaid in full in April 2010) and issued the first Sukuk originating from Turkey in 2010.

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, Commercial Banking and Corporate and International 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.

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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 29 per cent. Kuveyt Türk had in individual credits of total individual credits issued by participation banks as at 31 December 2014.

Kuveyt Türk has also introduced a number of pioneering products in Turkey in the area of structured trade finance through its investment banking products. (See "*—Business Activities—Retail Banking—Gold savings and trading products* and*—silver and platinum trading*" for further details.)

Kuveyt Türk differentiates itself from its competitors by making extensive use of the latest technology to offer innovative products and services. For example, Kuveyt Türk enhanced its distribution capabilities through its XTM branches which are a direct result of its R&D Centre (see "*—Strategy—Growing local customer base through expansion of branch network and alternative distribution channels*" and "*—Research and Development*").

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.

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 mismatches. 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 its liquidity management policies, Kuveyt Türk places some of its unlisted 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.

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 about 150 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.

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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 Information Memorandum, consists of four wholly-owned operating subsidiaries, two further subsidiaries that are not wholly-owned, one offshore branch and one financial services branch.

Subsidiaries

*Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. ("**Körfez REIT**")*

Körfez REIT (Real Estate Investment Trust), formerly known as Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş, was incorporated in June 1996 as a joint stock company under the Turkish Commercial Code and was converted into a real estate investment trust on 29 December 2011. The investment strategy of the company is developing real estate projects and carrying out construction, marketing, management and finance activities within the real estate sector.

Körfez REIT made its initial public offering on 26 April 2014, increasing its issued capital from TRY49,500,000 to TRY66,000,000. Körfez Tatil (as defined below) which is a wholly owned subsidiary of Kuveyt Türk purchased 23.75 per cent. of the share capital pursuant to the initial public offering. 25.0 per cent. of the shares of Körfez REIT are now listed on the İstanbul Stock Exchange and trading commenced on 6 May 2014.

Körfez REIT is developing a commercial and residential real estate project in the Kartal area located on the Anatolian side of İstanbul. Körfez REIT is the landowner and developer of the Kartal Project. Construction and sales activities are being carried out by Dumankaya Construction Co. in line with a revenue sharing agreement. Construction is approximately 20.0 per cent. complete and approximately 10 per cent. of the units have been sold. Körfez REIT has collected 33.0 per cent. of the minimum agreed sales revenue share of the contract. The sales revenue of the Kartal Project are Körfez REIT's main sources of revenue.

Körfez REIT has no accrued net revenue for the year ended 31 December 2013 since the Kartal Project is still under construction. The sales revenue of the Kartal is estimated to be reflected in the year end financials in 2015, in line with the delivery of the units to the customers.

*Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İşletmeciliği A.Ş. ("**Körfez Tatil**")*

Körfez Tatil was incorporated in 2001 in Edremit, Turkey. Körfez Tatil was established to operate the Güre Project, a thermal tourism facility developed by Körfez REIT in Edremit, Balıkesir, Turkey. The Güre Project was composed of 199 time-sharing apartment units and a hotel, both of which are currently being demolished to develop a larger and modern project in line with the urban regeneration law. Körfez Tatil is a whollyowned subsidiary of Kuveyt Türk.

Körfez Tatil's net revenue for the year ended 31 December 2013 was TRY555 thousand (in accordance with the relevant regulations on accounting framework and accounting standards as promulgated by the Turkish Commercial Code and relevant legislation).

*KT Sukuk Varlık Kiralama A.Ş. ("**KT Sukuk**")*

KT Sukuk was incorporated on 23 September 2011 in Turkey and was established to issue sukuk securities amounting to U.S.$350,000,000.

*KT Kira Sertifikaları Varlık Kiralama A.Ş. ("**KT Kira**") See "Description of the Issuer".*

*Katılım Emeklilik ve Hayat A.Ş. (Private Pension Company ("**PPC**"))*

PPC was incorporated in 2013 in collaboration with Albaraka Türk Katılım Bankası A.Ş. and commenced operations in 2014. PPC offers customers private pension system plans featuring funds that comply with the interest-free pension system, such as sukuk, equities, participation accounts and gold and silver funds.

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*Kuwait Turkish Participation Bank Dubai Ltd ("**KT Dubai**")*

KT Dubai was 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.

KT Dubai was established with a capital of U.S.$12 million and is authorised by the DIFC to operate as an Islamic Financial Institution. 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.

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 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.

Associates

Neova

Neova was incorporated in İstanbul in 2008 and commenced operations in the second half of 2010. As at the date of this Information Memorandum, 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 Information Memorandum, Kuveyt Türk owns 8.36 per cent. of the shares of the IIRA.

Kredi Garanti Fonu A.Ş. *("**KGF**")*

KGF is a company recently incorporated in order to provide support to SMEs in Turkey and is predominantly owned by banks and associations in Turkey. As at the date of this Information Memorandum, Kuveyt Türk owns 1.67 per cent. of the shares of KGF.

Borsa ˙Istanbul A.Ş. *("**Borsa**")*

Established on the basis of Capital Markets Law of Turkey no. 6362, Borsa was established for the purpose of serving as a securities exchange.

Kuveyt Türk owns 0.0035 per cent. of the shares of Borsa.

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 2013. Kuveyt Türk currently calculates its capital adequacy ratio requirements in accordance with Basel II.

As at 31 December 2013, Kuveyt Türk's capital adequacy ratio was 14.43 per cent. and 14.16 per cent. as at 31 December 2012 (in accordance with BRSA Accounts) (see "*Risk Factors— 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 2013 and 2012.

	As at 31 December	
	2013	**2012**
	(TRY in thousands)	
Tier 1 capital	2,227,915	1,598,446
Tier 2 capital	374,708	347,708
Deductions from capital	(5,583)	(42,500)
Total capital	**2,700,398**	**1,930,654**
Risk weighted assets amount subject to market, operational and credit risk	**18,708,293**	**13,638,190**

	Actual	**Required**	**Actual**	**Required**
Tier 1 capital ratio	11.90%	-	11.72%	-
Total capital ratio	14,43%	12%	14.16%	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 several 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 2012 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 relies on availability of IT systems to continue its banking operations and maintaining accessibility of IT systems during disaster situations. 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. 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 ("**BOA-Business Oriented Architecture Project**") in order to support business strategies and continuous growth

opportunities for Kuveyt Türk through utilising the most recent technologies. The BOA Project was completed in 2013 and includes a 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**") and Communiqué on Principles to be considered in Information Systems Management in Banks (*Bilgi Sistemleri ˙Ilkeler Teblilği*) published by the BRSA. 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. The audit for Communiqué on Principles to be considered in Information Systems Management in Banks is performed once a year with focus on risk management on information systems, establishment and follow-ups of the internal controls concerning information systems, internet banking, and ATM. These audits are required by the BRSA and audit results are reported to the BRSA by the independent auditing firm.

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 Saglam Bankacilik", "Kuveyt Türk Katilim Bankasi A.Ş. Bankacilikta Çözüm Ortaginiz", "Kuveyt Türk aile", "Kuveyt Türk Altin", "Kuveyt Türk Duyarli 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.

Research and Development

Kuveyt Türk established a research and development centre accredited by the Ministry of Industry and Trade which has been operational since December 2011. The R&D Centre helps sustain Kuveyt Türk's competitiveness by contributing towards the development and production of new information technology products such as the XTM branches, which are a direct result of the R&D Centre.

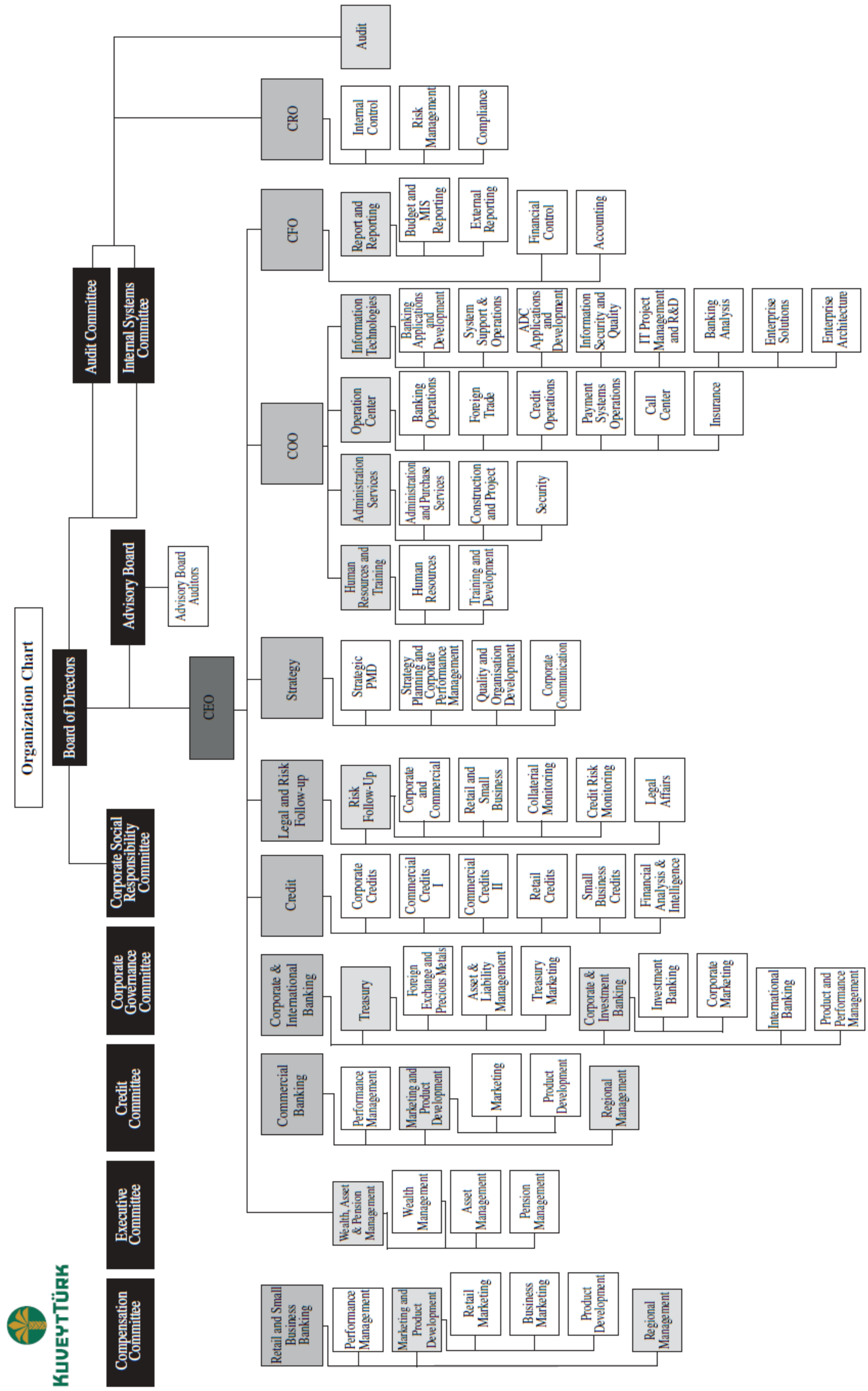
Insurance

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.

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.



KUVEYTTÜRK
Organization Chart
Board of Directors
Compensation Committee
Executive Committee
Credit Committee
Corporate Governance Committee
Corporate Social Responsibility Committee
Advisory Board
Advisory Board Auditors
Audit Committee
Internal Systems Committee
CEO
Audit
CRO
Internal Control
Risk Management
Compliance
CFO
Report and Reporting
Budget and MIS Reporting
External Reporting
Financial Control
Accounting
COO
Information Technologies
Banking Applications and Development
System Support & Operations
ADC Applications and Development
Information Security and Quality
IT Project Management and R&D
Banking Analysis
Enterprise Solutions
Enterprise Architecture
Operation Center
Banking Operations
Foreign Trade
Credit Operations
Payment Systems Operations
Call Center
Insurance
Administration Services
Administration and Purchase Services
Construction and Project
Security
Human Resources and Training
Human Resources
Training and Development
Strategy
Strategic PMD
Strategy Planning and Corporate Performance Management
Quality and Organisation Development
Corporate Communication
Legal and Risk Follow-up
Risk Follow-Up
Corporate and Commercial
Retail and Small Business
Collateral Monitoring
Credit Risk Monitoring
Legal Affairs
Credit
Corporate Credits
Commercial Credits I
Commercial Credits II
Retail Credits
Small Business Credits
Financial Analysis & Intelligence
Corporate & International Banking
Treasury
Foreign Exchange and Precious Metals
Asset & Liability Management
Treasury Marketing
Corporate & Investment Banking
Investment Banking
Corporate Marketing
International Banking
Product and Performance Management
Commercial Banking
Performance Management
Marketing and Product Development
Marketing
Product Development
Regional Management
Wealth, Asset & Pension Management
Wealth Management
Asset Management
Pension Management
Retail and Small Business Banking
Performance Management
Marketing and Product Development
Retail Marketing
Business Marketing
Product Development
Regional Management

6.2 RISK MANAGEMENT

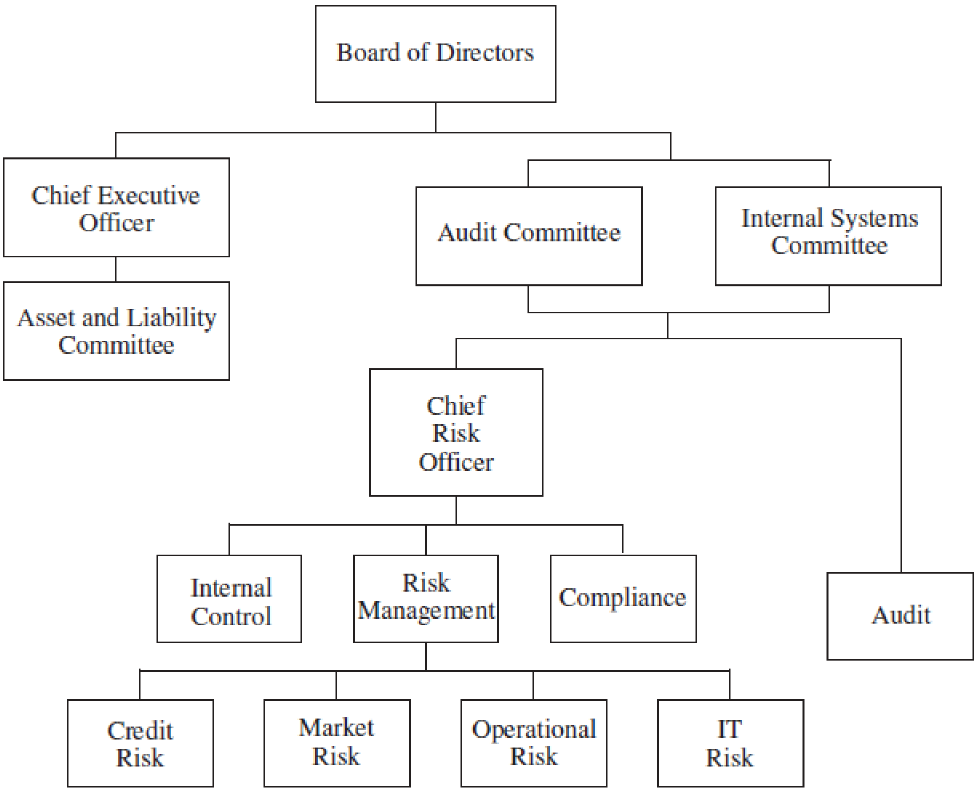
Kuveyt Türk's risk management philosophy is focused on identifying, measuring, monitoring, mitigating and managing various dimensions of business risks. It also aims to ensure that the key risks inherent in its business are minimised and asset values and income streams are protected so that the interests 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 training to all employees and increasing their awareness 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, sector 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 eleven members: Kuveyt Türk's CEO, the Chief Finance Officer, the Chief Operating Officer, the Executive Vice Presidents of Corporate and International Banking, and Commercial Banking, Strategy, Credits, Retail and SME Banking, Legal and Risk Follow-up and Head of Treasury.

