IMPORTANT NOTICE

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached prospectus accessed from this page or otherwise received as a result of such access and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached prospectus. In accessing, reading or making any use of the attached prospectus, you agree to be bound by the following terms and conditions (and each of the restrictions set out in the attached prospectus), including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of your Representation: You have accessed the attached prospectus on the basis that you have confirmed to Citigroup Global Markets Limited and Liquidity Management House for Investment Company K.S.C.C (each a "**Joint Lead Manager**", and together the "**Joint Lead Managers**"), being the sender of the attached, that (i) the electronic mail (or e-mail) address to which it has been delivered is not located in the United States of America, its territories and possessions, any State of the United States and the District of Columbia (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) and (ii) you consent to delivery by electronic transmission.

This prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of KT Turkey Sukuk Limited (the "**Issuer**"), Kuveyt Türk Katılım Bankası A.Ş. ("**Kuveyt Türk**"), the Joint Lead Managers and any person who controls them or any director, officer, employee or agent of the Issuer, Kuveyt Türk, the Joint Lead Managers or any person who controls them or any affiliate of any of the foregoing accepts any liability or responsibility whatsoever in respect of any difference between the prospectus distributed to you in electronic format and the hard copy version available to you on request from any of the Joint Lead Managers.

You are reminded that the attached prospectus has been delivered to you on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this prospectus to any other person.

Restrictions: Nothing in this electronic transmission constitutes an offer to sell or a solicitation of an offer to buy Certificates in the United States of America or any other jurisdiction where it is unlawful to do so. Any Certificates to be issued will not be registered under the Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state of other jurisdiction of the United States of America and may not be offered, sold or delivered directly or indirectly in the United States of America or to or for the account or benefit of U.S. persons (as such terms are defined in Regulation S under the Securities Act) unless registered under the Securities Act or pursuant to an exemption from such registration.

The attached prospectus may not be forwarded or distributed to any other person and may not be reproduced in any manner whatsoever and, in particular, may not be forwarded to any U.S. person or to any U.S. address. 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 the Securities Act or the applicable laws of other jurisdictions.

Under no circumstances shall this prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. The attached prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer or Kuveyt Türk.

KT Turkey Sukuk Limited

(incorporated in the Cayman Islands with limited liability)

U.S.$100,000,000 Trust Certificates due 2013

The issue price of the U.S.$100,000,000 Trust Certificates due 2013 (the "**Certificates**" or the "**Sukuk**"), each of which represents an undivided beneficial ownership interest in the Trust Assets (as defined herein) of KT Turkey Sukuk Limited (the "**Issuer**") is 100 per cent. of their face amount.

The Certificates will be constituted by a declaration of trust (the "**Declaration of Trust**") dated on or about 24 August 2010 (the "**Closing Date**") made by the Issuer, the Issuer in its capacity as trustee (the "**Trustee**"), Kuveyt Türk Katılım Bankası A.Ş ("**Kuveyt Türk**") and Citicorp Trustee Company Limited (the "**Delegate**"). Pursuant to the Declaration of Trust, the Issuer will declare that it will hold the Trust Assets (as defined herein), primarily consisting of its beneficial interest and rights in and to certain assets purchased from Kuveyt Türk pursuant to a purchase agreement (the "**Purchase Agreement**"), dated on or about the Closing Date and entered into between the Issuer and Kuveyt Türk, any assets in direct or subsequent replacement of such assets pursuant to the Management Agreement (each as defined below) and certain rights under the other Transaction Documents (as defined herein), all moneys which may now be or hereafter from time to time are standing to the credit of the Transaction Account (as defined herein) and all proceeds of the foregoing, upon trust absolutely for the holders of the Certificates (the "**Certificateholders**" and each, a "**Certificateholder**")) pro rata according to the face amount of Certificates held by each Certificateholder.

On 24 February and 24 August in each year commencing on 24 February 2011 up to and including 24 August 2013 (or if any such day is not a Business Day (as defined herein), the following Business Day, unless it would thereby fall into the next calendar month, in which event such day should be the immediately preceding Business Day (each, a "**Periodic Distribution Date**"), the Issuer will pay the Periodic Distribution Amount (as defined herein) to Certificateholders. The Issuer shall pay the Periodic Distribution Amount solely from the proceeds received in respect of the Trust Assets pursuant to the management agreement (the "**Management Agreement**") dated on or about the Closing Date and entered into between Kuveyt Türk and the Trustee, pursuant to which Kuveyt Türk is appointed as managing agent (the "**Managing Agent**") in respect of the Portfolio Assets (as defined herein). Unless previously redeemed, the Certificates will be redeemed in full by the Issuer at the Redemption Amount (as defined herein) on the Periodic Distribution Date falling in August 2013 (the "**Maturity Date**"). The Certificates constitute limited recourse obligations of the Issuer.

Investing in the Certificates involves certain risks as more fully described in the section Risk Factors beginning on page 11.

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

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

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

Delivery of the Certificates in book-entry form will be made on the Closing Date. The Certificates may only be offered, sold or transferred in registered form in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof. Certificates will be represented at all times by interests in a registered form global certificate without coupons attached (the "**Global Certificate**"), deposited on or about the Closing Date with a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Individual Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

Joint Bookrunners and Joint Lead Managers

CITI *LIQUIDITY HOUSE*

The date of this Prospectus is 19 August 2010

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

Each of Kuveyt Türk and the Issuer, having taken all reasonable care to ensure that such is the case, confirms that the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. Accordingly, each of Kuveyt Türk and the Issuer accepts responsibility for the information contained in this Prospectus.

No person has been authorised to give any information or to make any representation regarding the Issuer or Kuveyt Türk or the Certificates other than as contained in this Prospectus. Any such representation or information should not be relied upon as having been authorised by the Issuer, Kuveyt Türk or Citigroup Global Markets Limited and Liquidity Management House for Investment Company K.S.C.C (each a "**Joint Lead Manager**" and together, the "**Joint Lead Managers**"). Neither the delivery of this document nor the offering, sale or delivery of any Certificate shall in any circumstances constitute a representation or create any implication that the information contained herein is correct at any time subsequent to the date hereof or that there has been no adverse change, nor any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or Kuveyt Türk since the date of this Prospectus.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee, the Delegate or any Agent (as defined herein) nor any of their respective affiliates accept any responsibility for the contents of this Prospectus or for any other statement made, or purported to be made, by a Joint Lead Manager, the Trustee, the Delegate or any Agent, or any of their respective affiliates, or on its behalf in connection with the Issuer or Kuveyt Türk or the issue and offering of the Certificates. Each Joint Lead Manager, the Trustee, the Delegate and each Agent accordingly disclaims all and any liability whether arising in tort or in contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Certificates in any jurisdiction to any person to whom it is unlawful to make an offer or solicitation in that jurisdiction. This Prospectus is intended only to provide information to assist potential investors in deciding whether or not to subscribe for or purchase Certificates in accordance with the terms and conditions specified by the Joint Lead Managers. None of the Joint Lead Managers, the Trustee, the Delegate or any Agent nor any of their respective affiliates has verified the information contained in this Prospectus nor does any of them undertake to review the financial condition or affairs of the Issuer and Kuveyt Türk during the life of the arrangements contemplated by this Prospectus, nor to advise any investor or potential investor in the Certificates of any information coming to the attention of the Joint Lead Managers, the Trustee, the Delegate or any Agent or any of their respective affiliates.

The distribution of this Prospectus and the offer or sale of Certificates may be restricted by law in certain jurisdictions. The Issuer, Kuveyt Türk, the Trustee, the Joint Lead Managers, the Delegate and the Agents do not represent that this Prospectus may be lawfully distributed or used for the purpose of an offer to, or a solicitation by anyone, in any jurisdiction or in any circumstances, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, Kuveyt Türk, the Trustee, the Joint Lead Managers, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Certificate may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Certificates. In particular, there are restrictions on the distribution of this Prospectus and the offer and sale of Certificates in the United States of America, the European Economic Area (including the UK), the Cayman Islands, the United Arab Emirates, the Dubai International Financial Centre, the Kingdom of Bahrain, Kuwait, Qatar, Saudi Arabia and Turkey (see *Subscription and Sale*).

Neither this Prospectus nor any other information supplied in connection with the Certificates is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer, Kuveyt Türk, the Joint Lead Managers, the Trustee, the Delegate or the Agents that any recipient of this Prospectus should purchase any of the Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and Kuveyt Türk.

Each prospective investor is advised to consult its own tax advisor, legal advisor and business advisor as to tax, legal, business and related matters concerning the purchase of the Certificates.

Notice to Cayman Islands Residents

No invitation may be made to the public in the Cayman Islands to subscribe for the Certificates.

Notice to United Kingdom Residents

The Certificates represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000 (the "**FSMA**")) which has not been authorised, recognised or otherwise approved by the United Kingdom Financial Services Authority (the "**FSA**"). Accordingly, this Prospectus is not being distributed to, or promoted to and must not be passed on to persons in the United Kingdom by any person authorised under the FSMA except in circumstances which could not constitute a contravention of Section 21 of the FSMA.