Internal Systems Committee ("ISC")

The ISC, 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 ISC 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 ISC meets on the day prior to any Board meeting and as such meets at least six times a year and more frequently if required.

The ISC 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 the ISC and Audit Committee to ensure that Kuveyt Türk undertakes all its activities in compliance with all applicable internal and external regulations. The IC Department is located in the head office and comprises of 36 employees.

Pursuant to Kuveyt Türk's strategy of branch network expansion (see "*Description of Kuveyt Türk — 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 internal control and monitoring*** **-** this group exercises on-site control of the various departments, units, branches, subsidiaries 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;

- ***Centralised internal control, design, risk analysis and monitoring activities*** - 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 external auditing coordination activities*** **-** 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 Audit Committee and consists of nine 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 55 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. Each branch is subject to biannual audits. Kuveyt Türk's various departments within the 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, the Internal Systems Committee and Audit Committee. 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 quarterly prepared 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 Department ("**RMD**")*

Kuveyt Türk's Internal Systems Regulations and Risk Management Policies are established by the Audit Committee and are implemented and executed by the RMD, Compliance Department and IC Department. The primary objectives of the RMD 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 performed by the credit risk, operational risk, IT risk and market risk groups. The credit risk, operational risk, IT risk and market risk groups all fall under the purview of the RMD (which consists of ten employees) and is managed by the Head of the RMD. The RMD, Compliance Department and IC Department, are part of the ISC and are overseen by the Chief Risk Officer (who reports directly to the Audit Committee and coordinates all communications, reporting and monitoring between the Audit Committee and the RMD).

Credit Risk

Credit risk refers to the potential risk of financial loss if any Kuveyt Türk customer or counterparty fails to meet its commitments in accordance with the terms of its agreements with Kuveyt Türk. 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 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 2013, the total gross maximum exposure of cash loan risk was TRY16,733.30 million (including due from financing activities, net, minimum financial lease payments receivables, net, other assets and derivative financial instruments) and the total gross non-cash loan risk was TRY8,672 million (including contingent liabilities and other guarantees) totalling TRY25,405.65 million. As at 31 December 2012, the total gross maximum exposure of cash loan risk was TRY12,070.97 million and the total gross non-cash loan risk was TRY6,300.45 million, totalling TRY18,371.42 million. Approximately 86 per cent. of credit risk was collateralised as at 31 December 2013 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;

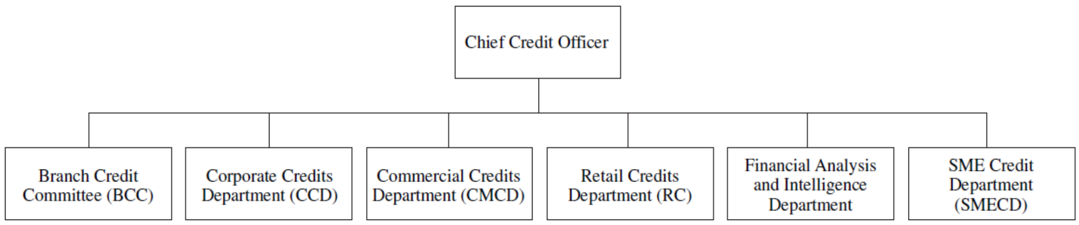
- the loan portfolio is diversified;

- 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.



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, CMCD and CCD*" 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**"), Corporate Credits Department ("**CCD**") or Commercial Credits Department ("**CMCD**") for authorisation by the relevant credit committees.

Stage 3: The BCC, RCD, SMECD, CCD or CMCD 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, CMCD CCD"* for further details).

Stage 4: The relevant credit committee or the Board of Directors makes the final decision.

Stage 5: The BCC, RCD, SMECD, CMCD or CCD 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 TRY allocated to each branch class for product and collateral types.

AUTHORISATION TABLE *(TRY)*

				Individual		
		Individual		**Other – Credits**		**Cheque/ Letter of Guaranty**
Customer Segment	**Branch Credit Class**	**Real Estate**	**Vehicle**			
		Real Estate	Pledge	Real Estate	Signature	Signature
	A	300,000	50,000	100,000	25,000	60,000
	B1	300,000	50,000	100,000	25,000	50,000
	B2	300,000	50.000	100,000	25,000	40,000
Retail	Cl	300,000	50,000	100,000	25,000	30,000
	C2	300,000	50,000	100,000	25,000	15,000
	D	300.000	50,000	100,000	25,000	30,000
	E	300,000	50,000	100.000	25,000	25,000

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" committee to assess credit limits.

RCD's organisation structure consists of two units: the Credit Unit for Individual and Credit Cards and the Projects Unit for Buildings Under Construction.

Credit Unit for Individual and Credit Cards

The Credit Unit for Individual and Credit Cards is responsible for the appraisal process for credits provided to individuals up to TRY3.0 million and is made up of two sub-units: the Individual Credit Allocation Unit and the Credit Card Allocation Unit.

- 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 SGK 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:

Product	**LTVs expressed as a percentage**
Real Estate	75
New Vehicles	80
Used Vehicles[(1)(2)]	70

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(1) If the invoice value (for used cars) is less than or equal to TRY50,000, LTV is limited by 70%.

(2) If the invoice value (for used cars) is above TRY50,000; LTV is limited by 70% up to TRY50,000, and LTV is limited by 50% exceeding TRY50,000.

- 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.

Projects Unit for Buildings Under Construction

Some consumers buy real estate from ongoing construction projects in Turkey. The Projects Unit for Buildings Under Construction 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 31 December 2013, 20 per cent. of total housing loans were made to such ongoing construction projects.

SMECD

Retail SMEs with annual revenues of under TRY5,000,000 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).

CCD and CMCD

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 reports to the Executive Vice President, Legal & Risk Follow-Up, and 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 minimise the credit risk of Kuveyt Türk 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 receivables 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 Kuveyt Türk 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 Kuveyt Türk's level of risk exposure to the particular borrower. This monitoring allows Kuveyt Türk 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 for cash loans in arrears for the periods indicated.

	As at 31 December	
	2013	**2012**
	(TRY in thousands except ratios)	
Balance at beginning of period	302,164	235,882
Additions in the current period/year	195,789	160,695
Recoveries	(79,778)	(64,728)
Write-offs	(40,466)	(29,685)
Impairment allowance	377,709	302,164
Collective Reserve	35,701	28,706
Non-performing loans as percentage of gross cash loans	2.59%	2.80%

The following table indicates certain information relating to Kuveyt Türk's cash loans in arrears and related provisions as per IFRS (in accordance with BRSA Accounts).

	As at 31 December					
	2013			**2012**		
	Credits in arrears	**Total provision**	**% Reserved**	**Credits in arrears**	**Total provision**	**% Reserved**
	(TRY in thousands, except percentages)					
Risk Category						
Provisional rates:						
Doubtful	162,074	119,193	73.5	152,848	125,074	81.8
Substantial	32,839	27,501	83.7	22,647	21,334	94.2
Loss	237,768	231,015	92.7	161,869	155,756	96.2
Total credits classified as credits in arrears	432,681	311,709	87.3	337,364	302,164	89.6

IFRS/BSRA 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 must be 50 per cent. (after deducting collateral, if any) and, after 360 days, must be 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 nonperforming 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 20 per cent. of the outstanding credit is paid within six months of Kuveyt Türk's due date. As at the date of this Information Memorandum, approximately 0.27 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. Kuveyt Türk periodically monitors credit exposure limits by geographic region, country grade class, country, economical sector and top customers concentration. 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. Kuveyt Türk has focused its efforts primarily on Retail SMEs.

Concentration of risk is managed by counterparty and by industry sector. The maximum cash loan exposure to any counterparty other than the Central Bank as at 31 December 2013 was TRY100,316 thousand (as compared to TRY110,068 thousand as at 31 December 2012) and non cash loan exposure as at 31 December 2013 was TRY189,014 thousand (as compared to TRY189,008 thousand as at 31 December 2012), 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:

	2013	2012
	Gross exposure	**Gross exposure**
	(TRY in thousands)	
Construction and materials	7,993,643	5,638,472
Financial services	9,810,331	5,736,671
Manufacturing	3,596,357	2,466,264
General retailers	5,141,546	3,318,663
Mining operations	710,189	298,036
Electricity	1,179,951	456,316
Telecommunications	109,133	163,817
Health care and social services	983,064	826,899
Forestry	130,250	115,567
Food and beverages	821,713	695,327
Real estate	84,033	30,553
Other	4,446,417	4,242,188
Total	**35,006,627**	**23,988,773**

The following table sets out Kuveyt Türk's retail cash loans as at the dates indicated (in accordance with BRSA Accounts).

	As at 31 December			
	2013		2012	
	Amount	**% of total**	**Amount**	**% of total**

	(TRY in thousands, except percentages)			
Real estate	2,437,998	88	1,800,006	89
Credit cards	120,656	4	81,494	4
Vehicles	125,322	4	126,224	6
Other (Retail outstanding cash loans)	97,705	4	10,162	1
Total	**2,781,681**	**100**	**2,017,886**	**100**

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

	As at 31 December							
	2013				**2012**			
	Cash loans		**Non-cash loans**		**Cash loans**		**Non-cash loans**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
	(TRY in thousands)							
Agriculture	694,907	4.3	314,162	3.0	569,612	4.8	338,308	4.4
Industry	2,581,045	15.8	789,283	7.5	2,617,930	22.2	641,933	8.4
Construction	2,220,008	13.6	3,429,765	32.6	2,003,673	17.1	2,460,822	32.0
Services	432,397	2.6	517,730	4.9	212,946	1.8	462,105	6.0
Other	10,401,552	63.7	3,621,406	34.3	6,362,079	54.1	2,397,282	31.2
Commitments	-	-	1,863,234	17.7	-	-	1,379,626	18.0
Total	16,329,909	100	10,535,580	100	11,766,240	100	7,680,076	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.

Loan Provisions

NPL as a percentage of gross cash loans (total of due from financing activities and minimum finance lease payment receivables before impairment provision), remained at low levels relative to Turkish averages as published by the BRSA. This percentage decreased to 2.59 per cent. as at 31 December 2013 (including rescheduled or restructured loans reclassified as performing), compared to 2.80 per cent. as at 31 December 2012 (in accordance with BRSA Accounts).

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

The bank calculates the probability of delinquency and internal rating notes for the portfolio of business loans based on statistical methods up to TRY850,000 (full amount) for all types of limits and up to TRY3,000,000 (full amount) for real estate transactions of Turkish Commercial Code. Ratings which are calculated since 1 February 2013 are shown the table below as of 31 December 2013 (in accordance with BRSA Accounts).

	Cash Loans	Non-Cash Loans	Total
High Quality..	30%	34%	31%
Medium Quality	16%	16%	16%
Average...	12%	10%	11%
Below Average...	2%	4%	2%
Unrated	40%	36%	40%

The following table sets forth the aging analysis of past due but not impaired loans by class of financial asset (in accordance with BRSA Accounts):

	As at 31 December 2013				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
	(TRY in thousands)				
Due from financing activities:					
Corporate lending	143.344	121,013	74,390	-	338,748
Consumer lending............................	9,579	39,020	23,900	-	72,499
Credit cards	3.020	-	-	-	3,020
Total	**155,944**	**60,032**	**98,290**	**-**	**414,267**

	As at 31 December 2013				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
	(TRY in thousands)				
Due from financing activities:					
Corporate lending	163,528	161,455	145,493	-	470,476
Consumer lending............................	7,135	42,094	21,429	-	70,658
Credit cards	679	61	73	-	813
Total	**171,342**	**203,610**	**166,995**	**-**	**541,947**

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems 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 RMD. 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 "*Risk Factors — 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

RMD makes specific proposals to the head of the Audit Committee 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.

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 and domestic listed sukuk securities; and (iv) shareholders' equity.

	As at 31 December			
	2013	**%**	**2012**	**%**
	(TRY in thousands)			
Current and protil/loss sharing investors' accounts..........	17,079,036	68.86	12,867,190	70.81
Due to other financial institutions and banks..................	4,040,526	16.29	2,347,811	12.92
Total equity attributable to equity holders of the parent...	2,418,506	9.75	1,728,337	9.51
Sukuk securities issued	905,841	3,65	811,540	4.47
Other liabilities and provisions......................................	358,121	1.44	416,621	2.29
Total..	**24,802,030**	**100.00**	**18,171,499**	**100.00**

Customer Deposits

Retail deposits were the major source of funding for Kuveyt Türk for the year ended 31 December 2013. As at 31 December 2013, deposits comprised 66.71 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 2013, deposits increased by 32.73 per cent. to TRY17,079.04 million, from TRY12,867.19 million as at 31 December 2012. Kuveyt Türk has a broad and diversified source of depositors and is not reliant on any key anchor depositors with 71.14 per cent. of its total deposits coming from retail depositors and 76.55 per cent. of the total depositors, having placed less than TRY1 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 2013 and 2012.

For the year ended 31 December 2013	**Retail Banking**	**Corporate and Commercial Banking**	**International and Investment Banking and Treasury**	**Unallocated**	**Total**
			(TRY in thousands)		
Total liabilities..................	12,095,960	4,733,518	5,641,498	713,043	**23,184,019**

For the year ended 31 December 2012	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
			(TRY in thousands)		
Total liabilities..................	9,331,261	3,423,782	3,528,506	584,163	**16,867,712**

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 and domestic debt capital markets. Kuveyt Türk's current borrowings from other financial institutions and banks as of 31 December 2013 and 2012 are as follows:

	As at 31 December	
	2013	**2012**
	(TRY in thousands)	
U.S.$	3,768,436	2,232,171
Euro	266,297	101,199
TRY	5,793	5,441
Total	**4,040,526**	**2,347,811**

As at 31 December 2013, Kuveyt Türk's total U.S. dollar borrowing was equivalent to TRY3,768.44 million, its total Euro borrowing was equivalent to TRY266.29 million and its borrowing in Turkish lira was TRY5.79 million as at 31 December 2013 (total U.S. dollar borrowing was equivalent to TRY2,232.17 million as at 31 December 2012). Kuveyt Türk's foreign currency borrowing represents 99.86 per cent. of its total borrowing as of 31 December 2013.

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 2013 was 62 days for Turkish lira, deposits which were longer than the market average of 60 days. As at 31 December 2013, 26.49 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.

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 "*Risk Factors — Risks relating to Kuveyt Türk's Business—Liquidity Risk*" for further details).

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 "*Risk Factors — Risks relating to Kuveyt Türk's Business*" and "*Foreign Exchange Risk*" below).

The RMD 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 Treasury Middle Office ("**TMO**"). 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 "*Risk Factors - Risks relating to Kuveyt Türk's Business*" for further details).

The table below sets out Kuveyt Türk's analysis of financial liabilities by contractual maturities on an undiscounted basis as at 31 December 2013.

Financial liabilities	**Oil demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
			(TRY in thousands)			
As at 31 December 2013						
Due to other financial institutions and banks ...	-	189,098	1,717,844	2,092,946	-	3,999,888
Subordinated loans	-	-	-	-	426,860	426,860
Sukuk Issued	-	-	150,000	-	746,953	896,953
Money market balances ...	-	221,317	-	-	-	221,317
Derivative financial Instruments(*)		3,637,256	849,549	250,527		4,737,332
Current accounts.............	5,004,189	-	-	-	-	5,004,189
Profit and loss sharing accounts(**)..................		10,523,531	1,238,221	219,764	48,472	12,029,988
Other financial liabilities..	-	-	-	-	-	-
Total undiscounted financial liabilities	5,004,189	14,571,202	3,955,614	2,563,237	1,222,285	27,316,527

As at 31 December 2012						
Due to other financial institutions and banks ...	-	17,362	413,483	1,874,632	-	2,305,477
Subordinated loans	-	-	-	-	356,520	356,520
Sukuk issued....................	-	-	-	802,170	-	802,170
Derivative financial Instruments(*)		2,252,638	293,683	332,264		2,878,585
Current accounts.............	3,344,780	-	-	-	-	3,344,780
Profit and loss sharing accounts(**)..................	-	1,726,918	2,318,161	3,705,479	15,480	7,766,037
Total undiscounted financial liabilities	3,344,780	3,996,918	3,025,327	6,714,545	372,000	17,453,569

(*) 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 TMO 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 "*Risk Factors — Risks relating to Kuveyt Türk's Business*" for further details).

The table below sets out Kuveyt Türk's exposure to foreign currency exchange rate risk for the periods set out below.

31 December 2013	**EUR**	**U.S.$**	**Other**	**Precious Metals**	**Total**
			(TRY in thousands)		
Cash and balances with the Central bank..................................	148,860	298,946	12,393	-	460,199
Deposits with other banks and financial institutions........................	363,031	1,427,077	57,146	738,800	2,586,054
Reserve deposits at the Central Bank...	190,873	1,989,572	-	807,646	2,988,091
Financial assets - available-for-sale.....	-	219,260	-	-	219,260
Financial assets - held for trading........	-	14,693	94,046	-	108,739
Due from financing activities, net........	1,595,168	4,834,181	2,372	136,358	6,568,079
Minimum finance lease payments receivable, net................................	93,906	128,205	-	-	222,111
Precious metals..................................	-	-	-	466,834	466,834
Other assets.......................................	27,878	35,387	135	92	63,493
Construction projects, net...................	-	-	-	-	-
Joint Venture.....................................	-	-	-	-	-

Investment properties, net	-	-	-	-	-
Assets held for sale and disposal of group, net	-	-	-	-	-
Property and equipment, net	254	121	-	-	375
Intangible assets, net	5	35	-	-	40
Deferred tax assets	-	-	-	-	13,400
Total assets	**2,419,975**	**8,947,477**	**166,092**	**2,149,730**	**13,683,275**
Due to other financial institutions and banks	266,295	3,768,413	-	-	4,034,708
Sukuk issued	1,667	752,612	-	-	754,279
Subordinated loans	-	433,080	-	-	433,080
Money market balances	-	-	-	-	-
Current and profit / loss sharing investors' accounts	1,806,603	3,597,699	43,310	2,265,514	7,713,126
Other liabilities and provisions	15,056	32,464	709	429	48,659
Employee benefit obligations	-	-	-	-	-
Income taxes payable	-	-	-	-	-
Derivative financial instruments	-	14,864	44,084	-	58,948
Equity	-	-	-	-	-
Total liabilities and equity	**2,089,621**	**8,599,132**	**88,103**	**2,265,943**	**13,042,800**
Net balance sheet position	**330,354**	**348,345**	**77,989**	**(116,213)**	**640,475**
Net off-balance sheet position	**(306,654)**	**(336,898)**	**(23,775)**	**108,818**	**(558,509)**

31 December 2012	**EUR**	**U.S.$**	**Other**	**Precious Metals**	**Total**
			(TRY in thousands)		
Cash and balances with the Central bank	51,182	70,468	6,598	545	128,793
Deposits with other banks and financial institutions	110,255	849,019	56,129	256,634	1,272,037
Reserve deposits at the Central Bank	235,170	1,102,710	-	515,769	1,853,649
Financial assets - available-for-sale	-	136,075	-	-	136,075
Financial assets - held for trading	3,629	17,448	887	24,098	46,062
Due from financing activities, net	1,086,439	3,449,169	-	145,532	4,681,140
Minimum finance lease payments receivable, net	68,050	87,279	-	-	155,329
Precious Metals	-	-	-	1,655,798	1,655,798
Other assets	4,971	12,067	120	90	17,248
Construction projects, net	-	-	-	-	-
Investment properties, net	-	-	-	-	-
Assets held for sale and disposal of group, net	-	-	-	-	-
Property and equipment, net	367	44	-	-	411
Intangible assets, net	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
Total assets	**1,560,063**	**5,724,279**	**63,734**	**2,598,466**	**9,946,542**

Due to other financial institutions and banks	110,199	2,232,171	-	-	2,342,370
Sukuk issued	-	811,540	-	-	811,540
Subordinated loans	-	361,661	-	-	361,661
Current and profit / loss sharing investors' accounts	1,018,249	2,754,074	16,676	2,257,253	6,046,252
Other liabilities	1,195	34,518	1,149	-	36,862
Provisions	-	-	-	-	-
Income taxes payable	-	-	-	-	-
Derivative financial instruments	-	4,020	206	-	4,226
Equity	-	-	-	-	-
Total liabilities and equity	**1,129,643**	**6,197,984**	**18,031**	**2,257,253**	**9,602,911**
Net balance sheet position	**430,420**	**(473,705)**	**45,703**	**341,213**	**343,631**
Net off-balance sheet position	**(421,497)**	**468,106**	**(31,451)**	**(328,014)**	**(312,856)**

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 "*Risk Factors* - *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 interestfree commodity Murabaha facility obtained in 2006 to balance its liquidity needs. In 2011, Kuveyt Türk also issued, through KT Sukuk, U.S.$350 million Trust Certificates due 2016 as part of managing its funding requirements. In 2013 Kuveyt Türk issued, through the Issuer, TRY150 million Lease Certificates due 18 November 2014. In 2014 Kuveyt Türk issued, through the Issuer, U.S.$500 million Lease Certificates due 26 June 2019 and TRY287 million Lease Certificates with various tenors between 3-12 months. Kuveyt Türk also raised U.S.$275 million and EUR83 million syndicated murabaha financing from international markets on 27 December 2013 and raised U.S.$300 million and EUR40 million syndicated murabaha financing from international markets on 29 December 2014.

In order to manage funding and liquidity risk, the RMD 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 RMD 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 RMD reports on a monthly basis to the Audit Committee.

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

	As at 31 December	
	2013	**2012**
	(%)	
Cash loans/total assets	63.8	63.3
Cash loans/deposits	95.6	91.4
Cash loans/ total equity attributable to equity holders of the parent	675.2	680.8
Liquid assets[(1)]/total assets	13.96	11.10
Liquid assets/deposits[(2)]	16.92	13.56

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(1) Liquid assets comprise cash and cash equivalents (not including Kuveyt Turk's reserves with the Central Bank).

(2) Also includes due to other financial institutions and banks.

The following table summarises Kuveyt Türk's estimated maturity analysis for certain assets and liabilities as at 31 December 2013 and contains certain information regarding Kuveyt Türk's funding and liquidity risk.

	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Unallocated**	**Total**
31 December 2013						
Assets						
Cash and balances with Central Bank	858,686	-	-	-	-	**858,686**
Balances with other banks and financial institutions.	2,699,988	15,584	-			**2,715,572**
Reserve deposits at the Central Bank	2,988,091	-	-	-	-	**2,988,091**
Financial assets held for trading	97,423	18,332	-	181	-	**115,936**
Derivative financial instruments	94,407	18,332	-	-	-	**108,739**
Share Certificates	-	-	-	181	-	**181**
Gold Fund	7,016	-	-	-	-	**7,016**
Financial assets available-for-sale	-	2,024	1,269,934	-	51,558	**1,323,516**
Due from financing activities, net	11,432,402	2,112,418	2,390,447	352,645	41,997	**16,329,909**
Precious Metals	466,834	-	-	-	-	**466,834**
Other assets	-	-	-	-	294,651	**294,651**

Construction projects, net...	-	-	-	-	46,244	**46,244**
Joint venture......................	-	-	-	-	5,064	**5,064**
Investment properties, net ..	-	-	20,815	-	-	**20,815**
Property and equipment, net	-	-	-	-	321,179	**321,179**
Intangible assets, net..........	-	-	-	-	55,775	**55,775**
Deferred tax assets.............	-	-	-	-	32,307	**32,307**
Assets and a disposal group held for sale	**27,946**	-	-	-	-	**27,946**
Total Assets......................	**18,571,370**	**2,148,358**	**3,681,196**	**352,826**	**848,775**	**25,602,525**

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	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Liabilities						
Due to other financial institutions and banks.........	1,614,228	1,355,797	1,070,501	-	-	**4,040,526**
Sukuk securities issued	-	151,562	754,279	-	-	**905,841**
Subordinated loans	-	-	-	433,080	-	**433,080**
Money market balances	221,428	-	-	-	-	**221,428**
Current and profit/loss sharing investors' accounts.........................	15,559,943	1,249,479	221,280	-	48,334	**17,079,036**
Derivative financial instruments.....................	45,312	7,802	5,834	-	-	**58,948**
Employee benefit obligations	-	36,700	-	-	30,243	**66,943**
Income taxes payable.........	-	20,096	-	-	-	**20,096**
Other liabilities and provisions	-	-	1,879	-	356,242	**358,121**
Total Liabilities................	**17,440,911**	**2,821,436**	**2,053,773**	**433,080**	**434,819**	**23,184,019**
Net balance sheet liquidity gap.................	**1,130,459**	**(673,078)**	**1,627,423**	**(80,254)**	**413,956**	**2,418,506**
31 December 2012						
Total Assets.......................	9,549,166	4,297,152	3,666,402	456,493	626,836	18,596,049
Total Liabilities	12,298,938	2,259,540	1,379,102	361,661	568,471	16,867,712
Net	(2,749,772)	2,037,612	2,287,300	94,832	58,365	1,728,337

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(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 "Risk Factors - Risks relating to Kuveyt Türk's Business" for further details).

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 Policy, 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.

6.3 MANAGEMENT

Board of Directors

The Board is comprised of nine directors ("**Directors**"), although there are currently only eight directors whilst the Board considers candidates for the position of chairman (see below). Members of the Board are appointed by Kuveyt Türk's shareholders, five of which are appointed by KFH; one of them being the chairman. 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 at least six times annually. The business address of each member of the Board is Büyükdere Caddesi, No: 129, 34394 Esentepe-Şişli, 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:

Name	Year of birth	Position	Year first elected to position
Hamad Abdulmohsen Al Marzouq	1962	Chairman	2014
Abdullah Tivnikli	1959	Vice Chairman	2001
Dr. Adnan Ertem	1965	Director	2002
Fawaz KH E A1 Saleh	1963	Director	2006
Nadir Alpaslan..................................	1966	Director	2011
Khaled Nasser Abdulaziz A1 Fouzan ..	1954	Director	2006
Mohammed Shujauddin Ahmed..........	1981	Director	2012
Ahmad S Al Kharji	1972	Director	2014
Ufuk Uyan...	1958	Director, Chief Executive Officer	1999

***Hamad Abdulmohsen Al Marzouq**—Chairman*

Mr. Al Marzouq received his bachelor of science degree in Industrial & System Engineering from the University of Southern California, USA in 1985 and MBA in Finance & International Business from Claremont Graduate School, USA in 1987. Mr Al Marzouq worked as investment officer in Kuwait Investment Company from 1987 until 1990. Thereafter, he worked as a manager in the Supervision Department of Kuwait Central Bank between the years 1990 and 1998. He served as the deputy chairman in Ahli United Bank between 1998 and 2014. Mr Al Marzouq has served as the chairman of the Board of Kuveyt Türk since September 2014.

***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, Credit Committee and Remuneration 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.Ş., 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.Ş., Atlas Enerji Elektrik Üretim Sanayi A.Ş., Iltek Iletisim Teknolojileri A.Ş., Eksim Enerji A.Ş., and Sinangil Gıda Sanayi Ticaret ve Pazarlama A.Ş.¸ the vice chairman of the board of directors of Tam EnerjiYatırım Sanayi ve Ticaret A.Ş., and a member of the board of directors of PHS Film Prodüksiyon A.Ş.