The distribution in the United Kingdom of this Prospectus and any other marketing materials relating to the Certificates (A) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"), (ii) overseas recipients under Article 12(1)(a) of the Financial Promotion Order and (iii) persons falling within any of the categories of persons described in Article 49 *(High net worth companies, unincorporated associations, etc.)* of the Financial Promotion Order and (B) if effected by a person who is an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "**Promotion of CISs Order**"), (ii) overseas recipients under Article 8(1)(a) of the Promotion of CISs Order, (iii) persons falling within any of the categories of person described in Article 22 *(High net worth companies, unincorporated associations, etc.)* of the Promotion of CISs Order and (iv) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Prospectus or any other marketing materials in relation to the Certificates.

Potential investors in the United Kingdom are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

The contents of this Prospectus have not been approved by an authorised person in accordance with the rules of the FSA.

Individuals intending to invest in any investment described in this Prospectus should consult their professional advisers and ensure that they fully understand all risks associated with making such an investment and have sufficient financial resources to sustain any loss that may arise from it.

Notice to Residents of Turkey

The offering of the Certificates has not been and will not be registered with the Turkish Capital Markets Board (the "**CMB**") under the provisions of Law No. 2499 of the Republic of Turkey relating to capital markets and accordingly the Certificates (or beneficial interest therein) may not be offered or sold within Turkey under current capital market regulations. Neither this Prospectus nor any other offering material related to the offering of the Certificates may be utilised in connection with any offering to the public within the Republic of Turkey for the purpose of the sale of Certificates without prior approval of the CMB. See also *Subscription and Sale—Turkey*.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Kuveyt Türk and its Turkish subsidiaries maintain their books of accounts and prepare their statutory financial statements (the "**Statutory Financial Statements**") in Turkish lira in accordance with the Regulation on Accounting Applications for Banks and Safeguarding of Documents published in the Turkish Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Turkish Accounting Standards Board and additional explanations and notes related to them and other decrees, notes, and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency of Turkey (the "**BRSA**") (collectively, the "**Turkish GAAP**"). Kuveyt Türk's annual Statutory Financial Statements are prepared on an unconsolidated basis.

Though Kuveyt Türk is not legally required to prepare financial statements in accordance with International Financial Reporting Standards ("**IFRS**"), including International Accounting Standards ("**IAS**") as promulgated by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Accounting Standards and Standing Interpretations Committee of IASB, the consolidated annual financial statements for the two financial years ended 31 December 2008 and 31 December 2009 (the "**Audited IFRS Accounts**"), which are set out in Appendix A on pages F-58 to F-164 of this Prospectus, have been prepared and presented in accordance with IFRS. The Audited IFRS Accounts have been audited by Ernst & Young.

For a description of highlights of certain differences among IFRS and Turkish GAAP, see *Summary of Differences between IFRS and Turkish GAAP* set forth in Appendix B and *Business Description of Kuveyt Türk—Credit Risk—Credit Classification and Provisioning Policy—IFRS/BRSA Provisioning*.

Unless otherwise indicated, the financial information presented as of and for the financial years ended 31 December 2007, 2008 and 2009 is based on, or has been derived from, the Audited IFRS Accounts.

Kuveyt Türk's unconsolidated interim financial statements for the three months ended 31 March 2010, a direct and accurate translation of which is set out in Appendix A on pages F-2 to F-57 of this Prospectus (the "**Unconsolidated Reviewed Interim Financial Statements**") have been prepared in accordance with Turkish GAAP and have been reviewed by Ernst & Young. Unless otherwise indicated, the financial information presented herein as of 31 March 2009 and 31 March 2010 is based on, or has been derived from, this Unconsolidated Reviewed Interim Financial Statements. **The Unconsolidated Reviewed Interim Financial Statements prepared in accordance with Turkish GAAP are not directly comparable to the Audited IFRS Accounts, which are consolidated, prepared in accordance with IFRS and audited by Ernst & Young**.

Certain Defined Terms and Conventions

References to "Turkey" herein are to the Republic of Turkey.

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

All references in this Prospectus to "U.S. Dollars", "U.S.$" and "$" refer to United States dollars being the legal currency for the time being of the United States of America, and all references to "Turkish lira" and "TL" refer to the Turkish lira, being the legal currency for the time being of Turkey.

References to a "billion" are to a thousand million.

Certain Publicly Available Information

Certain statistical data and other information appearing in this Prospectus have been extracted from public sources. Neither the Issuer nor Kuveyt Türk accepts responsibility for the factual correctness of any such statistics or information but the Issuer and Kuveyt Türk accept responsibility for accurately extracting and transcribing such statistics and information and believe, after due inquiry, that such statistics and information represent the most current publicly available statistics and information from such sources at and for the periods with respect to which they have been presented and do not omit anything which would render the reproduced information inaccurate or misleading.

FORWARD LOOKING STATEMENTS

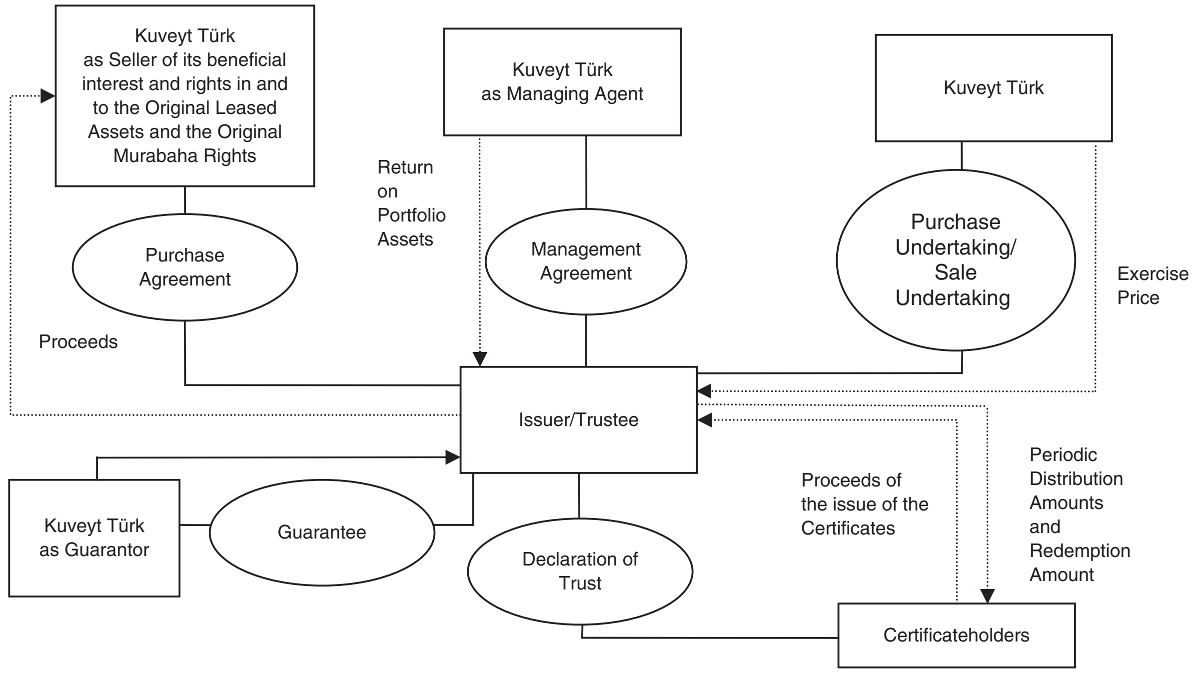
Some statements in this Prospectus may be deemed to be forward looking statements. Forward looking statements include statements concerning Kuveyt Türk's (or each of its Subsidiaries, as defined herein) plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this Prospectus, the words "**anticipates**", "**estimates**", "**expects**", "**believes**", "**intends**", "**plans**", "**aims**", "**seeks**", "**may**", "**will**", "**should**" and any similar expressions generally identify forward looking statements. These forward looking statements are contained in *Overview of the Offering, Risk Factors, Business Description of Kuveyt Türk* and other sections of this Prospectus. In each case these forward looking statements have been based on the current view of Kuveyt Türk's management with respect to future events and financial performance. Although Kuveyt Türk believes that the expectations, estimates and projections reflected in Kuveyt Türk's forward looking statements are reasonable as of the date of this Prospectus, if one or more of the risks or uncertainties materialise, including (but not limited to) those which Kuveyt Türk has identified in this Prospectus, or if any of Kuveyt Türk's underlying assumptions prove to be incomplete or inaccurate, the actual results of operations may vary from those expected, estimated or predicted.

These forward looking statements speak only as at the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, Kuveyt Türk expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward looking statement is based.

TABLE OF CONTENTS

STRUCTURE DIAGRAM AND CASHFLOWS

The following is an overview of the structure and cashflows relating to the Certificates. This overview and in particular the very simplified structure diagram does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Prospectus. Potential investors should read this entire Prospectus, especially the risks in relation to investing in the Certificates discussed under Risk Factors.