***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.

***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 1987. Mr. Alpaslan has been a member of Kuveyt Türk's board of directors since April 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.

Mohammed Shujauddin Ahmed—*Director*

Mr. Ahmed received his bachelor's degree in 2001 from the University of Massachusetts, Department of Business Administration and his master's degree in 2003 from London School of Economics, Department of Law andAccounting, and holds a PublicAccounting license from the Massachusetts State PublicAccounting Committee. Mr. Ahmed joined KPMG's Internal Audit Department in 2001 and ABM AMRO Bank's Risk and Compliance Department in 2003. In 2005, he was working in the Risk Control Department of the Islamic Development Bank and in 2006, Mr. Ahmed began working at Kuveyt Türk's operations center. That same year he started working as a Financial Analyst in the Portfolio Management Unit. Since 2008, Mr. Ahmed has been serving as a Senior Investment Analyst in investment banking. Mr. Ahmed became a member of the board of directors of Kuveyt Türk in 2012.

Ahmad S Al Kharji—*Director*

Mr. Al Kharji received a bachelor's degree in Finance and Banking from Kuwait University, Kuwait in 1994. In 1998, he received his master's degree in Business Administration from the University of San Diego, California, USA.

Mr. Al Kharji has been recently appointed as a member of Kuveyt Türk's board of directors in 2014. He previously served as Head of Investment Banking Department at Kuveyt Türk from June 2006 until November 2008. Mr. Al Kharji currently heads the International Banking Sector at Kuwait Finance House K.S.C. which oversees and monitors the banking subsidiaries, namely Kuveyt Türk, Kuwait Finance House Bahrain B.S.C. and Kuwait Finance House (Malaysia) Berhad, as well as managing the activity of the Financial Institutions and Structured Finance functions.

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.Ş., as a research analyst in the department of private investigations. In 1985, he became an assistant project manager at Albaraka Türk Katılım Bankası A.Ş. 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-Şişli, 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 Suleyman Karakaya...	1953	Executive Vice President (Commercial Banking)	2003
Bilal Sayin............................	1966	Executive Vice President (Credits)	2003
Huseyin Cevdet Ytlmaz	1966	Chief Risk Officer (Audit and Risk)	2002
Irfan Yilmaz	1970	Chief Operations Officer	2005
Nurettin Kola........................	1966	Executive Vice President (Risk Follow-up and Legal Affairs)	2010
Mehmet Oral	1967	Executive Vice President (Retail and SME Banking)	2012
Dr, Rusen Ahmet Albayrak...	1966	Executive Vice President (Corporate and International Banking)	2005
Aslan Demir	1971	Executive Vice President (Strategy)	2012

Ufuk Uyan*—Director and Chief Executive Officer*

See "*Management—Management Board of Directors—Ufuk Uyan*".

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 master's 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 (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.Ş. between 1981 and 2003. Mr. Karakaya also served as an inspector at Türkiye Garanti Bankası A.Ş. 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 Sayin 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.Ş.

Hüseyin Cevdet Yılmaz*—Chief 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 Yilmaz 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.Ş. as an assistant inspector in the Inspection department.

İrfan Yılmaz*—Chief Operations Officer*

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*—Executive Vice President*

Mr. Kolaç received a bachelor’s degree in Law from Marmara University in 1988.

Mr. Kolaç worked for Türkiye Halk Bank A.Ş. 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 2013 and has been appointed as Executive Vice President responsible for legal affairs and risk follow-up.

Mehmet Oral*—Executive Vice President (Retail and SME Banking)*

Mr. Oral is a graduate of Uludağ University, Department of Business Administration, and started his career at Kuveyt Türk as a Central Branch Officer in 1992. After working for eight years at the Central Branch, he was appointed as Director of the İMES Branch in 2000. Mr. Oral went on to serve as Director of the Bursa Branch from 2001 to 2004 and Director of Merter Branch from 2004 to 2005. After Kuveyt Türk’s transition to region offices, he became Regional Director of the İstanbul European Side Region Office in

2005. After serving in this position for four years, Mr. Oral became the Director of HR, Training and Quality Group in 2009. Since October 2012, he has been serving as Executive Vice President - Retail and SME Banking.

Dr. Rusen Ahmet Albayrak*—Executive Vice President (Corporate and International Banking)*

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 master's degree in Organisational Leadership and Management from University of North Carolina in 1993.

Dr. Albayrak has been Executive Vice President in charge of Kuveyt Türk's Corporate and International Banking Department since 2012. Dr. Albayrak acted as 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.Ş. in 1988.

Aslan Demir*—Executive Vice President (Strategy)*

Mr. Demir is a graduate of Marmara University, Department of International Relations, and is currently a student in the MBA program at the University of Sheffield. Having started his banking career as officer in the Treasury Department of Kuveyt Türk in 1995, Mr. Demir worked for six years in the department before serving in the Project Management and Quality Department from 2001 to 2004. In 2005, he was appointed Director of Project Management and Quality and in 2007, Mr. Demir continued his career as Head of Information Technologies. Since October 2012, Mr. Demir has been serving as Executive Vice President -Strategy.

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 Internal Systems 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 2013, Kuveyt Türk employed 4,642 full-time employees. As at 31 December 2013, the average age of Kuveyt Türk's employees was approximately 30.5 years of age and approximately 93 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	
	2013	**2012**
Kuveyt Turk	4,642	3,949
Korfez Gayrimenkul Yatirim Ortakligi A.S	7	5
Korfez Tatil Beldesi Turistik Tesisler ve Devremulk Isletmeciligi A.S.	4	6
KT Sukuk Varlik Kiralama A.S	0	0
KT Kira Sertifikalari Varlik Kiralama A.S	0	0
KT Dubai	9	8
Total	4,662	3,968

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 inhouse 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 TRY58) 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 is 6 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 or a bonus pool of 8 per cent. of Kuveyt Türk's annual net profit in the event at least 90 per cent. of the targeted annual net profit is reached. 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:

Name	**Position**
Associate Professor Anwar Shuaib Abdulsalam......................................	Chairman
Dr. Ismail Halitoglu..	Executive Member
Associate Professor Yusuf Bayindir	Member
Dr. Abdullah Durmus...	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.

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7. 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 Banks Association of Turkey.

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 the first half of 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. Pursuant to recent changes in the RUSF charges in accordance with the Council of Ministers decision numbered 2012/4116 (published 1 January 2013), loans provided by banks outside of Turkey with an average repayment term of one year (including one year) to two years are subject to a 1.0 per cent. RUSF charge, those with an average repayment term of two years (including two years) to three years are subject to a 0.5 per cent. RUSF charge and those with an average repayment term of above 3 years (including 3 years) are subject to a 0 per cent. RUSF charge. In 2010, the government also increased the RUSF charge 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 charge applied to consumer credits to be utilised by real persons (for non-commercial utilisation) is 15 per cent. in accordance with the Council of Ministers'decision numbered 2010/974 (published 28 October 2010).

In addition, there have been significant changes to Turkish banking legislation over the last few years.

The Banks Act No. 4389 (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 (as amended by Laws No. 5472, 5667, 5754, 5766, 6111, 6300, 6327, 6352, 6362, 6456, 6462, 6487, 6493 and 6495 and Decree No. 662) governs the activities conducted by among others 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 the 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

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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 BRSAs 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, within the limits of the autonomy granted to it by the Banking Law, to ensure it effectively monitors and regulates the Turkish banking sector.

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

The BRSA conducts both on-site and off-site audits and supervises implementation of the provisions of the Banking Law and other legislation, examines all banking operations and analyses the relationship and balance between assets, receivables, equity capital, liabilities, profit and loss accounts and all other factors affecting a bank's financial structure. The BRSAs on-site supervision is conducted through a team of sworn bank auditors and other experts who are employed by 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, pursuant to the regulation regarding the Internal Systems of Banks (as issued by the BRSA and published in the Official Gazette dated 28 June 2012 and numbered 28337), banks in Turkey are required to establish, manage and develop (for themselves, and all of their branches, regional directorates and units and all of their consolidated affiliates) internal audit and risk management systems in line with the scope and structure of their organisations, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. Furthermore, pursuant to Article 20 of the regulation, internal control personnel cannot have any other duties.

The Participation Banks Association of Turkey

The Participation Banks Association of Turkey ("**PBAT**"), established in accordance with the Banking Law, 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.

Pursuant to Article 79 of the Banking Law, deposit banks and investment banks are obliged to become members of the Banks Association of Turkey and participation banks are obliged to become members of the PBAT within one month following obtaining their operation permit. Both of the BanksAssociation of Turkey and the PBAT are professional organisations which have the same status. As the representative bodies of the banking sector, the associations aim 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 banking as the BRSA does.

The Role of the CBT

The CBT was founded in 1930 and performs the traditional functions of a central bank, including the issuance of bank notes, provision of price stability and its continuity, regulation of the money supply, management of official gold and foreign exchange reserves, monitoring of the financial system and advising the government on financial matters. The CBT exercises its powers independently of the government 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**").

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 provided that the management and control of the bank have 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 Information Memorandum is 0.13 per cent. of the deposits and participation funds subject to insurance. The SDIF may borrow with the authorisation of the Treasury and/or if necessary, the Treasury can issue government securities, the proceeds of which shall be allocated to the SDIF. 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.

In extraordinary circumstances, 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.

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

Deposits held in a bank by controlling shareholders, the chairman and members of the board of directors or board of managers, general manager and assistant general managers, auditors and by the parents, spouses and children of the above, and deposits, participation funds and other accounts within the scope of criminally-related assets set forth in Article 282 of the Turkish Criminal Code and other deposits, participation funds and accounts as determined by the BRSA are not covered by the SDIF's insurance.

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

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In the event of the bankruptcy of a bank, the SDIF is a privileged creditor and may liquidate the bank under the provisions of the Execution and Bankruptcy Act (Law No. 2004), exercising the duties and powers of the bankruptcy office and creditors' meeting and the bankruptcy administration. Also in such event, holders of savings deposits will have a first-degree privileged claim in respect of the part of their deposit that is not covered by the SDIF.

As of the date of this Information Memorandum, Adabank A.Ş. and Birleşik Fon Bankası A.Ş ("**BFB**") are the only banks which are under the supervision and administration of the SDIF. BFB has been incorporated by the SDIF by merging the assets of Etibank A.Ş, Iktisat Bankası T.A.Ş, Interbank A.Ş, Esbank A.Ş, EGSBank A.Ş, Kentbank A.Ş. and Toprakbank A.Ş. into Bayındırbank A.Ş and by converting the latter into BFB.

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 31 December 2013 (the latest date for which such figures are available) under BRSA accounting principles.

	Public Sector Banks	Private Sector Banks	Foreign Banks	Development and Investment Bank	Participation Banks	Total
			(TRY in millions, where applicable)			
Total assets............................	532,944.69	878,111.04	321,345.68	70,136.95	96,074.73	1,732,401.41
Total loans.............................	309,093.14	543,839.09	194,483.33	45,613.68	62,029.46	1,047,415.55
Total deposits	300,555.36	470,137.27	175,077.34	20,309,583	61,313.32	945,769.97
Total shareholders'.................	61,073.73	99,926.09	32,725.12	18,937.75	8,832	193,724.94
Net income	8,393.98	13,849.85	24,21.92	1,140.65	1051.61	24,665.76
Number of domestic branches	3,389	5,596	2,918	40	961	11,903
Number of domestic employees	58,552	98,941	55,938	5,224	16,712	213,431
Number of banks....................	9	16	24	13	4	49

Source: *BRSA.*

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., Türkiye Garanti Bankası A.Ş. ("**Garanti Bankası**"), Akbank T.A.Ş. ("**Akbank**") and Yapı ve 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. The following are examples of notable merger and acquisition activities by foreign banks in recent years. In February 2005, BNP Paribas acquired 50 per cent. of the shares of TEB MaliYatırımlar A.Ş. which owns 84.3 per cent. of the shares of TEB A.Ş. In October 2006, Denizbank was acquired from the Zorlu Group by Dexia for U.S.$2.4 billion. Latterly in September 2012, Sberbank acquired 99.85 per cent. of Denizbank from Dexia for U.S.$3.6 billion (subject to post-closing adjustments). In January 2007, Citigroup acquired a 20 per cent. stake in Akbank and later in the same year ING acquired Oyakbank for U.S.$2.7 billion. More recently, in 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 Bankası to Banco Bilbao Vizcaya Argentaria S.A. ("**BBVA**") for U.S.$3.8 billion and U.S.$2 billion, respectively In December 2012, Burgan Bank SAK purchased 99.3 per cent. of Eurobank Tekfen A.Ş. for US $355 million. The Commercial Bank of Qatar (Q.S.C.) acquired 70.84 per cent. of Alternatif Bank A.Ş. in July 2013 by paying two times book value at 30 June 2013.

In October 2011, the BRSA approved the application of Bank Audi s.a.l-Audi Saradar Group to establish a new deposit bank in Turkey, Odea Bank A.Ş., which was later granted an operation permit in September 2012. Since 1997, this was the BRSAs first authorisation to establish a deposit bank in Turkey. Later in 2012, the BRSA also approved The Bank of Tokyo-Mitsubishi UFJ's application to establish a deposit bank and The Bank of Tokyo-Mitsubishi UFJ was granted an operation permit in September 2013. In August 2013, Rabobank International Holding B.V. was granted an authorisation to establish a deposit bank in Turkey. In April 2014 Industrial and Commercial Bank of China Ltd. announced that it had signed an agreement to acquire 75.5 per cent. of Tekstilbank from GSD Holding A.Ş.

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, all or a majority of which are owned or controlled by state entities. They generally have large branch networks and were originally established for development purposes, such as for agriculture, housing or foundations, rather than for profit motives.

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 (non-consolidated basis) under Turkish Generally Accepted Accounting Principles ("**GAAP**") accounting principles as at the dates presented.

Bank	**Total Assets as at 30 September 2014**	**Number of branches as at 30 September 2014**
	(TRY in thousands)	
T.C. Ziraat Bankasi	238,346,997	1,682
Turkiye Halk Bankasi	149,808,603	891
Vakiflar Bankasi T.A.O.	147,265,667	879

Source: *The Banks Association of Turkey; BRSA.*

According to the BRSA, total loans provided by these banks as at 30 September 2014 were TRY326,649,362 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 (nonconsolidated basis) under BRSA accounting principles as at the dates presented.

Bank	Ownership	Total Assets as at 30 September 2014	Number of branches as at 30 September 2014
		(TRY in thousands)	
Turkiye Is Bankasi A.S.	Bank Pension Fund and Republican People's Party	230,988,666	1,347
Turkiye Garanti Bankasi A.S.	Dogus Group and BBVA	214,891,320	990
Akbank T. A.S.	Sabanci Group	202,043,643	985
Yapi ve Kredi Bankasi A.S.	Koc Financial Services and TEB Holding A.S.	168,712,798	978
Turk Ekonomi Bankasi A.S.	BNP Yatirimlar Holding A.S. and BNP Paribas	61,449,008	550
Sekerbank	Employee Pension Funds, Samruk Kazyna and BTA Securities JSC	20,532,091	312

Source: *The Banks Association of Turkey; BRSA.*

The following table ranks the small branch network private sector commercial banks by asset size (nonconsolidated basis) as at the dates presented.

Bank	Ownership	Total Assets as at 30 September 2014	Number of branches as at 30 September 2014
		(TRY in thousands)	
Alternatif Bank A.S.	Commercial Bank of Qatar and Anadolu Endustri Group	11,112,623	73
Anadolubank A.S.	Habas Group	9,361,730	108
Fibabanka A.S.	Fiba Holding A.S. and Ozyol	7,742,485	66
Tekstil Bankasi A.S.	GSD Group Holding A.S.	3,782,101	44
Turkish Bank A.S.	National Bank of Kuwait and Mehmet Tanju Ozyol	1,373,845	18
Adabank	Transferred to SDIF	50,751	1

Source: *The Banks Association of Turkey; BRSA.*

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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 Information Memorandum, out of 11 privately owned commercial banks, apart from the four largest banks, there are seven medium sized privately owned commercial banks. 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 Information Memorandum there are 17 foreign banks in total, 12 of which are locally incorporated banks and five of which are Turkish branches of foreign banks.

The table below indicates certain information regarding foreign commercial banks in Turkey, together with their asset size (non-consolidated basis), under Turkish GAAP accounting principles as at the dates presented.

Locally Incorporated Banks	**Ownership**	**Total Assets as at 30 September 2014**	**Number of branches as at 30 September 2014**
		(TRY in thousands)	
Finansbank A.S.	National Bank of Greece S.A.	74,544,936	658
Denizbank A.S.	Sberbank of Russia	70,191,511	709
HSBC Bank A.S.	HSBC Bank PLC	33,202,896	298
ING Bank A.S.	ING Bank N.V.	38,522,358	319
Odea Bank A.S.	Bank Audi Sal and Audi Saradar Private Bank Sal	21,993,471	45
Burgan Bank A.S.	Burgan Bank S.A.K.	7,680,657	58
Citibank A.S.	Citi Group	8,323,694	8
Turkland Bank A.S.	Arab Bank Suisse, Arab Bank and BankMed	5,083,335	32
Arab Turk Bankasi A.S.	Libyan Arab Foreign Bank Tripoli Libya	3,530,534	7
Deutsche Bank A.S.	Deutsche Bank AG	3,043,900	1
The Bank of Tokyo-Mitsubishi UFJ Turkey A.S.	The Bank of Tokyo-Mitsubishi UFJ Ltd.	2,484,810	1
Branches of Foreign Bank	**Country of Incorporation**		
The Royal Bank of Scotland	Scotland	3,064,132	1
Societe Generale	France	710,713	1
Bank Mellat	Iran	317,570	3
JP Morgan Chase Bank N.A.	United States	354,552	1
Habib Bank Limited	Pakistan	82,047	1

Source: *The Banks Association of Turkey; BRSA.*

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 four state-owned, six privately-owned and three foreign development and investment banks in Turkey. The following table indicates these banks and their assets (non-consolidated basis) and number of branches as at the dates presented.

Bank	Total Assets as at 30 September 2014	Number of branches as at 30 September 2014
	(TRY in thousands)	
State-owned Development Banks		
Turk Eximbank	34,005,012	2
Iller Bankasi A.S	15,453,861	19
Istanbul Takas ve Saklama Bankasi A.S	5,265,146	1
Turkiye Kalkinma Bankasi A.S	3,700,140	1
Privately-owned Development and Investment Banks		
Turkiye Sinayi Kalkinma Bankasi A.S	14,671,258	3
Aktif Yatirim Bankasi A.S	5,888,117	8
Nurol Yatirim Bankasi A.S	610,966	1
Diler Yatirim Bankasi A.S	110,111	1
GSD Yatirim Bankasi A.S	120,471	1
Taib Yatirim Bankasi A.S	61,056	1
Foreign Development and Investment Banks		
BankPozitif Kredi ve Kalkinma Bankasi	1,958,620	1
Merrill Lynch Yatirim Bankasi	204,018	1
Standard Chartered Yatirim Bankasi Turk A.S.	77,870	1

Source: *The Banks Association of Turkey; BRSA.*

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 Information Memorandum, there are four participation banks operating in Turkey, and each of these participation banks is a member of PBAT.

The table below sets out the four participation banks in Turkey, ranked by size of assets (non-consolidated basis) under Turkish GAAP accounting principles as at the dates presented.

Bank	Total Assets as at 30 September 2014	Number of branches as at 30 September 2014
	(TRY in thousands)	
Bank Asya	16,493	281
Kuveyt Turk	32,768	296
Turkiye Finans	31,554	280
Al Baraka Turk	21,721	186

Source: *The Banks Association of Turkey; BRSA.*

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 predetermined 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 one month 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 issuance 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. Registrations made in the share ledger in the absence of such authorisation are invalid.

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 such procedure has not been stated yet). If the shares are obtained on the stock exchange, then the BRSA may also impose administrative fines on shareholders who exercise their rights or acquire or transfer shares as described in the preceding paragraph without BRSA authorisation. Unless and until a shareholder obtains the necessary share transfer approvals from the BRSA, the SDIF has the authority to exercise such voting and other shareholders' rights (other than the right to collect dividends and priority rights) attributable to such shareholder.

Lending Limits

Turkish law sets out certain limits on the asset profile of banks and other financial institutions which are designed to protect those institutions from excessive exposure to any one counterparty (or group of related counterparties). In particular:

- Cash credits and non-cash credits such as letters of guarantee, counter-guarantees, sureties, avals, endorsements and acceptances extended by a bank and undertakings having the same quality, bonds and similar capital market instruments purchased by it, loans (whether deposits or otherwise), receivables arising from the future sales of assets, overdue cash receivables, accrued but not collected interest, amounts of non-cash credits converted into cash, receivables arising from reverse repo transactions and risks undertaken due to the futures and options contracts and other similar contracts, partnership interests and shareholding interests are considered as a credit irrespective of the account through which they are traced. Credits directly or indirectly extended to, a real person or legal entity in excess of 10 per cent. of the bank's equity capital are to be considered major credits and the total of such major credits, cannot exceed eight times its equity capital.

- The Banking Law restricts the total financial exposure (including extension of credits, issuance of guarantees, etc.) that a bank may have to any one customer or a risk group, directly or indirectly, to 25 per cent. of its equity capital. In calculating such limit, a credit extended to an unincorporated partnership is deemed to be extended to the partners in proportion to their liabilities. A risk group is defined as an individual, his or her spouse and children and partnership(s) in which any one of such persons is a director or general manager, as well as partnerships that are directly or indirectly controlled by any one of such persons, either individually or jointly with third parties, or in which anyone of such persons participate with unlimited liability. Furthermore, a bank, its shareholders holding 10 per cent. or more of the bank's voting rights or the right to nominate board members, its board members, its general manager and partnerships directly or indirectly, individually or jointly, controlled by any of these persons or a partnership in which these persons participate with unlimited liability, constitute a risk group, for which the lending limits are reduced to 20 per cent. of a bank's equity capital, subject to the BRSA's discretion to increase such lending limits up to 25 per cent. Real and legal persons having surety, guarantee or similar relationships where the insolvency of one is likely to lead to the insolvency of the other are included in the applicable risk groups. Lending limits shall be applied as 20 per cent. for the risk group consisting of a bank together with its qualified shareholders (as defined in the Banking Law), members of board of directors and general managers as well as the partnerships controlled by the same individually or jointly, directly or indirectly.

- Loans made available to a bank's or other registered shareholders holding more than one per cent. of the share capital of the bank irrespective of whether these are controlling shareholders or qualified shareholders and their risk groups may not exceed 50 per cent. of the bank's equity capital.

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.

The BRSA determines the permissible ratio of non-cash loans, futures and options, other

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similar transactions, avals, guarantees and sureties accepted, transactions entered into with the credit institutions and financial institutions, transactions entered into with, or bills of exchange, bonds and other similar capital markets instruments issued or guaranteed by, and transactions entered into in return for other guarantees with, governments, central banks and banks of the countries accredited by 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 collateralised with 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 with the CBT and in legally organised money markets;
- in case of new credit allocations to the same person or risk group, increases prompted by the changes in currency rates in credits denominated or indexed to foreign currencies (other than credit card and cheque extensions), and interests, profit shares and other such issues accrued on overdue receivables provided that subsequently allocated credits in a foreign currency are taken into consideration at the exchange rate applied on the date of utilisation thereof;
- 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" when calculating the shareholders' equity; and
- other transactions to be determined by the board of the BRSA (the "**BRSB**").

Loan Loss Reserves

Pursuant to Article 53 of the Banking Law, banks must formulate, implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans and other receivables and to reserve an adequate level of provisions against impairment in the value of other assets, for qualification and classification of assets, receipt of guarantees and securities and measurement of their value and reliability In addition, such policies must address issues such as monitoring the loans, follow-up procedures and the repayment of overdue receivables. Banks must also establish and operate systems to perform these functions. All special provisions set aside for loans and other receivables in accordance with this article are considered as expenditures deductible from the corporate tax base in the year they are set aside.

Procedures relating to loan loss reserves for non-performing loans are set out in Article 53 of the Banking Law and 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**") (as amended), banks are required to classify their loans and receivables into one of the following groups:

1. Standard loans and other receivables: this group involves loans and other receivables:

    (a) that have been disbursed to natural persons and legal entities with financial creditworthiness;

(b) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor;

(c) the reimbursement of which has been made within specified periods, for which no reimbursement problems are expected in the future and which can be fully collected; or

(d) for which no weakening of the creditworthiness of the debtor concerned has been found.

The terms of a bank's loans and receivables which have been classified into this group may be modified provided they continue to meet the classification requirements for this group. However, in the event that such modification relates to the extension of the initial payment plan under the loan or receivable, a general loan provision, not being less than five times the sum of 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) (these rates may be applied by banks for cash and non-cash export loan portfolios as 0 per cent., for cash loan portfolio extended to small and medium sized enterprises as 0.5 per cent. and for non-cash loan portfolio of small and medium sized enterprises as 0.1 per cent.) 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 in the second paragraph of the section titled "*General Provisions*") for amended consumer loan agreements (other than auto and housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof are made in a timely manner and provided that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

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 but do not fall within the scope of 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 for this group, that customer's entire loan portfolio will be classified in this group, notwithstanding the fact that certain loans within that customer's portfolio may fall within the classification requirements for this group (Standard Loans and Other Receivables). 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 (as defined below) for amended consumer loan agreements (other than auto and housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof are made in a timely manner and provided that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

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, yet 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 date on which credit amount has become due or payable 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 date on which they have become due or payable; 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.

General Provisions

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,

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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 cheque 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 25 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 housing loans) greater than eight per cent. of their total consumer loans (excluding 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 housing loans) under group 1 above and an 8 per cent. general provision for outstanding but not yet due consumer loans (excluding 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.

Special Provisions

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 classified as belonging to groups 3, 4 and 5 described above in the minimum amounts of 20 per cent., 50 per cent. and 100 per cent., respectively, starting from the date on which they will be classified as falling under these groups.

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 the loan which became 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, 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, participation 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 participation funds; member firm receivables arising out of credit cards and gold reserved within the Bank; transactions entered into with the Treasury, the CBT, the Mass Housing Administration or the Privatisation Administration and transactions secured by promissory notes, debenture bonds, lease certificates (issued within the scope of the Law on Public Financing and Debt Management dated 28 March 2002 and numbered 4749) and similar securities issued directly or guaranteed by such administrations; securities issued directly or guaranteed by the central governments or central banks of countries that are members of the Organisation for Economic Co-operation and Development ("**OECD**") and guarantees and sureties issued by such authorities; guarantees and sureties issued by banks operating in OECD member countries and securities issued directly or guaranteed by the European Central Bank and guarantees and sureties issued by it; sureties and letters of guarantee, avals, acceptances and endorsements issued by banks operating in Turkey in compliance with their maximum lending limits; and bonds and debentures issued by banks operating in Turkey, lease certificates funds of which are utilised by banks operating in Turkey and mortgage backed and asset backed securities issued by such banks.

Category II Collateral: Precious metals other than gold; shares quoted on a stock exchange; A-type investment fund participation certificates; asset-backed securities and private sector bonds except ones issued by the borrower; credit derivatives agreements providing protection against credit risk; the assignment or pledge of accrued allowance entitlements of real or legal persons from public agencies; liquid securities, negotiable instruments representing commodities, other types of commodities and movables pledged at a value not higher than 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 based on marine bill of lading or transport bills, or insured within the scope of an exportation loan insurance policy, and bills of exchange stemming from actual trading relations, which are received from natural persons and legal entities.

Category III Collateral: Commercial enterprise pledges, other export documents, vehicle pledges, commercial vehicle live pledges and commercial vehicle number plate pledge, mortgages on aircraft or ships, suretyships of natural persons or legal entities whose creditworthiness is higher than the borrower 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	**Discount Rate**
Category I Collateral...	100%
Category II Collateral	75%
Category III Collateral	50%
Category IV Collateral..	25%

The value of the collateral should not exceed the non-performing loan. 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. The amount to be found after applying these rates on this portion will be equal to the amount to be deducted.

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 through extension of new loans, if required, and structure a new repayment plan in order to strengthen the borrower's liquidity position and to collect its receivables. Despite such refinancing or new repayment plan, such loans and other receivables are required to be monitored in their current loan groups (whether 3, 4 or 5) for at least the following six-month period and within this six month period, special provisions for such receivables will be set aside at the relevant loan group provisioning level. After this six- month period of monitoring, if total collections reach at least 15 per cent. of the total receivables for restructured loans and the payments are made on their due dates, then the remaining receivables may be transferred 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 outstanding principal of the refinanced loans and of other receivables are collected on a yearly basis.

The Regulation has been subject to a series of amendments. Pursuant to the amendment dated 21 September 2012, the BRSA is entitled to increase the provision rates for general and special reserves, taking into consideration the sector and country risks of the borrower, and banks are required to reserve adequate provisions for loans and other receivables until the end of the month on which the payments of such loans and receivables has been delayed.