Cashflows

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

Payments by the Certificateholders and the Issuer

On the Closing Date, the initial subscribers of the Certificates will pay the issue price in respect of the Certificates to the Issuer who, in its capacity as Trustee, will apply the entire proceeds of the Certificates to purchase a portfolio of assets consisting of Kuveyt Türk's beneficial interest and rights in and to the Original Leased Assets and the Original Murabaha Rights (each as defined herein).

Under the Management Agreement, Kuveyt Türk as Managing Agent for the Trustee will provide certain services with respect to the Portfolio Assets (as defined herein), as more particularly described in the Management Agreement. Under the Guarantee, Kuveyt Türk guarantees to the Trustee due and punctual payment of all sums payable under or pursuant to any of the Portfolio Transaction Documents (as defined in the Management Agreement)

The Managing Agent shall distribute Portfolio Profit (as defined herein) generated by the Portfolio Assets to the Trustee. Pursuant to the Declaration of Trust, the Issuer in its capacity as Trustee, will declare a trust for the benefit of the Certificateholders over all of its interest and rights in and to the Portfolio Assets, all of its rights, interest and benefit, present and future, in, to and under each of the Transaction Documents, all moneys which are from time to time standing to the credit of the Transaction Account and all proceeds of the foregoing.

Periodic Payments by the Issuer

On the second Business Day prior to each Periodic Distribution Date (each a "**Distribution Date**"), the Managing Agent shall distribute Portfolio Profit to the Trustee. The Trustee shall apply such Portfolio Profit on each Periodic Distribution Date to pay the Periodic Distribution Amount due on such date.

If the Portfolio Profit (net of any deduction or withholding for or on account of any Taxes) payable to the Trustee on each Distribution Date is greater than the relevant Periodic Distribution Amount, that surplus Portfolio Profit will be recorded as a reserve amount and shall be credited by the Managing Agent into the Profit Reserve Account (as defined herein) which may be used to fund future payments of Periodic Distribution Amounts. Any amount standing to the credit of the Profit Reserve Account on the Maturity Date will be due and payable to the Managing Agent as an incentive fee for its performance.

The Managing Agent may, however, prior to the Maturity Date, use the amounts standing to the credit of the Profit Reserve Account ("**Advance Incentive Fee**") so long as any amounts deducted as Advance Incentive Fee from the Profit Reserve Account prior to the Maturity Date are re-credited to fund any shortfall in the Periodic Distribution Amount, if so required.

If on any Distribution Date, the Portfolio Profit and the amounts standing to the credit of the Profit Reserve Account are (net of any deduction or withholding for or on account of any Taxes) insufficient (after the Managing Agent has re-credited any Advance Incentive Fee) to enable the Trustee to pay the Periodic Distribution Amount due on the related Periodic Distribution Date, the Managing Agent shall be entitled (but is under no obligation) to pay a U.S. Dollar amount equal to the shortfall, on account of future Portfolio Profit (an "**On-Account Payment**"). The Managing Agent shall be entitled (in its sole discretion) to satisfy the Trustee's liability to the Managing Agent for any On-Account Payment from future Portfolio Revenues.

Redemption Payments

Within a specified period prior to the Maturity Date, the Issuer, in its capacity as Trustee, will have the right to require Kuveyt Türk (under the Purchase Undertaking (as defined herein)) to purchase all of the Trustee's interest and rights in and to the Portfolio Assets.

The Certificates may be redeemed prior to the Maturity Date following a Dissolution Event or a Tax Event (each, as defined herein).

The amounts payable by the Issuer under the Certificates on any Redemption Date will be funded by Kuveyt Türk paying the Exercise Price for the acquisition of all of the Trustee's interest and rights in and to the Portfolio Assets, (i) as of the Maturity Date or following a Dissolution Event pursuant to the exercise by the Trustee of its right under the Purchase Undertaking to require Kuveyt Türk to purchase all of the Trustee's interest and rights in and to the Portfolio Assets or, (ii) following a Tax Event, pursuant to the exercise by Kuveyt Türk of its right under the Sale Undertaking to require the Trustee to sell and transfer all of the Trustee's interest and rights in and to the Portfolio Assets.

OVERVIEW OF THE OFFERING

The following overview does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Prospectus.

Reference to a Condition is to a numbered condition of the terms and conditions of the Certificates (the **"Conditions"**). Terms defined under *Terms and Conditions of the Certificates* or elsewhere in this Prospectus shall have the same respective meanings in this overview.

Certificateholders should note that through a combination of the Management Agreement, the Purchase Undertaking and the Sale Undertaking, the ability of the Issuer to pay amounts due under the Certificates will depend on payments made by the Managing Agent and by Kuveyt Türk under the Purchase Undertaking, and the Certificateholders' recourse to the Issuer is limited to the Trust Assets. See "Limited Recourse" below.

Parties

Issuer	KT Turkey Sukuk Limited an exempted company with limited liability incorporated in the Cayman Islands on 11 June 2010 (the "**Issuer**"). The authorised share capital of the Issuer is U.S.$50,000 consisting of 50,000 shares with a nominal value of U.S.$1.00 each. 250 of the Issuer's shares have been issued and are held by Maples Finance Limited under the terms of a trust for charitable purposes.
Trustee	The Issuer will act as trustee in respect of the Trust Assets (as defined below) (in such capacity, the "**Trustee**") for the benefit of Certificateholders in accordance with a declaration of trust dated on or about the Closing Date (the "**Declaration of Trust**") and the Conditions of the Certificates. Under the Declaration of Trust, the Trustee will delegate certain powers, duties and authorities to the Delegate (as defined below), including the power and authority to enforce or realise the Trust Assets.
Seller	Kuveyt Türk Katılım Bankası A.Ş. (in such capacity, the "**Seller**") will enter into the Purchase Agreement (as defined below) with the Trustee.
Managing Agent	Kuveyt Türk Katılım Bankası A.Ş. (in such capacity, the "**Managing Agent**") shall be appointed to act as Managing Agent for the Trustee and, in that capacity, to provide certain services to the Trustee pursuant to the terms of the Management Agreement (as defined below).
Guarantor Seller	Kuveyt Türk Katılım Bankası A.Ş. (in such capacity, the "**Guarantor Seller**") shall execute the Guarantee (as defined below) in favour of the Trustee.
Obligor	Kuveyt Türk Katılım Bankası A.Ş. shall execute the Purchase Undertaking (as defined below) in favour of the Trustee, pursuant to which Kuveyt Türk shall undertake to, in certain circumstances, purchase all of the Trustee's interest and rights in and to the Portfolio Assets.
Joint Bookrunners and Lead Managers	Citigroup Global Markets Limited and Liquidity Management House for Investment Company K.S.C.C.
Delegate	Citicorp Trustee Company Limited.

Principal Paying Agent, Calculation Agent and Replacement Agent	Citibank N.A., London Branch.
Registrar and Transfer Agent	Citigroup Global Markets Deutschland AG

Overview of the Trust

Purchase Agreement	Pursuant to the purchase agreement (the "**Purchase Agreement**") dated on or about the Closing Date and entered into between Kuveyt Türk, as Seller, and the Trustee, the Seller will sell and transfer, and the Trustee will purchase from the Seller, a portfolio of assets consisting of the Seller's beneficial interest and rights in and to the assets described in the Purchase Agreement at a price equal to the full issue price of the Certificates. See section *Summary of the Principal Transaction Documents—Purchase Agreement*.
Portfolio Assets	The "**Portfolio Assets**" shall comprise the assets purchased under the Purchase Agreement and any assets at any time replacing those assets in accordance with any of the Transaction Documents.
Trust Assets	The "**Trust Assets**" comprise the Trustee's interest and rights in and to the Portfolio Assets, all of its rights, interest and benefit, present and future, in, to, and under each of the Transaction Documents, all moneys from time to time standing to the credit of the Transaction Account and all proceeds of the foregoing.
Management Agreement	Pursuant to the Management Agreement, Kuveyt Türk shall be appointed to act as Managing Agent for the Trustee and, in that capacity, to provide certain services according to the Management Agreement to the Trustee with respect to the Portfolio Assets. See section *Summary of the Principal Transaction Documents—Management Agreement.*
Guarantee	Pursuant to the Guarantee, Kuveyt Türk guarantees to the Trustee due and punctual payment of all sums payable under or pursuant to any of the Portfolio Transaction Documents (as defined in the Management Agreement). See *Summary of the Principal Transaction Documents—Guarantee*.
Profit Reserve Account	The Managing Agent shall create a U.S. Dollar denominated book-entry account for the purpose of recording credits and debits made in respect of any reserved Portfolio Profit and, if applicable, payment and re-crediting of any Advance Incentive Fee in accordance with the terms of the Management Agreement (the "**Profit Reserve Amount**") which will be used to fund payments of Periodic Distribution Amounts to the extent that there is insufficient Portfolio Profit (as defined below) to pay such amount. Any amount standing to the credit of the Profit Reserve Account on the Maturity Date will be due and payable to the Managing Agent by way of an incentive fee (the "**Incentive Fee**"). "**Portfolio Profit**" means in respect of a Distribution Period (as defined in the Management Agreement), the amount (after deduction or witholding of any Taxes imposed or levied thereon) by which all rental income, sale proceeds or other income or consideration, damages, insurance proceeds, compensation, or other sums received

by the Managing Agent in connection with the Portfolio Assets (the "**Portfolio Revenues**") exceed the aggregate of (i) Portfolio Revenues required to be reinvested in accordance with the terms of the Management Agreement and (ii) any claims, losses, costs and expenses properly incurred by, or reimbursable to, the Managing Agent in providing the services under the Management Agreement ("**Portfolio Liabilities**").

Purchase Undertaking

Kuveyt Türk shall execute a purchase undertaking (the "**Purchase Undertaking**") in favour of the Trustee on or about the Closing Date under which Kuveyt Türk undertakes to purchase:

(i) upon the Trustee exercising its option in accordance with the terms of the Purchase Undertaking by delivering an Exercise Notice to Kuveyt Türk specifying the Dissolution Redemption Date (as defined in Condition 10), such Dissolution Redemption Date being a minimum of three Business Days following the delivery of such Exercise Notice; or

(ii) upon the Trustee exercising its option in accordance with the terms of the Purchase Undertaking by delivering an Exercise Notice to Kuveyt Türk. Any such Exercise Notice must be delivered no later than three and no earlier than 30 Business Days prior to the Maturity Date;

all of the Trustee's interest and rights in and to the Portfolio Assets on an "as is" basis (without any warranty express or implied as to condition, fitness for purpose, suitability for use or otherwise and if any warranty is implied by law, it shall be excluded to the full extent permitted by law) at the Exercise Price (as defined in Condition 19.1), on the terms and subject to the conditions of the Purchase Undertaking.

See *Summary of the Principal Transaction Documents—Purchase Undertaking.*

Sale Undertaking

Early Redemption following a Tax Event

The Trustee shall execute a sale undertaking (the "**Sale Undertaking**") in favour of Kuveyt Türk dated on or about the Closing Date. Pursuant to the Sale Undertaking, on exercise of Kuveyt Türk's option under, and in accordance with, the Sale Undertaking following the occurrence of a Tax Event (as defined in Condition 6.3), the Trustee shall sell and transfer all of its interest and rights in and to the Portfolio Assets on an "as is" basis (without any warranty express or implied as to condition, fitness for purpose, suitability for use or otherwise and if any warranty is implied by law, it shall be excluded to the full extent permitted by law) at the Exercise Price on the terms and subject to the conditions of the Sale Undertaking.

Substitution of Portfolio Assets

If Kuveyt Türk wants to purchase the Trustee's interest and rights in and to any of the Portfolio Assets (the "**Original Portfolio Assets**") by payment in kind with other assets (the "**Replacement Portfolio Assets**"), the Trustee undertakes pursuant to the Sale Undertaking to sell and transfer the same to Kuveyt Türk on an "as is" basis (without any warranty express or implied as to the condition, fitness for purpose, suitability for use or otherwise and if any warranty is implied by law, it shall be excluded to the full extent permitted by law), subject to satisfaction of certain conditions.

	See *Summary of the Principal Transaction Documents—Sale Undertaking.*

Overview of the Certificates

Certificates	U.S.$100,000,000 Trust Certificates due 2013 (the "**Certificates**"), each of which represents an undivided beneficial ownership interest in the Trust Assets.
Closing Date	On or about 24 August 2010.
Maturity Date	Periodic Distribution Date falling in August 2013.
Issue Price	100 per cent. of the aggregate face amount of the Certificates.
Status	Each Certificate represents an undivided beneficial ownership interest in the Trust Assets and will rank *pari passu*, without any preference or priority, with the other Certificates. The Certificates will be limited recourse obligations of the Issuer.
Periodic Distribution Dates	24 February and 24 August in each year, commencing on 24 February 2011 up to and including 24 August 2013 (or if any such day is not a Business Day (as defined herein) the following Business Day unless it would thereby fall into the next calendar month, in which event such day shall be the immediately preceding Business Day) (each, a "**Periodic Distribution Date**").
Periodic Distributions	On each Periodic Distribution Date, Certificateholders will be entitled to receive a periodic distribution amount equal to the product of 5.25 per cent. per annum on the Aggregate Face Amount as at the end of the relevant Periodic Distribution Period (each as defined in Condition 19.1) on a 30/360 basis (the "**Periodic Distribution Amount**") from moneys received in respect of the Trust Assets (representing the Portfolio Profit in respect of the Portfolio Assets derived from payments made to the Trustee by the Managing Agent under the Management Agreement).
Scheduled Redemption	Unless previously redeemed, the Certificates shall be redeemed in full by the Issuer on the Maturity Date for an amount equal to the Redemption Amount (as defined below) as of such date and the Trust shall be dissolved following such payment in full. "**Redemption Amount**" means, as of any date, an amount equal to the Aggregate Face Amount (as defined in Condition 19.1) plus all unpaid accrued Periodic Distribution Amounts and all other unpaid accrued amounts (if any) due and payable under the Conditions as of the relevant Redemption Date (including, without limitation, Condition 8).
Redemption for Taxation Reasons	Following the occurrence of a Tax Event (as defined in Condition 6.3) and the exercise, in accordance with the Sale Undertaking, by Kuveyt Türk of its right to require the Trustee to sell and transfer all of its interest and rights in and to the Portfolio Assets to Kuveyt Türk, the Issuer shall, having given not less than 30 nor more than 65 days notice to the Certificateholders (which notice shall be irrevocable), redeem all, but not some only, of the Certificates at the Redemption Amount on the Tax Redemption Date (each, as defined in Condition 19.1) and the Trust shall be dissolved following such payment in full.

Redemption and Dissolution following a Dissolution Event	Following the occurrence of a Dissolution Event (as defined in Condition 10), the Certificates may be redeemed in full on the Dissolution Redemption Date (as defined in Condition 10) at the Redemption Amount, and the Trust shall be dissolved following such payment in full.
Role of Delegate	Pursuant to the Declaration of Trust, the Trustee shall delegate all of its rights and powers, authorities, duties and discretions to the Delegate and in particular, the Delegate shall be entitled to: (a) deliver an Exercise Notice to Kuveyt Türk in accordance with the Purchase Undertaking after the occurrence of a Dissolution Event; and (b) following a Dissolution Event, take any enforcement action in the name of the Trustee against Kuveyt Türk (in any of its capacities). The Trustee will act in accordance with the directions and instructions given to it by the Delegate in the exercise of the relevant delegated powers. The Delegate is entitled to various protections and limitations on its liability, as set out in the Declaration of Trust. The Delegate is not obliged to take any action in connection with the Declaration of Trust and the Certificates unless it is reasonably satisfied that Kuveyt Türk will be able to indemnify it against all Liabilities (as defined in the Declaration of Trust) which may be incurred in connection with such action.
Transaction Account	All payments by Kuveyt Türk (in any of its capacities) to the Trustee under each Transaction Document to which it is party will be deposited into a U.S. Dollar denominated non-interest bearing account of the Trustee maintained for such purpose (the "**Transaction Account**"). Distributions of monies deriving from the Trust Assets will be made to Certificateholders from funds standing to the credit of the Transaction Account in the order of priority set out below.
Priority of Distributions	On each Periodic Distribution Date, or on a Redemption Date, the Trustee shall apply the moneys standing to the credit of the Transaction Account in the following order of priority: (a) first, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate in respect of its fees, costs and expenses and in discharge of or provision for any indemnity to which the Delegate is entitled; (b) second, only if payment is due on a Periodic Distribution Date, to the Principal Paying Agent for application in or towards payment pari passu and rateably of all Periodic Distribution Amounts due but unpaid; (c) third, only if such payment is due on a Redemption Date, to the Principal Paying Agent for application in or towards payment pari passu and rateably of the Redemption Amount; and (d) fourth, only if such payment is due on a Redemption Date, in payment of the surplus (if any) to the Issuer.
Pari Passu Ranking	The payment obligations of Kuveyt Türk under the Transaction Documents rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors except for obligations mandatorily preferred by law applying to companies generally.