Furthermore, according to the same amendment, the dates and ratios for compliance with general reserves requirement have been revised and banks are required to set aside general reserve amounts indicated under the general reserve provision of at least 40 per cent. by 31 December 2012, at least 60 per cent. by 31 December 2013, at least 80 per cent. by 31 December 2014, 100 per cent. by 31 December 2015.

The Regulation was further amended on 7 February 2014. According to Provisional Article 5 of the Regulation, which will be effective until December 31, 2014, loans and other receivables classified as Closely Monitored Loans and Other Receivables (group 2) granted to persons or legal entities residing in Libya or engaged in activities relating to Libya can be restructured twice. Furthermore, such loans and other receivables subject to a new redemption plan may be classified as Standard Loans and Other Receivables; provided that at least 10 per cent. of the total sum of receivables has been repaid. If such loans and other receivables become subject to a redemption plan for a second time as a result of new loans having been utilised, then such loans and receivables shall be classified as Loans and Other Receivables with Limited CollectionAbility 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 CollectionAbility, it is in the bank's discretion to set aside special provisions for such loans and receivables.

Pursuant to Provisional Article 5(b), 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 2014, 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 through extension of new loans, if required, and structure a new repayment plan in order to strengthen the borrower's liquidity position and to collect its receivables up to three times.

According to Provisional Article 6 of the Regulation, which will be effective until 31 December 2013, loans and receivables classified as Closely Monitored Loans and Other Receivables (group 2) that were granted to be used in the maritime sector 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 (group 1) provided that at least 10 per cent. of the total debt has been repaid. Any such debt classified under group 1 that is reclassified as group 2 debt or that is restructured or is continued to be monitored under group 2 as the agreed conditions for reclassification were not adhered to and are restructured once again may be reclassified as group 1; provided that at least 15 per cent. of the total debt has been repaid. If such loans and receivables become subject to a redemption plan for a second time by granting new loans, then such loans and receivables shall be classified as group 3 until 5 per cent. of the total debt has been repaid. As long as such percentage of payments foreseen in the redemption plan are made within the payment periods envisaged for group 3, it is in the bank's discretion to set aside special provisions for such loans and receivables.

In addition, pursuant to Provisional Article 6(b) described above, if there are any loans and receivables that are classified in groups 3, 4 and 5, other than those relating to the maritime sector shall be reclassified in the same group as such debt. However, setting aside special provisions in the ratio foreseen by the related group for these loans is in the discretion of banks. So long as the classification methods as set out in the

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regulation are complied with, if a borrower fails to repay such loans or receivables due to a temporary lack of liquidity, then the bank is allowed to refinance the borrower with additional funding through extension of new loans, if required, and structure a new repayment plan in order to strengthen the borrower's liquidity position and to collect its receivables up to three times.

According to Provisional Article 7 of the Regulation, which will be effective until 31 December 2013, restructured debts classified as group 2 that were granted by banks to real persons or legal entities residing in Syria or engaged in activities relating to Syria who reside in Turkey or in any other foreign country may be classified under group 1 receivables; provided that at least 10 per cent. of the total debt has been repaid. Any such debt classified under group 1 that is reclassified as group 2 or that is restructured or is continued to be monitored under group 2 as the agreed conditions for reclassification were not adhered to and are restructured again may be reclassified as group 1; provided that at least 15 per cent. of the total debt has been repaid. If such loans and receivables become subject to a redemption plan for a second time by granting new loans, then such loans and receivables shall be classified as group 3 until 5 per cent. of the total debt has been repaid.As long as such percentage of payments foreseen in the redemption plan are made within the payment periods envisaged for group 3, it is in the bank's discretion to set aside special provisions for such loans and receivables.

Pursuant to Provisional Article 7(b), if real persons or legal entities residing in Syria or having business activities relating to Syria who reside in Turkey or in any other foreign country incur other debts that are classified under group 3, 4 or 5, then the debt relating to Syria will be reclassified in the same group as such debt; however, setting aside special provisions in the ratio foreseen by the related group for these loans is at the discretion of the banks. So long as the classification methods as set out in the regulation are complied with, if a borrower fails to repay such debt due to a temporary lack of liquidity, then a bank is allowed to refinance the borrower with additional funding through extension of new loans, if required, and structure a new repayment plan in order to strengthen the borrower's liquidity position and to collect its receivables up to three times.

Pursuant to Provisional Article 8 of the Regulation, the banks will set aside 25 per cent. of the increased amounts of general provisions for consumer loans other than housing loans due to the amendments made to the Regulation as at 31 December 2013, 50 per cent. of such increased amounts as at 31 December 2014 and 100 per cent. of such amount as at 31 December 2015.

Any debt restructured pursuant to Provisional Articles 5(b), 6(b) or 7(b) may be transferred to the "Renewed/Restructured Loans Account" if:

- at least 5 per cent. per cent. of the total debt in the first restructuring has been repaid and the restructured loans and receivables have been monitored under their respective group(s) for a period of at least three months,
- at least 10 per cent. of the total/debt in the second restructuring has been repaid and the restructured loans and receivables have been monitored under their respective group(s) for a period of six months,
- at least 15 per cent. of the total debt in the third restructuring has been repaid and the restructured loans and receivables have been monitored under their respective group(s) for a period of one year, and
- the payments foreseen in the payment plan are not delayed.

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

Within the framework of implementation of Basel III, BRSA has issued the Regulation on Banks' Own Funds ("**Regulation on Capital**"). The purpose of the Regulation on Capital is stated by the BRSA as the increasing and strengthening of banks' capital in qualitative and quantitative manner. The Regulation on Capital entered into force as of 1 January 2014.

Banks' own funds consist of (i) main capital (Tier I capital); and (ii) additional capital (Tier II capital). Main capital consists of "core capital" and Tier I borrowings. Pursuant to Article 3 of the Amendment on the Regulation on the Measurement and Evaluation of Banks' Capital Adequacy put into force as of 1 January 2014 (the "**Amendment Regulation**"), the purpose of which is to enhance the capital structure of the banks in a qualitative, as well as a quantitative manner, the minimum core capital adequacy ratio is 4.5 per cent. and minimum consolidated Tier I capital adequacy ratio is 6 per cent. Article 6 of the Amendment Regulation, increases the risk weights of some of the assets in the balance sheet of a bank, such as share certificates acquired by the banks exceeding the limits provided under Article 56 of Banking Law, in the calculation of a bank's capital adequacy ratio.

Core capital will be calculated by applying the ratios set out in the Regulation on Capital to the aggregated sum of the following:

- paid up equity which can be distributed to the shareholders only after all payments have been made to the creditors of a bank in the event of its liquidation;
- emission premiums of share certificates issued;
- profits obtained as a result of cancellation of share certificates;
- reserves;
- income and costs reflected to the own funds in accordance with Turkish Accounting Standards;
- net profit of the latest financial year and period;
- free reserves set aside for contingent risks; and
- free shares acquired from the bank's subsidiaries or affiliates which have not been accounted for.

Borrowing which is approved by the BRSA upon written application of the relevant bank's board of directors shall be taken into consideration as Tier I borrowings if, amongst others, they are:

- registered at the CMB, if issued as securities, and paid-in if issued as securities;
- subordinated to depositors, general creditors and subordinated debts of the bank (including Tier II);
- neither secured nor covered by a guarantee of the issuer or related entity or other derivative arrangement that legally or economically enhances the seniority of claims;
- perpetual (having no maturity date) and repayment of principals is subject to BRSA's prior approval; and
- the instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the banking organisation's credit standing.

Tier I capital shall be subject to deductions indicated in the Regulation on Capital, such as deduction of goodwill, deferred tax assets arising from net loss carry-forward, net loss not compensated by the reserves. Tier II Borrowing permitted by the BRSA must fulfil amongst others, the following:

- they must be registered at the CMB, if issued as securities, and paid-in if issued as securities;
- they must have an initial term of minimum five years and they are not payable before 5 years;
- they must not contain provisions encouraging prepayment after initial five years, such as increase in the amount or rate of applicable interest or dividend;
- they must be subordinated to all debts except share capital and Tier I debts;
- early payment option after the initial five years must be subject to prior consent of the BRSA;
- early payment option will be subject to the condition that minimum legal capital adequacy ratio or the ratio determined by the BRSA shall be retained after utilisation of early repayment option;
- its acceleration must be limited to bankruptcy and liquidation events;
- dividend and interest payments must not be linked to credibility or credit rating of the bank;
- such Tier II debt instruments must not be purchased by entities directly or indirectly controlled by the bank; and
- they must be able to be deleted from the bank's records for a temporary or unlimited time or convertible to shares with the BRSA's resolution in the event of bank's insolvency.

Respect to debt instruments or borrowings included in calculation of a bank's Tier II capital, those with a remaining term of less than five years are considered as Tier II capital with the application of deduction at a rate of 20 per cent. per annum for each year.

Tier I and Tier II capital items which are (i) indicated in the balance sheets of banks before 1 January 2014; and (ii) not compliant with the conditions set out in Article 8 of the Regulation, shall be taken into consideration in the calculation of a bank's own funds by 10 (ten) per cent. deduction each year following 1 January 2015.

There is the Regulation on Protection of Capital and Cyclic Capital Buffers (the "**Capital Protection Regulation**"), which has introduced minimum 2.5 per cent. capital conservation requirement as set out in Basel III regime. Capital conversation requirement buffer is defined as additional core capital, which banks must maintain in order to ensure that they comply with minimum capital adequacy requirements when economic and financial indicators deteriorate.

Capital conservation amount will be the core capital exceeding the capital amount, which banks must maintain under the Regulation on Measurement and Evaluation of Banks' Capital Adequacy.

Pursuant to the Capital Protection Regulation, following formula shall be used in the calculation of required capital conversation amount: (bank specific cyclic capital buffer (+) capital protection buffer amount) (x) ARWA (as defined below).

The bank specific cyclic capital buffer is defined as the additional core capital calculated at a specific rate published by the bank which will ensure that the relevant bank will be able to maintain its minimum capital adequacy ratio and will not be adversely affected from increasing general financial sector risk, which may result from credit expansion.

The capital protection buffer amount is the amount of additional consolidated and unconsolidated core capital calculated on the basis of 2.5 per cent. i.e. the capital protection buffer rate. However, pursuant to Provisional Article 1 of the Capital Protection Regulation, the capital protection rate will be equal to the ratios set out below for the relevant years:

Discount Ratio	Capital Protection Buffer Amount (%)
2014	0
2015	0
2016	0.625
2017	1.875

ARWA is defined as "Amount of Risk Weighted Assets" and it will be calculated by division of bank's own funds to applicable capital adequacy standard ratio calculated in accordance with the Regulation on Measurement and Evaluation of Banks' Capital Adequacy.

In theory, a bank may allow its equity to fall below the capital conservation requirement. However, if it does so, it will be subject to restrictions on paying dividends and bonuses and these will continue for as long as its total equity remains below that level.

On 1 February 2013, the BRSA published draft regulations for the implementation of Basel III in Turkey. On 5 September 2013, the Regulation on Equities of Banks and amendments to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks was published in the Official Gazette numbered 28756. The Regulation on Equities of Banks and the amendments to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks are effective as of 1 January 2014. On 5 November 2013, the BRSA issued the Regulation on Capital Protection and Cyclic Capital Buffer and the Regulation on Measurement and Evaluation of Leverage Levels of Banks. On 21 March 2014, the BRSA issued the Regulation on the Calculation of the Liquidity Ratio Coverage of Banks. Apart from the implementation of certain leverage ratios set out under the latter regulations that will become effective on 1 January 2015, these regulations took effect as of 1 January 2014.

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 as 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 spill over 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.

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 the consent of the CBT.

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

Category of Foreign Currency Liabilities	Required Reserve Ratio
Demand deposits, notice deposits and private current accounts, precious metal deposit accounts, deposits/participation accounts up to 1-month, up to 3-month, up to 6-month and up to 1-year maturities	13%
Deposits/participation accounts and precious metal deposit accounts, with 1-year and longer maturity and cumulative deposits/participation accounts	9%
Liabilities other than deposits/participation funds up to 1-year maturity (including 1-year)	13%
Liabilities other than deposits/participation funds up to 3-year maturity (including 3-year)	11%
Liabilities other than deposits/participation funds 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.

Turkish Lira Liabilities	Required Reserve Ratio
Demand deposits, notice deposits and private current accounts	11.5%
Deposits/participation accounts up to 1-month maturity (including 1-month)	11.5%
Deposits/participation accounts up to 3-month maturity (including 3-month)	11.5%
Deposits/participation accounts up to 6-month maturity (including 6-month)	8.5%
Deposits/participation accounts up to 1-year maturity	6.5%
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)	11.5%
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 also apply to gold deposit accounts. Furthermore, banks are permitted to maintain:

(a) up to 60 per cent. (at least half of which must be in U.S. dollars) of the Turkish Lira reserve requirements in U.S. dollars and/or Euro (provided that at least 50 per cent. of such amount will be reserved in U.S. Dollars (first 30 per cent. at 1.4 times, second 5 per cent. at 1.5 times, third 5 per cent. at 1.8 times, fourth 5 per cent. at 2.6 times, fifth 5 per cent. at 2.9 times, sixth 5 per cent. at 3.1 and seventh 5 per cent. 3.2 times the reserve requirement) and up to 30 per cent. of the Turkish Lira reserve requirements in standard gold (first 15 per cent. at 1.4 times, second 5 per cent. at 1.5 times, third 5 per cent. at 2.0 times and fourth 5 per cent. at 2.5 times the reserve requirement); and (b) up to the total amount of the foreign currency reserve requirements applicable to precious metal deposit accounts in standard gold. In addition, banks are required to maintain their required reserves against their U.S. dollar-denominated liabilities in U.S. dollars only.

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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 of the date of this Information Memorandum, no interest is paid by the CBT on Turkish Lira or foreign currency liquidity reserve accounts.

The regulations further state that until 31 December 2013, foreign exchange-indexed assets and liabilities shall, for the purposes of calculations of foreign currency liquidity ratios, be deemed to be foreign currency assets and liabilities. However, such foreign exchange-indexed assets and liabilities shall continue to be deemed TRY currency for the calculation of total liquidity adequacy ratios.