Limited Recourse	No payment of any amount whatsoever shall be made in respect of the Certificates by the Issuer or any agents thereof except to the extent that funds are available therefor from the Trust Assets. In addition, no Certificateholder will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of Kuveyt Türk (in any of its capacities, to the extent that it fulfils all of its obligations under the relevant Transaction Documents to which it is a party), or any of the Issuer, the Trustee, the Delegate, the Agents or any of their affiliates as a consequence of such shortfall or otherwise.
Form and Delivery of the Certificates	The Certificates will be represented on issue by interests in a Global Certificate, in registered form, which will be deposited with, and registered in the name of Citivic Nominees Limited, as nominee for Citibank N.A., in its capacity as the common depositary for Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances. See section *Global Certificate*.
Clearance and Settlement	Certificateholders must hold their interest in the Global Certificate in book-entry form through either Euroclear or Clearstream, Luxembourg. Transfers within Clearstream, Luxembourg or Euroclear will be in accordance with the usual rules and operating procedures of the relevant clearing system.
Denominations	The Certificates will be issued in registered form in face amounts of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof.
Withholding Tax	All payments in respect of the Certificates shall be made in full without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges or withholdings of whatever nature, imposed or levied by or on behalf of a Relevant Jurisdiction (as defined in Condition 19.1) and all charges, penalties or similar liabilities with respect thereto ("**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In such event, Kuveyt Türk will be required, pursuant to the terms of the Purchase or Sale Undertaking and the Management Agreement, to pay to the Trustee, and the Trustee will be required to pay to the Certificateholders additional amounts so that, subject to certain exceptions, the full amount which otherwise would have been due and payable is received by the Certificateholders. See Condition 8 (*Taxation*).
Listing	Application has been made for the Certificates to be listed on the Official List of the UKLA and to be admitted to trading on the Regulated Market of the London Stock Exchange. There can be no assurance that the listing of the Certificates on the London Stock Exchange will take effect on the Closing Date or at all.
Rating	The Certificates are expected to be assigned a rating of BBB- by Fitch. A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of repayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Certificateholder Meetings	A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such are set forth under Condition 14.

Tax Considerations	See section *Taxation* for a description of certain Turkish, Cayman Islands and European Union taxation considerations applicable to the Certificates.
Selling Restrictions	There are certain restrictions on the offer, sale and transfer of the Certificates which are set forth in *Subscription and Sale*.
Transaction Documents	The Transaction Documents are the Purchase Agreement, the Purchase Undertaking, the Sale Undertaking, the Management Agreement, the Guarantee, the Declaration of Trust, the Agency Agreement, the Costs Undertaking, the Certificates and any other agreements and documents delivered or executed in connection therewith (each as defined in the Conditions).
Governing Law and Jurisdiction	The Transaction Documents will be governed by English law and subject to the jurisdiction of the English courts.

RISK FACTORS

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

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

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

RISKS RELATING TO THE ISSUER

No operating history

The Issuer is a newly formed entity and has no operating history. The Issuer will not engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets, acting in its capacity as Trustee and other activities incidental or related to the foregoing or as required under the Transaction Documents. The Issuer's only material assets, which will be held on trust for Certificateholders, will be the Trust Assets, including the obligation of Kuveyt Türk to make payments under the Transaction Documents to which it is a party. 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—Risks relating to Kuveyt Türk's Business* for a further description of certain of these risks.

Limited Recourse

Recourse to the Issuer is limited to the Trust Assets and proceeds of the Trust Assets are the sole source of payments on the Certificates. Upon the occurrence of a Dissolution Event, the only remedy available to the Trustee or the Delegate, as the case may be, on behalf of the Certificateholders will be to exercise the right under the Purchase Undertaking to require Kuveyt Türk to purchase all of the Trustee's interest and rights in and to the Portfolio Assets at the Exercise Price. Certificateholders will otherwise have no recourse to any assets of Kuveyt Türk in any of its capacities, (to the extent it fulfils all of its obligations under the Transaction Documents to which it is a party), the Issuer, the Joint Lead Managers, the Agents, the Delegate or any affiliate of any of the foregoing entities in respect of any shortfall in the expected amounts from the Trust Assets. Kuveyt Türk is obliged to make payments under the Transaction Documents to which it is a party directly to the Trustee, and the Trustee or the Delegate, as the case may be, on behalf of the Certificateholders, will have direct recourse against Kuveyt Türk to recover payments due to the Trustee from Kuveyt Türk pursuant to the Transaction Documents to which Kuveyt Türk is a party. There can be no assurance that the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets will be sufficient to make all payments due in respect of the Certificates. In the event that the proceeds of the Trust Assets are not sufficient to satisfy the payments under the Certificates, the Certificateholders shall have no recourse against any other assets of the Issuer or the Trustee or against any director, shareholder, officer or employee of the Issuer or Trustee. Furthermore, under no circumstances shall any Certificateholder or the Trustee or the Delegate, as the case may be, have any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Purchase Undertaking and the sole right of the Trustee and the Certificateholders against Kuveyt Türk shall be to enforce the obligation of Kuveyt Türk to pay the Exercise Price under the Purchase Undertaking. The Delegate is not obliged to take any action following the occurrence of a Dissolution Event unless it has been directed to do so and has been indemnified and/or secured to its satisfaction.

RISKS RELATING TO KUVEYT TÜRK

Risks Relating to Kuveyt Türk's Business

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.

Investor perception in relation to participation banking in general may change in response to a number of events and factors including recent announcements of new banks and services by competitors to Kuveyt Türk's in Turkey and in countries where it operates and the general market perception of participation banking may fluctuate or decline accordingly.

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

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

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

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

Kuveyt Türk's net cash credit portfolio has increased rapidly in recent years, growing to TL4,640 million (including finance lease receivables) as at 31 December 2009 from TL3,993 million as at 31 December 2008 and TL2,909 million as at 31 December 2007. The growth in Kuveyt Türk's net cash credit portfolio is attributable to an overall increase in the growth of Kuveyt Türk's lending activity, particularly to Retail SMEs, which Kuveyt Türk intends to continue to target as part of its strategy. See *Business Description of Kuveyt Türk—Strategy* for further details.

As at 31 December 2009, Kuveyt Türk's ratio of credits in arrears to total cash credits was 6.42 per cent., compared to 6.53 per cent. as at 31 December 2008 and 4.53 per cent. as at 31 December 2007. While, as a participation bank, the monthly principal repayment structure of Kuveyt Türk's cash credits (which always require a portion of principal to be repaid) helps to reduce its credit risks as compared to conventional banks which provide interest only loans, the significant increase in the size of its cash credit portfolio has increased its credit exposure and will require continued analysis and monitoring of Kuveyt Türk's credit quality and the adequacy of provisioning levels, as well as continued credit risk management. In common with all other Turkish banks, the growth rates recently experienced have required Kuveyt Türk to seek to attract and retain a significant number of qualified personnel to monitor asset quality. SMEs typically have less financial strength than larger commercial customers, and any negative macro-economic developments could have a more significant impact on these customers compared to larger ones, see *Business Description of Kuveyt Türk—Risk Management* for further details. Kuveyt Türk's increased levels of lending may require Kuveyt Türk to make higher levels of provisioning for credit losses. Although Kuveyt Türk constantly seeks to revise and improve its lending procedures and credit quality analysis there can be no assurances that Kuveyt Türk will not experience lapses as a result of the growth and quality of its credit portfolio and accordingly have a material adverse effect on Kuveyt Türk's business, financial condition and results of operations. See *Risks relating to Kuveyt Türk's Business—Credit Risk* for further details.

Credit risks

Credit risks arising from adverse changes in the credit quality and recoverability of financing assets, advances and amounts due from counterparties are inherent in a wide range of Kuveyt Türk's businesses. See *Business Description of Kuveyt Türk—Risk Management* for a description of Kuveyt Türk's exposure to credit risks. Credit risks could arise from a deterioration in the credit quality of specific counterparties of Kuveyt Türk, from a general deterioration in local or global economic conditions or from systemic risks with the financial systems, all of which could affect the recoverability and value of Kuveyt Türk's assets and require an increase in Kuveyt Türk's provisions for the impairment of its assets and other credit exposures. This could have an adverse effect on Kuveyt Türk's business, financial condition, results of operations or prospects.

Retail customers typically have less financial strength than corporate borrowers and negative developments in the Turkish economy could affect retail customers more significantly than large corporate borrowers, which could in turn have a material adverse effect on Kuveyt Türk's business, financial conditions or results of operations.

Operational risks

Operational risks and losses can result from fraud, error by employees, failure to document transactions properly or 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. Istanbul, the location of Kuveyt Türk's head office and most of Kuveyt Türk's branches, is an earthquake zone. See *Business Description of Kuveyt Türk—Risk Management* for a description of Kuveyt Türk's exposure to operational risks.

Although Kuveyt Türk has implemented risk controls and loss mitigation strategies and substantial resources are devoted to developing efficient procedures, it is not possible to be certain that such procedures and controls will be effective in controlling each of the operational risks of Kuveyt Türk. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

Liquidity risks

Liquidity risks could arise from Kuveyt Türk's inability to anticipate and provide for unforeseen decreases or changes in funding sources which could have adverse consequences on Kuveyt Türk's ability to meet its obligations when they fall due. As is the normal practice in the banking industry, Kuveyt Türk accepts deposits from its customers which are short-term in nature (of its TL5,358 million in customer deposits at 31 December 2009, 83.1 per cent. had contractual maturities of less than 3 months). However, it is also normal in the banking industry for these short-term deposits to be rolled over on their maturity such that, in practice, a significant portion of them have actual maturities of rather longer duration. By contrast, Kuveyt Türk's advances have more diversified maturities (of its TL4,905 million in customer advances at 31 December 2009, only 35.1 per cent. had contractual maturities of less than 3 months). See *Business Description of Kuveyt Türk—Risk Management* for a description of Kuveyt Türk's exposure to liquidity risks. Accordingly, there is a risk that if a significant number of Kuveyt Türk's customers do not choose to roll over their deposits at any time Kuveyt Türk could experience difficulties in repaying those deposits. In addition, Kuveyt Türk only has limited Sharia compliant products that could be used for short-term liquidity management. To address these risks, Kuveyt Türk monitors its liquidity position on a daily basis and is proactive in confirming with its large depositors their intentions in relation to maturing deposits. It also maintains liquid assets at prudent levels to ensure that cash can quickly be made available to honour its obligations, even under adverse conditions. However, currently some of the assets held for sale may not be sold due to adverse market conditions. Accordingly, there is no assurance that Kuveyt Türk will not experience significant liquidity constraints in the future and any such constraints could have an adverse effect on Kuveyt Türk's business, financial condition, results of operations or prospects.

Market risks

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

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

Although Kuveyt Türk is a participation bank dealing in financial products that differ in many ways from the products of conventional banks, it faces significant competition from not only other participation banks, but also from conventional banks in the Turkish banking sector. As at 30 May 2010 there were a total of 45 banks, excluding the Central Bank, licensed to operate in Turkey, 18 of which were banks with foreign ownership, including the subsidiaries of foreign banks and joint ventures between Turkish and foreign shareholders, and four of which were participation banks. Furthermore, as at 30 May 2010 there were a total of seven branches of foreign banks in Turkey. A small number of banks in the Turkish banking sector dominate the banking industry in Turkey. According to BRSA, as at 31 December 2009, the top five banks in Turkey (in terms of asset size) held approximately 60 per cent. of the banking sector's total credit portfolio and approximately 54 per cent. of total bank assets in Turkey.

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

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

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

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

Kuveyt Türk is currently engaged in a program of expansion through organic growth while continuing to focus on its financial strength and performance, see *Business Description of Kuveyt Türk—Strategy* for further details. Kuveyt Türk intends to open a number of additional branches throughout Turkey where growth opportunities exist in order to attract more retail and SME customers as well as increase Kuveyt Türk's retail deposit base. There are risks associated with expansion, including encountering 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 time lag between the increased operating costs incurred in connection with such expansion and any increase in revenues, if any, generated from such expansion. Any failure to manage this growth while at the same time ensuring that Kuveyt Türk maintains adequate focus on existing operations, including risk management systems and internal control processes, could have a material adverse effect on its asset quality, profitability and capital ratios, and in turn, on its business, financial condition and results of operations.

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

As a participation bank, Kuveyt Türk is an interest-free financial institution and its customers' participation and investment 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 and investment accounts, however, the maximum loss Kuveyt Türk's customers can suffer is limited to the nominal amount of their initial investment. Accordingly, interest rate related risk has no direct effect on Kuveyt Türk's business. 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. For example, an increase in interest rates may reduce the demand for Kuveyt Türk's financing services and its ability to originate financings, and a decrease in interest rates may affect Kuveyt Türk through, among other things, increased prepayments on its retail credit portfolio and increased competition for deposits.

If interest rates rise and the demand for Kuveyt Türk's financings or its ability to generate new financings is 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. As such, in either case, a rise or fall in interest rates is out of Kuveyt Türk's control and could have a material adverse effect on Kuveyt Türk's business, financial condition and results of operations.

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

Risks relating to emerging markets

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

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

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

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

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

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

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

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

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

During the past years, Kuveyt Türk's non-cash credit portfolio has increased significantly, as indicated by the increase in its liabilities relating to non-cash credits to TL5,255 million as at 31 December 2009 from TL3,849 million as at 31 December 2008. Kuveyt Türk intends to continue to expand and develop its non-cash credit product offerings, which comprise letters of guarantee, letters of credit and other commitments and guarantees. However, 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, calculated according to the BRSA standards, have been well above the required minimum ratio of 12 per cent. (for example, 14.56 per cent. as at 31 December 2009 and 15.63 per cent. as at 31 December 2008), 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.

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 or form a competing company, 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 effect on its financial condition and results.

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 and results.

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 organization 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 also established a disaster recovery center at Türk Telekom Data Center in Ankara. This site is located in a first degree earthquake risk zone. Kuveyt Türk has established a separate on-line backup system which is used to transfer critical data to the Disaster Recovery Center. 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 on-line link to the back-up system to the Disaster Recovery Center, 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.

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

Kuveyt Türk maintains a reputation as a pre-eminent participation bank, and any failure to adhere to the principles of participation may result in loss of reputation.

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

Kuveyt Türk is a regulated entity, and regulatory issues experienced in a country in which Kuveyt Türk operates may affect the regulatory status of Kuveyt Türk.

Kuveyt Türk is regulated by the respective state's central bank and/or financial regulator in which it has operations. Suspension, cancellation or other action taken in respect of a banking licence, or other regulatory issues encountered by Kuveyt Türk in one jurisdiction, may impact upon the regulatory status of Kuveyt Türk in other jurisdictions it has operations or Kuveyt Türk as a whole.

RISKS RELATING TO THE CERTIFICATES

The Certificates may not be a suitable investment for all investors and the failure by an investor to understand their investment may result in losses

The Certificates are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Certificates unless it has determined the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

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

There can be no assurance that a secondary market for the Certificates will develop

There can be no assurance that a secondary market for the Certificates will develop or, if a secondary market does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. The market value of Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Consequently, any sale of Certificates by Certificateholders in any secondary market which may develop may be at a discount from the original purchase price of such Certificates. Hence an investor in the Certificates must be prepared to hold the Certificates for an indefinite period of time or until their maturity. Application has been made for the Certificates to be listed on the Regulated Market of the London Stock Exchange but there can be no assurance that such listing will occur on or prior to the Closing Date or at all.

Credit Ratings may not reflect all risks

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

Certain investors may be affected by provisions under the EC Savings Directive

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

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

The Certificates may be redeemed prior to their Maturity Date

In the event that the amount payable on the Certificates is required to include amounts or in certain circumstances Kuveyt Türk is required pursuant to the Management Agreement or the Purchase Undertaking to pay amounts to the Trustee to ensure that the funds available to the Trustee are sufficient to pay the relevant Periodic Distribution Amount or the Redemption Amount, as the case may be, in each case as a result of certain changes affecting taxation in the Turkey or the Cayman Islands, or in each case any political subdivision or any authority thereof or therein having power to tax the Trustee may redeem all but not some only of the Certificates upon giving notice in accordance with Condition 6.3.

CERTAIN ADDITIONAL RISKS

Legal investment risk

Investors should consult their own legal advisors in determining whether and to what extent Certificates constitute legal investments for such investors and whether and to what extent Certificates can be used as collateral for various types of borrowings. In addition, financial institutions should consult their legal advisors or regulators in determining the appropriate treatment of Certificates under any applicable risk-based capital or similar rules.

Investors whose investment activities are subject to investment laws and regulations or to review and regulations by certain authorities may be subject to restrictions on investments in certain types of debt securities, which may include the Certificates. Investors should review and consider such restrictions prior to investing in the Certificates.

There is no assurance that the Certificates will be Sharia compliant

Kuveyt Türk's Sharia Advisory Board has confirmed that, in their view, the proposed issue of the Certificates and the related structure and mechanism described in the Transaction Documents are in compliance with Sharia principles. However, there can be no assurance as to the Sharia permissibility of the structure or the issue and the trading of the Certificates and none of the Issuer, Kuveyt Türk nor the Joint Lead Managers make any representation as to the same. Investors are reminded that, as with any Sharia views, differences in opinion are possible. Investors should obtain their own independent Sharia advice as to the Sharia permissibility of the structure and the issue and the trading of the Certificates.

Consents to variation of Transaction Documents and other matters

The Conditions and the Declaration of Trust contain provisions permitting the Trustee (or Delegate as the case may be) from time to time and at any time without any consent or sanction of the Certificateholders to make any modification of, or agree to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Declaration of Trust or of any other Transaction Document, or determine, without any such consent as aforesaid, that any Dissolution Event shall not be treated as such, if, in the opinion of the Trustee (or the Delegate as the case may be) (a) such modification is of a formal, minor or technical nature, (b) such modification is made to correct a manifest or proven (to the satisfaction of the Trustee) error, (c) such modification, waiver, authorisation or determination is not materially prejudicial to the interests of Certificateholders or (d) such modification is required to effect cancellation of Certificates in accordance with Condition 6.4(b). Unless the Trustee (or Delegate as the case may be) otherwise decides, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

There can be no assurance as to the impact of a change in the laws governing the Certificates

The Conditions and the Transaction Documents are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Certificates.

Reliance on Euroclear and Clearstream, Luxembourg procedures

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

While the Certificates are represented by the Global Certificate, the Issuer will discharge its payment obligation under the Certificates by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of an interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg and, where applicable, such account holders to receive payments under the relevant Certificates. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, interests in the Global Certificate.