Pursuant to the Communiqué regarding Reserve Requirements numbered 2013/15, there is a new reserve requirement to be calculated based upon the financial leverage ratio of banks. The leverage ratio of a bank is determined as the ratio of the main capital of the bank to the sum of: (a) the total of its liabilities; (b) its non-cash loans and liabilities; (c) 10 per cent. of its revocable commitments; (d) the total amount to be calculated by the multiplication of each undertaking arising from derivative instruments with their own loan conversion ratio; and (e) total amount of irrevocable undertakings. The reserve requirement based on the financial leverage ratio of banks is required to be determined for three-month periods by calculating the arithmetic average of monthly leverage ratios. The additional reserve requirements to be set aside in the following quarter of the calculation period (calculated separately for each category of Turkish Lira and foreign currency liabilities) vary by leverage ratios, as set forth below:

Calculation Period for the Leverage Ratio	**Leverage Ratio**	**Additional Reserve Requirement**
From the 4th quarter of 2013 through the	Below 3.0%	2.0%
3rd quarter of 2014	From 3.0% (inclusive) to 3.25%	1.5%
	From 3.25% (inclusive) to 3.5%	1.0%
From the 4th quarter of 2014 through the	Below 3.0%	2.0%
3rd quarter of 2015 (inclusive)	From 3.0% (inclusive) to 3.50%	1.5%
	From 3.5% (inclusive) to 4.0%	1.0%
Following the 4th quarter of 2015	Below 3.0%	2.0%
(inclusive)	From 3.0% (inclusive) to 4.0%	1.5%
	From 4.0% (inclusive) to 5.0%	1.0%

Banks have been required to notify the CBT of their leverage ratios starting from 31 December 2012, and the above-described additional reserve requirements will first be implemented in 2014 starting with 2013 year-end financial.

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, among others: (i) the supervision of the efficiency and adequacy of the banks'internal control, risk management and internal audit systems; (ii) the functioning of these systems and accounting and reporting systems within the framework of the Banking Law and other relevant legislation; (iii) the 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 reviews audit reports prepared for banks by their independent auditing firms. Banks are required to select an independent audit firm in accordance with the regulation of the BRSA related to the authorisation and activities of independent firms to perform auditing of banks. Professional liability insurance is required for (a) independent auditors and (b) if requested by the service-acquiring bank or required by the BRSA, evaluators, rating agencies and certain other support services. Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with the Turkish Accounting Standards. 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 Bourse Istanbul and published on the Public Disclosure Platform. 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 and published on the Public Disclosure Platform.

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 CBT has the right to monitor compliance by banks with the CBT's regulations through off-site examinations.

Pursuant to the Regulation on the Internal Systems of Banks, banks are obligated to establish, manage and develop (for themselves and all of their consolidated affiliates) internal audit and risk management systems in line with the scope and structure of their activities, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. To achieve this, according to the regulation, the internal control committee personnel cannot also be appointed to work in another role. This prohibition is not applicable to the banks that are established by law with the purpose of development of the country or financing a specific sector or field, and which do not accept deposit funds or participation funds.

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 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**"). In addition, a new law on Combating the Finance of Terrorism number 6415 has been published in the Official Gazette on 16 February 2013.

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. The eight year period for identification documents relating bank accounts will commence on the closing date of the account. In addition to these, banks are required to provide them to the officials when requested.

Banks breaching any of the obligations set out in the Anti-Money Laundering Laws may, as at the date of this Information Memorandum, be subject to an administrative fine of approximately TRY17,592. Furthermore, real persons who breach their duty of confidentiality with respect to the notification that they made regarding the suspicious transactions to the Financial Crimes Investigation Board and who fail to provide all necessary, information, documents, records, passwords, etc. to the public authorities, the Financial Crimes Investigation Board and inspection officials, when requested and keep all relevant documents, records, books etc, in relation to their duties and transaction within the scope of Anti-Money Laundering Laws for eight years starting from the transaction date, the last record date and the last transaction date may be subject to imprisonment with terms ranging from one year to three years.

The Law on Prevention of Financing of Terrorism number 6415 and dated 7 February 2013 has been enacted by the Republic of Turkey and it has been published on the Official Gazette on 16 February 2013. This law sets out procedure and principles applicable to the freezing of assets in connection with decisions relating to the prevention of financing of terrorism within the framework of the International Convention for Suppression of the Financing of Terrorism (as adopted by the General Assembly of the United Nations on 9 December 1999). Financing of terrorism is defined as an offence committed by a legal or real person by providing or collecting funds, directly or indirectly, unlawfully and wilfully, with the intention that such funds would be used, in full or in part, in order to carry out an act which constitutes an offence within the scope of and as defined, as applicable, in the:

- Law on Fighting with Terrorism (Law No. 3713);
- Convention for the Suppression of Unlawful Seizure of Aircraft, done at The Hague on 16 December 1970;
- Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, done at Montreal on 23 September 1971;
- Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents, adopted by the General Assembly of the United Nations on 14 December 1973;
- International Convention against the Taking of Hostages, adopted by the General Assembly of the United Nations on 17 December 1979;
- Convention on the Physical Protection of Nuclear Material, adopted at Vienna on 3 March 1980;
- Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, done at Montreal on 24 February 1988;
- Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation, done at Rome on 10 March 1988;
- Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms located on the Continental Shelf, done at Rome on 10 March 1988; and
- International Convention for the Suppression of Terrorist Bombings, adopted by the General Assembly of the United Nations on 15 December 1997.

Freezing of assets is defined as deprivation or restriction of disposal capacity over the relevant assets in order to prevent disappearance, consummation, conversion, transfer, assignment of such assets. Assets, which are disposal of persons listed in United Nations Security Council resolutions 1267 (1999), 1988 (2011) and 1989 (2011), shall be frozen upon promulgation of Council of Ministers Decree in the Official Gazette.Apart from funds of these persons, findings of investigations on funds conducted by the Financial Crimes Investigation Board ("**MASAK**") must be submitted to the Inspection Commission. Decisions of the Inspection Commission shall enter into force upon its publication in the Official Gazette.

Banks are obliged to comply with the decisions of the Inspection Commission once they are published in the Official Gazette. Accordingly, funds and assets of real or legal persons against whom the Inspection Commission imposed a freeze order must be blocked and any disposal of such assets by such persons must be prevented by the bank within which such assets or funds are maintained. A responsible officer of a bank who fails to do so or delay the implementation of a freezing order shall be subject to imprisonment of a minimum of six (6) months and a maximum of two (2) years and a fine corresponding to his or her imprisonment. Additionally, legal persons, such as banks, where such responsible officer, shall be subject to a fine at the minimum amount of TRY10,000 up to maximum amount of TRY100,000.

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;
- 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
- there has been a material increase in risks defined in the Banking Law and relevant legislation which weakens the bank's financial structure due to the imprudent acts of such bank's managers, then the BRSA may require the board of directors of such bank to take one or some of the following measures depending on the situation for a period determined by the BRSA and in accordance with a plan approved by the BRSA:
    - 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 cure the breach and 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 the 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 suspend its payments under any name whatsoever, excluding the regular payments to be made to its members;
- to limit or prohibit extension of any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors;
- to convene an extraordinary general assembly in order to change the members of the board of directors or assign new member(s) to the board of directors, in the event any board member is responsible for non-compliance with relevant legislation or increase of risks as stipulated above the failure to apply the aforementioned actions;
- to implement short-, medium- or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the bank or to take written undertakings from members of board of directors or qualified shareholders (as defined in the Banking Law) regarding such plans and projections; and/or
- to exercise other necessary actions to be determined by the 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 (to include its relations with its local or foreign branches and correspondents);
- to apply various restrictions, including restrictions on interest rate 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 from their offices and obtain approval from the BRSA as to the persons to be appointed to replace these individuals;
- to make available long-term loans, provided that these will not exceed the amount of deposit or participation funds subject to insurance, and be secured sufficiently 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 the 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 or directors 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 the 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, participation fund owners and other creditors of such bank. The SDIF is required to pay the insured deposits and insured participation funds 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

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.

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, members of 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.

All annual reports that banks present to their general assemblies must be approved by independent auditing firms.

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.

The Regulation on the Preparation and Publication ofAnnual 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 the review of shareholders at least 15 days before the annual general assembly of the bank together with the assent of the independent auditing firm regarding such report. Each bank must: (i) submit electronically a copy of its annual report to the BRSA within 7 days following its publication; (ii) keep a copy of it in its headquarters; (iii) keep an electronic copy of it at each branch to provide it as printed, if requested, until the annual report for next year will be published; and (iv) publish it on its website by the end of May.

Disclosure of Financial Statements

With the Communiqué on Financial Statements to be Disclosed to the Public published in the Official Gazette No. 28337 dated 28 June 2012, new principles of disclosure of annotated financial statements of banks were promulgated. The amendments to the calculation of risk-weighted assets and their implications for capital adequacy ratios are reflected in the requirements relating to information to be disclosed to the public and new standards of disclosure of operational, market, currency and credit risk were determined. In addition, new principles were determined with respect to the disclosure of position risks relating from (inter alia) securitisation transactions and investments in quoted stocks.

New Consumer Loan, Provisioning and Credit Card Regulations

On 8 October 2013 the BRSA introduced new regulations that aim to limit the expansion of individual loans (especially credit card installments). The rules: (a) include overdrafts on deposit accounts and loans on credit cards in the category of consumer loans for purposes of provisioning requirements, (b) set a limit of TRY1,000 for credit cards issued to consumers who apply for a credit card for the first time if their income cannot be determined by the bank, (c) require credit card issuers to monitor cardholders' income levels before each limit increase of the credit card, (d) increase the risk weight for installment payments of credit cards with a term: (i) between one and six months from 75 per cent. to 100 per cent., (ii) between six and twelve months from 150 per cent. to 200 per cent. and (iii) greater than 12 months from 200 per cent. to 250 per cent. and (e) increase the minimum monthly payment required to be made by cardholders. Before increasing the limit of a credit card, a bank should monitor the income level of the consumer. A bank should not increase the limit of the credit card if the aggregate card limit exceeds four times the consumer's monthly income. In addition, after 1 January 2014, minimum payment ratios for credit card limits up to TRY20,000 will be incrementally increased to ratios between 30 per cent. and 40 per cent. until 1 January 2015. These new regulations might result in slowing the growth and/or reducing the profitability of the Bank's credit card business.

The Law on the Protection of Consumers (Law No: 6502), published in the Official Gazette No. 28835 dated 28 November 2013 and to enter into force six months after its publication date, imposes new rules applicable to Turkish banks, such as requiring banks to offer to its customers at least one credit card type for which no annual subscription fee (or other similar fee) is payable. Furthermore, while a bank is generally permitted to charge its customers fees for accounts held with it, no such fees may be payable on certain specific accounts (such as fixed term loan accounts and mortgage accounts).

The Regulation Amending the Regulation on Provisions and Classification of Loans and Receivables, which was published in the Official Gazette dated 8 October 2013 and numbered 28789, reduced the general reserve requirements for cash and non-cash loans provided for export purposes and obtained by SMEs: (a) for cash export loans and non-cash export loans, from 1 per cent. and 0.2 per cent., respectively, to 0 per cent., (b) for cash SME loans and non-cash SME loans, from 1 per cent. and 0.2 per cent. to 0.5 per cent. and 0.1 per cent., respectively, (c) for cash export loans whose loan conditions will be amended in order to extend the first payment schedule, from 5 per cent. to 0 per cent., and (d) for cash SME loans whose loan conditions will be amended in order to extend the first payment schedule, from 5 per cent. to 2.5 per cent.. In addition, this regulation altered the requirements for calculating consumer loan provisions by: (i) increasing the ratio of consumer loans to total loans beyond which additional consumer loan provisions are required from 20 per cent. to 25 per cent. and (ii) requiring the inclusion of auto loans and credit cards in the calculation of the ratio of non-performing consumer loans to total consumer loans ratio (if such ratio is beyond 8 per cent., which ratio was not altered by these amendments, additional consumer loans provisions are required). Credit cards are included in the definition of consumer loans by this regulation and the consumer loan provision rate for credit cards in Group I (Loans of a Standard Nature and Other Receivables) and Group II (Loans and

Other Receivables under Close Monitoring) increased from 1 per cent. and 2 per cent. to 4 per cent. and 8 per cent., respectively.

The Regulation Amending the Regulation on Bank Cards and Credit Cards introduced some changes on the credit limits for credit cards and income verification so that: (a) the total credit card limit of a cardholder from all banks will not exceed four times his/her monthly income in the second and the following years (two times for the first year) and (b) banks will have to verify the monthly income of the cardholders in the limit increase procedures and will not be able to increase the limit if the total credit card limit of the cardholder from all banks exceeds four times his/her monthly income. The following additional changes regarding minimum payment amounts and credit card usage were included in the amended regulation: (i) minimum payment amounts differentiated for first time cardholders in the sector, new cardholders, existing cardholders and existing cardholders' second card by customer limits, (ii) if the cardholder does not pay at least three times the minimum payment amount on his/her credit card statement in a year, then his/her credit card cannot be used for cash advance and also will not allow limit upgrade until the total statement amount is paid, and (iii) if the cardholder does not pay the minimum payment amount for three consecutive times, then his/her credit card cannot be used for cash advances or shopping, and such card will not be available for a limit upgrade, until the total amount in the statements is paid.

The BRSA, by the Regulation Amending the Regulation on Bank Cards and Credit Cards published in the Official Gazette dated 31 December 2013 and numbered 28868 (which entered into force on 1 February 2014), has adopted limitations on instalments of credit cards. Pursuant to such limitations, the instalments for purchase of goods and services and cash withdrawals are not permitted to exceed nine months. In addition, in respect of telecommunication and jewellery expenditures and food, nutriment and fuel oil purchases, credit cards may not provide for instalment payments.

On 31 December 2013, the BRSA adopted new rules on loan to value and instalments of certain types of loans. Pursuant to these rules, the minimum loan-to-value requirement for housing loans extended to consumers, for loans (except auto loans) secured by houses and for financial lease transactions is 75 per cent. In addition, for auto loans extended to consumers, for loans secured by autos and for financial lease transactions, the loan-to-value requirement is set at 70 per cent.; provided that in each case the sale price of the respective auto is not higher than TRY50,000. On the other hand, if the sale price of the respective auto is above this TRY50,000 threshold, then the minimum loan-to-value ratio for the portion of the loan below the threshold amount is 70 per cent. and the remainder is set at 50 per cent. As for limitations regarding instalments, the maturity of consumer loans (other than loans extended for housing finance and other real estate finance loans) are not permitted to exceed 36 months, while auto loans and loans secured by autos may not have a maturity longer than 48 months. Provisions regarding the minimum loan-to-value requirement for auto loans entered into force on 1 February 2014 and the other provisions of this amendment entered into force on 31 December 2013.