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

RISKS RELATING TO THE TRUST ASSETS AND THE PORTFOLIO ASSETS

Liability attaching to owners of assets

In order to comply with the requirements of Sharia, the Seller will sell and transfer its beneficial interest and rights in and to the assets described in the Purchase Agreement to the Issuer, in its capacity as trustee, under the Purchase Agreement. The Trustee will declare a trust in respect of its interest and rights in and to the Portfolio Assets and the other Trust Assets in favour of the Certificateholders pursuant to the Declaration of Trust. Accordingly, Certificateholders will have interest and rights in and to the Portfolio Assets unless transfer of such interest and rights is prohibited by, or ineffective under, the Turkish Financial Lease Law No. 3226 or any other law that may be applicable (see risk factor *Transfer of the Portfolio Assets* below).

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Portfolio Asset. Only limited representations will be obtained from Kuveyt Türk in respect of the Portfolio Assets. In particular, the precise terms of the Portfolio Assets sold 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 interest and rights in and to the Portfolio Assets). No steps will be taken to perfect any transfer of such interest and rights or otherwise give notice to any lessee or obligor in respect thereof. Obligors and lessees may have rights of set-off or counterclaim against Kuveyt Türk in respect of such Portfolio Assets.

Transfer of the Portfolio Assets

No investigation will be made to determine if the Purchase Agreement will have the effect of transferring any beneficial interest and rights in and to the assets described therein. No investigation has been or will be made as to whether any interest and rights in and to any of the Portfolio Assets may be transferred as a matter of the law governing the contracts, the law of the jurisdiction where such assets are located (including the Turkish Financial Lease Law No. 3226) or any other relevant law. Accordingly, no assurance is given that any interest and rights in and to the Portfolio Assets has been or will be transferred to the Trustee.

Nevertheless, the Certificateholders will not have any rights of enforcement as against the Portfolio Assets and their rights are limited to enforcement against Kuveyt Türk of its obligation to purchase the Trustee's interest and rights in and to the Portfolio Assets pursuant to the terms of the Purchase Undertaking. Accordingly, any such restriction on the ability of Kuveyt Türk to make a "true sale" of the interest and rights in and to the Portfolio Assets to the Trustee is likely to be of limited consequence to the rights of the Certificateholders.

By way of further assurance, Kuveyt Türk shall expressly declare in the Purchase Undertaking that the Exercise Price represents a fair price for the Trustee's interest and rights in and to the Portfolio Assets and that it irrevocably and unconditionally accepts all or any interest and rights the Trustee may have in and to the Portfolio Assets. If it breaches any such declaration or undertaking, or any administrator, liquidator or receiver of Kuveyt Türk disputes or challenges the interest and rights that the Trustee has in and to the Portfolio Assets, Kuveyt Türk shall fully indemnify the Trustee in an amount equal to the Exercise Price.

Furthermore, Kuveyt Türk shall agree in the Purchase Undertaking that, in the event that the transfer of the Trustee's interest and rights in and to the Portfolio Assets is for any reason found to have been, or alleged to have been, ineffective so that the Trustee is unable to deliver such interest and rights (or part thereof) to Kuveyt Türk in accordance with the terms of the Purchase Undertaking, Kuveyt Türk shall fully indemnify the Trustee in an amount equal to the Exercise Price.

RISKS RELATING TO ENFORCEMENT

Turkish Bankruptcy Law

In the event of Kuveyt Türk's insolvency, Turkish bankruptcy law may adversely affect Kuveyt Türk's ability to perform under the Purchase Undertaking and the Management Agreement and therefore the Trustee's ability to make payments to Certificateholders. There is no precedent to predict how the claims on behalf of Certificateholders would be resolved in the case of any insolvency of Kuveyt Türk.

Enforcement of Liabilities

Ultimately the payments under the Certificates are dependent upon Kuveyt Türk making payments to the Trustee under the Management Agreement, the Sale Undertaking, the Purchase Undertaking and the Guarantee. If Kuveyt Türk fails to do so, it may be necessary to bring an action against Kuveyt Türk to enforce its obligations before the Turkish courts which may be costly and time consuming.

Enforcing foreign judgments in Turkey

The Turkish courts may not observe the choice by the parties of English law as the governing law of the relevant Transaction Documents. In addition, even if English law is accepted as the governing law, this will only be applied to the extent that it is compatible with Turkish law and public policy. This may mean that the Turkish courts may seek to interpret English law governed documents as if governed by Turkish law and there can therefore be no certainty that in those circumstances the Turkish courts would give effect to such documents in the same manner as the parties may intend.

Judicial precedent in Turkey has no binding effect on subsequent decisions. In addition, there is (apart from announcement in the official gazette of decisions of (i) the Constitutional Court and (ii) the Court of Appeals and State Counsel) no formal system of reporting court decisions in Turkey. These factors create greater judicial uncertainty.

In accordance with Article 54 of Turkey's International Private and Procedure Law ("**Law No. 5718**"), the courts of Turkey will not enforce any judgment obtained in a court in a country other than Turkey unless either: (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 law of such country that provides for the enforcement of judgments of Turkish courts.

In addition, the courts of Turkey will not enforce any judgment obtained in a court in a country other than Turkey if either: (a) the judgment has been rendered by a court that considers itself having jurisdiction although the court is not related to the case in question or the parties, (b) the defendant was not duly summoned or represented or the defendant's fundamental procedural rights were not observed, (c) the judgment in question was rendered with respect to a matter within the exclusive jurisdiction of the courts of Turkey, (d) the judgment is against any public policy rules of Turkey, (e) the foreign judgment is not final and binding and has further recourse for appeal under the laws of the country where the judgment has been rendered, (f) the judgment is not of a civil nature, or (g) the judgment is incompatible with a judgment of a court in Turkey between the same parties and relating to the same issues, or in some circumstances, with an earlier foreign judgment which satisfies the same criteria and is enforceable in Turkey. Furthermore, under Law No. 5718, in any suit or action against Kuveyt Türk in Turkish courts, a foreign plaintiff may be required to deposit security for court costs (*cautio judicatum solvi*) unless the plaintiff is considered to be a national of one of the contracting states of the Convention Relating to Civil Procedure signed at the Hague on March 1, 1954 (ratified by Turkey by law No. 1574) or a national of a state that has signed a bilateral treaty with Turkey that is duly ratified, containing, inter alia, a waiver of the *cautio judicatum solvi* requirement on a reciprocal basis.

Claims for specific enforcement

In the event that Kuveyt Türk fails to perform its obligations under any Transaction Document to which it is a party, the potential remedies available to the Trustee and the Delegate include obtaining an order available for specific enforcement of the relevant obligations or a claim for damages. There is no assurance that any court would order specific performance of a contractual obligation.

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 Trustee and the Delegate 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 Kuveyt Türk to perform its obligations as set out in the Transaction Documents to which it is a party.

Payment of Judgments

Turkish Courts may render judgments in a foreign currency including in the context of enforcing a foreign judgment. If an enforcement action is initiated in respect of a judgment in a foreign currency including Turkish court judgments rendered in connection with the enforcement of foreign court judgments, then the sum claimed in such action would be converted into Turkish lira on the date of filing such action for the purpose of calculation of enforcement fee.

TERMS AND CONDITIONS OF THE CERTIFICATES

The following is the text of the Terms and Conditions of the Certificates which (subject to completion and amendment and save for the text in italics) will be endorsed on each Certificate in definitive form (if issued) and will be attached and (subject to the provisions thereof) apply to the Global Certificate:

Each of the U.S.$100,000,000 Trust Certificates due 2013 (the "**Certificates**") represents an undivided beneficial ownership interest in the Trust Assets held on trust for the holders of such Certificates pursuant to a declaration of trust (as amended or supplemented from time to time, the "**Declaration of Trust**") dated on or about 24 August 2010 (the "**Closing Date**") made between KT Turkey Sukuk Limited (the "**Issuer**" and, in its capacity as trustee, the "**Trustee**"), Kuveyt Türk Katılım Bankası A.Ş. ("**Kuveyt Türk**") and Citicorp Trustee Company Limited (the "**Delegate**"). The Certificates are constituted by the Declaration of Trust.

Payments relating to the Certificates will be made in accordance with a paying agency agreement dated on or about the Closing Date (as amended or supplemented from time to time, the "**Agency Agreement**") made between the Issuer, the Delegate, and Citibank N.A. as principal paying agent (in such capacity, the "**Principal Paying Agent**" and, together with any further or other paying agents appointed from time to time in respect of the Certificates, the "**Paying Agents**"), as replacement agent (in such capacity, the "**Replacement Agent**" and, together with any further or other replacement agents appointed from time to time in respect of the Certificates, the "**Replacement Agents**"), and as calculation agent (in such capacity, the "**Calculation Agent**") and Citigroup Global Markets Deutschland AG as registrar (in such capacity, the "**Registrar**") and as transfer agent (in such capacity, the "**Transfer Agent**" and, together with any further or other transfer agents appointed from time to time in respect of the Certificates, the "**Transfer Agents**") in each case in respect of the Certificates. References to the Delegate, the Principal Paying Agent, the Paying Agents, the Transfer Agents, the Replacement Agents, the Calculation Agent and the Registrar shall include any successor thereto in each case in such capacity.