Financial Services Fees

Pursuant to Heading XI of Tariffs Chart numbered 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.

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8. TAXATION

8.1 MALAYSIAN TAXATION

The following is intended as general information only and it does not purport to present any comprehensive or complete picture of all aspects of Malaysian tax laws, which could be of relevance to a holder of the Sukuk Wakalah. Prospective Sukukholders should therefore consult their tax advisor regarding the tax consequences of any purchase, ownership or disposal of Sukuk Wakalah.

The following summary is based on the Malaysian tax law, published case law, and tax practice as in effect on the date hereof, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

(a) Income Tax

In general, income tax is imposed on income accruing in or derived from Malaysia, or received in Malaysia from outside Malaysia. However, income derived from sources outside Malaysia and received in Malaysia is exempt from tax for all persons, except resident companies carrying on the business of banking, insurance, or sea or air transport.

Any person having queries about Malaysian taxation, or liability to tax in a jurisdiction other than Malaysia is advised to seek appropriate professional advice.

(b) Withholding Tax

Payments to any holder of the Sukuk Wakalah will not be subject to Malaysian withholding tax.

(c) Capital Gains Tax

There is no tax on capital gains from the disposition of the Sukuk Wakalah.

8.2 REPUBLIC OF TURKEY TAXATION

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 Sukuk Wakalah 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 Sukuk Wakalah or which is necessary to make a decision to invest in the Sukuk Wakalah. Accordingly each investor should seek its own independent tax advice before making a decision to invest in the Sukuk Wakalah.

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 the income sourced in Turkey ("**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 such person has established domicile in Turkey or stays in Turkey for a continuous period of more than six months in a calendar year. An individual who is not domiciled in Turkey or does not stay 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 corporate domicile or effective place of management in Turkey are considered to be resident corporations and are taxed on their worldwide income. Corporations that do not have either a corporate domicile or an effective place of management in Turkey are considered to be non-resident corporations and are only taxed on trading income made through a permanent establishment/permanent representative or on Turkish income.

In general, capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the private sector bonds issued abroad may be subject to declaration. However, pursuant to Provisional Article 67 of the Turkish Income Tax Law, as amended by the Law numbered 6111, special or separate tax returns will not be submitted for capital gains from the private sector bonds of a Turkish corporate issued abroad when the income is derived by a non-resident. Therefore, no tax is levied on the non-resident persons on capital gains from such Sukuk Wakalah and no declaration is required.

According to Turkish law and regulations, periodic income payments on lease certificates issued abroad 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/individual 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.

Periodic income paid on lease certificates issued abroad by a Turkish corporate is subject to withholding tax. Through Decree No. 2009/14592 dated 12 January 2009 which has been amended by Decree No. 2010/1182 dated 20 December 2010 and Decree No. 2011/1854 dated 26 April 2011, 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.

Such withholding tax is the final tax for non-resident individuals and non-resident corporations and no further declaration is required.

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 Sukuk Wakalah.

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9. GENERAL INFORMATION

9.1 INTERNAL AUTHORISATION

(a) The Issuer:

The establishment of the Sukuk Wakalah Programme and the issuance of the Sukuk Wakalah by the Issuer was duly authorised by a resolution of the board of directors of the Issuer dated 24 September 2014. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Sukuk Wakalah and the execution and performance of the Transaction Documents.

(b) Kuveyt Türk:

The establishment of the Sukuk Wakalah Programme and the issuance of the Sukuk Wakalah by Kuveyt Türk via the Issuer was duly authorised by a resolution of the Board of Directors of Kuveyt Türk dated 24 September 2014.

9.2 SIGNIFICANT OR MATERIAL CHANGE

(a) The Issuer:

There has been no material adverse change in the financial position or prospects of the Issuer taken since Latest Practicable Date.

(b) Kuveyt Türk:

There has been no material adverse change in the financial position or prospects of Kuveyt Türk taken as a whole since Latest Practicable Date.

9.3 MATERIAL CONTRACTS

(a) The Issuer:

The Issuer is not a party to and is not likely to be a party to any agreement, documentation, transaction, obligation, commitment, understanding, arrangement or liability (including any offers, tenders or quotations given by the Issuer which are outstanding or capable of acceptance by a third party) which has or is likely to have an adverse effect on the financial or trading position or prospects of the Issuer, or which may or is likely to restrict the Issuer from carrying on the whole or any part of its business in any part of the world.

(b) Kuveyt Türk:

Kuveyt Türk is not a party to and is not likely to be a party to any agreement, documentation, transaction, obligation, commitment, understanding, arrangement or liability (including any offers, tenders or quotations given by Kuveyt Türk which are outstanding or capable of acceptance by a third party) which has or is likely to have an adverse effect on the financial or trading position or prospects of Kuveyt Türk, or which may or is likely to restrict Kuveyt Türk from carrying on the whole or any part of its business in any part of the world.

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9.4 MATERIAL LITIGATION

(a) The Issuer:

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 Information Memorandum which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

(b) Kuveyt Türk:

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 Information Memorandum which may have or have in such period had a significant effect on the financial position or profitability of the Group.

9.5 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

(a) The Issuer:

The Issuer has not incurred or become subject to any liability or obligation (absolute or contingent) other than liabilities incurred in the ordinary course of business.

(b) Kuveyt Türk:

Kuveyt Türk has not incurred or become subject to any liability or obligation (absolute or contingent) other than liabilities incurred in the ordinary course of business.

9.6 CONFLICT OF INTEREST

(a) CIMB Investment Bank Berhad

As at the Latest Practicable Date, after making enquiries as were reasonable in the circumstances, CIMB Investment Bank Berhad confirms that, to the best of its knowledge, is not aware of any circumstance that would give rise to a conflict of interest or potential conflict of interest arising from its roles as, *inter alia*, as Joint Principal Adviser, Joint Lead Arranger and Joint Lead Manager in relation to the Sukuk Wakalah Programme.

(b) Kuwait Finance House (Malaysia) Berhad

As at the Latest Practicable Date, save as disclosed below, after making enquiries as were reasonable in the circumstances, Kuwait Finance House (Malaysia) Berhad is not aware of any circumstances that would give rise to a conflict of interest or potential conflict of interest situation, arising from its roles as, *inter alia*, the Joint Principal Adviser, Joint Lead Arranger, Joint Lead Manager and Facility Agent in relation to the Sukuk Wakalah Programme.

Kuwait Finance House (Malaysia) Berhad is a subsidiary of KFH. which is the holding company of the Obligor, which in turn, wholly owns the Issuer. As such, Kuwait Finance House (Malaysia) Berhad, the Issuer and the Obligor are deemed to be related corporations.

Potential conflict of interest situations may arise on the part of Kuwait Finance House (Malaysia) Berhad in terms of duties owed to potential investors on the one hand and its relationship with the Issuer and the Obligor on the other.

Kuwait Finance House (Malaysia) Berhad, in relation to its roles as, *inter alia*, a Joint Principal Adviser, Joint Lead Arranger, and Joint Lead Manager and Facility Agent in respect of the Sukuk Wakalah Programme, has considered the factors involved and believes that

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objectivity and independence in carrying out its roles have been/will be maintained at all times for the following reasons::

(i) Messrs Adnan Sundra & Low, an external independent legal counsel, has been appointed to conduct a legal due diligence inquiry on the Issuer and the Obligor;

(ii) Kuwait Finance House (Malaysia) Berhad, in all its appointed roles in respect of the Sukuk Wakalah Programme, has considered the factors involved and believes that its objectivity and independence in carrying out its various roles have been/will be maintained at all times for the following reasons:

(aa) Kuwait Finance House (Malaysia) Berhad is a licensed Islamic bank and its appointment as, inter alia, one of the Joint Principal Advisers, Joint Lead Arrangers and Joint Lead Managers as well as the Facility Agent in respect of the Sukuk Wakalah Programme is in the ordinary course of its business;

(bb) the conduct of Kuwait Finance House (Malaysia) Berhad is regulated strictly by BNM and the SC and governed under, amongst others, the Islamic Financial Services Act 2013 and the CMSA, and Kuwait Finance House (Malaysia) Berhad has in place its own internal policies, controls and checks with regard to transactions involving its related corporations;

(cc) save for the professional fees charged in relation to the Sukuk Wakalah Programme, Kuwait Finance House (Malaysia) Berhad will not be deriving any other monetary benefits from the Sukuk Wakalah Programme outside its aforesaid roles; and

(dd) the work in relation to Kuwait Finance House (Malaysia) Berhad in all its appointed roles in respect of the Sukuk Wakalah Programme will be carried out on arm’s length basis as an independent business entity with the other Joint Principal Advisers, Joint Lead Arrangers and Joint Lead Managers.

The potential conflict of interest situations have been brought to the attention of the board of directors of the Issuer and the Obligor respectively and hence the board of directors of the Issuer and the Obligor are fully aware of the same. The board of directors of the Issuer and the Obligor have confirmed that having considered the above, they intend to proceed with the appointment of Kuwait Finance House (Malaysia) Berhad as, inter alia, one of the Joint Principal Advisers, Joint Lead Arrangers and Joint Lead Managers as well as the Facility Agent in respect of the Sukuk Wakalah Programme.

As at the Latest Practicable Date and after making enquiries as were reasonable in the circumstances, Kuwait Finance House (Malaysia) Berhad confirms that, to the best of its knowledge, it is not aware of any circumstances that would give rise to a conflict of interest or potential conflict of interest situation, arising from its role as a Joint Shariah Adviser in relation to the Sukuk Wakalah Programme.

(c) Maybank Investment Bank Berhad

As at the Latest Practicable Date, after making enquiries as were reasonable in the circumstances, Maybank Investment Bank Berhad confirms that, to the best of its knowledge, is not aware of any circumstances that would give rise to a conflict of interest or potential conflict of interest situation, arising from its roles as, inter alia, a Joint Principal Adviser, Joint Lead Arranger and Joint Lead Manager in relation to the Sukuk Wakalah Programme.

(d) Maybank Trustees Berhad

As at the Latest Practicable Date, after making enquiries as were reasonable in the circumstances, Maybank Trustees Berhad confirms that, to the best of its knowledge, is not aware of any circumstances that would give rise to a conflict of interest or potential conflict of interest situation, arising from its appointment as the Sukuk Trustee in relation to the Sukuk Wakalah Programme.

(e) *CIMB Islamic Bank Berhad*

As at the Latest Practicable Date and after making enquiries as were reasonable in the circumstances, CIMB Islamic Bank Berhad confirms that, to the best of its knowledge, it is not aware of any circumstances that would give rise to a conflict of interest or potential conflict of interest situation arising from its role as a Joint Shariah Adviser in relation to the Sukuk Wakalah Programme.

(f) *Maybank Islamic Berhad*

As at the Latest Practicable Date and after making enquiries as were reasonable in the circumstances, Maybank Islamic Berhad confirms that, to the best of its knowledge, it is not aware of any circumstances that would give rise to a conflict of interest or potential conflict of interest situation, arising from its role as a Joint Shariah Adviser, in relation to the Sukuk Wakalah Programme. Maybank Islamic Berhad Shariah Committee, comprises of independent qualified Shariah scholars from various jurisdictions, is responsible and accountable for all Shariah decisions, opinions and views provided by them. Maybank Islamic Berhad Shariah Committee's role does not result in any conflict of interest or potential conflict of interest as any Shariah decision is free from any commercial considerations.

(g) *Messrs. Adnan Sundra & Low*

As at the Latest Practicable Date andafter making enquiries as were reasonable in the circumstances, Messrs. Adnan Sundra & Low is not aware of any circumstance that would give rise to a conflict of interest or potential conflict of interest situation, arising from its appointment as the legal counsel to the Joint Principal Advisers, Joint Lead Arrangers and Joint Lead Managers in relation to the Sukuk Wakalah Programme.

(h) *Messrs. Zaid Ibrahim & Co*

As at the Latest Practicable Date and after making enquiries as were reasonable in the circumstances, Messrs. Zaid Ibrahim & Co is not aware of any circumstance that would give rise to a conflict of interest or potential conflict of interest situation, arising from its appointment as the legal counsel to the Issuer in relation to the Sukuk Wakalah Programme.

(i) *DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.*

As at the Latest Practicable Date and after making enquiries as were reasonable in the circumstances, DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. is not aware of any circumstance that would give rise to a conflict of interest or potential conflict of interest situation, arising from its appointment as the legal counsel to the Issuer in relation to the Sukuk Wakalah Programme.

(j) *Messrs. Pekin & Bayar Law Firm*

As at the Latest Practicable Date and after making enquiries as were reasonable in the circumstances, Messrs. Pekin & Bayar Law Firm is not aware of any circumstance that would give rise to a conflict of interest or potential conflict of interest situation, arising from its appointment as the legal counsel to the Joint Principal Advisers, Joint Lead Arrangers and Joint Lead Managers in respect of Turkish laws in relation to the Sukuk Wakalah Programme.

(k) *Messrs. Mutlu Avukatlık Ortaklığı*

As at the Latest Practicable Date and after making enquiries as were reasonable in the circumstances, Messrs. Mutlu Avukatlık Ortaklığı is not aware of any circumstance that would give rise to a conflict of interest or potential conflict of interest situation, arising from its appointment as the reporting accountant in relation to the Sukuk Wakalah Programme.

10. SUMMARY OF DIFFERENCES BETWEEN IFRS AND BRSA PRINCIPLES

BRSA principles differ 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 BRSA Principles; others are carried at cost or at fair value. BRSA Principles provide 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 BRSA Principles 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. The related associate is consolidated according to the equity method and materiality principle. According to BRSA Principles and IFRS, if the parent bank has 20 per cent, or more of the voting rights in the associate it is presumed to have significant influence on that associate unless proven otherwise.

- *Specific provisioning for loan losses.* The BRSA 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 BRSA Principles but prohibited under IFRSA. Instead, IFRS requires portfolio/collective provisioning for groups of loans and receivables sharing similar characteristics and not individually identified as impaired. Moreover, the BRSA generic provisioning is based on minimum percentages defined in regulations for many asset classes (both onbalance 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 BRSA Principles are different from those under IFRS (based on regulations prescribed by the BRSA). Under BRSA Principles depreciation of assets held for sale is taken into account, 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 BRSA Principles there are some specific exemptions. For example, under BRSA Principles 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 BRSA Principles, this period ends at 1 January 2005 whereas under IFRS it ends at 1 January 2006, constituting a one year difference between the two.

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.

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