The statements in these terms and conditions (the "**Conditions**") include summaries of certain provisions of the Declaration of Trust, the Agency Agreement and the other Transaction Documents. Unless given a defined meaning elsewhere in these Conditions or the context requires otherwise, capitalised terms used in these Conditions shall have the meanings given in Condition 19. In addition (unless the context requires otherwise), words and expressions defined and rules of construction and interpretation set out in the Declaration of Trust shall have the same meanings herein. Copies of the Transaction Documents are available for inspection by Certificateholders during normal business hours at the specified offices of the Principal Paying Agent. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Declaration of Trust and those applicable to them of the Agency Agreement.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Issuer (i) to apply the sums paid by it in respect of its Certificates towards the price payable by the Issuer for the purchase of a portfolio of assets consisting of Kuveyt Türk's beneficial interest and rights in and to the Original Leased Assets and the Original Murabaha Rights under the Purchase Agreement and (ii) to enter into each Transaction Document to which it is a party, subject to the terms and conditions of the Declaration of Trust and these Conditions.

Under the Declaration of Trust, the Trustee has delegated to the Delegate certain rights and obligations under these Conditions. To the extent of such delegation, any reference in these Conditions to the Trustee shall be interpreted as a reference to the Delegate.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Certificates are issued in registered form in face amounts of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof. A certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each certificate will be numbered serially with an identifying number which will be recorded on the relevant certificate and in the register (the "**Register**") of Certificateholders which the Issuer will cause to be kept by the Registrar.

Upon issue, the Certificates will be represented by a Global Certificate deposited with a common depositary for, and representing Certificates registered in the name of a nominee of the common depositary for, Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme. The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances *described in the Global Certificate, owners of interests in Certificates represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Certificates. The Certificates are not issuable in bearer form.*

1.2 Title

The Issuer will cause the Registrar to maintain the Register in respect of the Certificates in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered holder of any Certificate will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder of any Certificate. In these Conditions, "**Certificateholder**" and (in relation to a Certificate) "**holder**" have the definitions given thereto in the Declaration of Trust.

2. TRANSFERS OF CERTIFICATES AND ISSUE OF CERTIFICATES

2.1 Transfers

Subject to Conditions 2.4 and 2.5 and to the limitations as to transfer set out in the Agency Agreement, a Certificate may be transferred by depositing the certificate issued in respect of that Certificate, with the form of transfer duly completed and signed, at the specified office of any of the Transfer Agents.

Transfers of interests in the Certificates represented by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

2.2 Delivery of New Certificates

Each new certificate to be issued upon transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer provided at the offices of the Transfer Agent, be mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer.

Where some but not all of the face amount (representing pro rata ownership interest in the Trust Assets) of the Certificates in respect of which a certificate is issued are to be transferred, a new certificate in respect of the face amount (representing pro rata ownership interest in the Trust Assets) of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original certificate, be mailed by uninsured mail at the risk of the holder of the face amount of the Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

Except in the limited circumstances described in the Global Certificate, owners of interests in the Certificates will not be entitled to receive physical delivery of individual certificates in respect of their individual holdings of Certificates.

For the purposes of this Condition 2.2, "**business day**" shall mean a day on which banks are open for business in the city in which the specified office of the Registrar and the Transfer Agent with whom a certificate is deposited in connection with a transfer is located.

2.3 Formalities Free of Charge

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

2.4 Transfers after Transfer Record Date

No Certificateholder may require the transfer of a Certificate to be registered (a) during the period of seven days ending on (and including) any Tax Redemption Date or Dissolution Redemption Date or (b) during the period of seven days ending on (and including) any Periodic Distribution Date or, as the case may be, the Maturity Date.

2.5 Regulations

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

3. STATUS AND LIMITED RECOURSE

3.1 Status

Each Certificate evidences an undivided beneficial ownership interest in the Trust Assets and ranks pari passu, without any preference or priority, with the other Certificates.

3.2 Limited Recourse

Notwithstanding anything to the contrary contained herein or in any Transaction Document, no payment of any amount whatsoever shall be made in respect of the Certificates by the Issuer or any agents thereof except to the extent that funds are available therefor from the Trust Assets.

The Certificates do not represent an interest in any of the Issuer, Kuveyt Türk, the Trustee, the Delegate, the Agents or any of their respective affiliates. Certificateholders by subscribing for or acquiring the Certificates acknowledge that no recourse may be had for the payment of any amount owing in respect of the Certificates against Kuveyt Türk (in each of its respective capacities under the Transaction Documents, to the extent that it fulfils all of its obligations under the relevant Transaction Documents to which it is a party), or any of the Issuer, the Trustee, the Delegate or the Agents or any affiliate of any of the foregoing entities to the extent the Trust Assets have been exhausted following which all obligations of the Issuer and the Trustee shall be extinguished.

No recourse under any obligation, covenant or agreement contained in these Conditions shall be had against any shareholder, member, officer, agent or director of the Issuer or the Trustee, by the enforcement of any assessment or by any proceeding, by virtue of any statute or otherwise. The obligations of the Issuer and the Trustee under these Conditions are corporate limited liability obligations of the Issuer and the Trustee and no personal liability shall attach to or be incurred by the shareholders, members, officers, agents or directors of the Issuer or the Trustee save in the case of their wilful default or fraud.

The net proceeds of the realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following distribution of such proceeds, there remains a shortfall in payments due under the Certificates, no Certificateholder will have any claim against Kuveyt Türk (in each of its capacities under the Transaction Documents, to the extent that it fulfils all of its obligations under the relevant Transaction Documents to which it is a party), or against any of the Issuer, the Trustee, the Delegate, the Agents or any affiliate of any of the foregoing entities or recourse to any of their assets in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In addition, no Certificateholder will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of Kuveyt Türk (in each of its capacities under the Transaction Documents, to the extent that it fulfils all of its obligations under the relevant Transaction Documents to which it is a party), or any of the Issuer, the Trustee, the Delegate, the Agents or any affiliate of any of the foregoing entities as a consequence of such shortfall or otherwise.

4. TRUST

4.1 Summary of the Trust

The Issuer will act as trustee for and on behalf of Certificateholders pursuant to the Declaration of Trust.

On or about the Closing Date, the Trustee will enter into a purchase agreement (the "**Purchase Agreement**") with Kuveyt Türk, pursuant to which the Trustee will purchase a portfolio of assets consisting of Kuveyt Türk's beneficial interest and rights in and to the Original Leased Assets and the Original Murabaha Rights.

Pursuant to the management agreement (the "**Management Agreement**") to be entered into on or about the Closing Date between the Trustee and Kuveyt Türk, in its capacity as Managing Agent, the Managing Agent shall provide certain services with respect to the Portfolio Assets, as more particularly described in the Management Agreement.

Pursuant to the guarantee (the "**Guarantee**") to be entered into on or about the Closing Date by Kuveyt Türk, in its capacity as Guarantor Seller in favour of the Trustee, the Guarantor Seller shall guarantee to the Trustee the due and punctual payment of all sums payable under or pursuant to any of the Portfolio Transaction Documents (as defined in the Management Agreement) as and when the same become due and payable.

Pursuant to the purchase undertaking (the "**Purchase Undertaking**") dated on or about the Closing Date provided by Kuveyt Türk in favour of the Trustee, Kuveyt Türk shall undertake to purchase all of the Trustee's interest and rights in and to the Portfolio Assets at the Exercise Price on the Exercise Date following the issue of an Exercise Notice from the Trustee, which the Trustee shall deliver to Kuveyt Türk not less than three Business Days prior to any Dissolution Redemption Date (if any), or no later than three Business Days and no earlier than 30 Business Days prior to the Maturity Date, in each case, in the form set out in the Purchase Undertaking.

On or about the Closing Date, the Trustee shall execute a sale undertaking (the "**Sale Undertaking**") in favour of Kuveyt Türk. Pursuant to the Sale Undertaking, subject to a Tax Event occurring, Kuveyt Türk may, by exercising its option under the Sale Undertaking by delivering a Tax Event Exercise Notice to the Trustee by no earlier than 65, and no later than 45, days prior to the Tax Redemption Date, oblige the Trustee to sell and transfer to Kuveyt Türk all of its interest and rights in and to the Portfolio Assets on the Tax Redemption Date at the Exercise Price. In addition, Kuveyt Türk has the right to substitute any Portfolio Asset with other assets, as more particularly described in the Sale Undertaking.

Pursuant to the Declaration of Trust, the Issuer will declare a trust (the "**Trust**") for the benefit of the Certificateholders over all of its interest and rights in and to the Portfolio Assets, all of its rights, interest and benefit, present and future, in, to and under each of the Transaction Documents, all moneys which may now be, or hereafter from time to time are, standing to the credit of the Transaction Account and all proceeds of the foregoing (together, the "**Trust Assets**"). All payments by Kuveyt Türk to the Trustee for the Certificateholders under each Transaction Document to which it is party will be deposited into the Transaction Account.

4.2 Application of Proceeds from Trust Assets

Pursuant to the Declaration of Trust, the Trustee holds the Trust Assets for and on behalf of the Certificateholders. On each Periodic Distribution Date, or on a Redemption Date, the Trustee shall apply the moneys standing to the credit of the Transaction Account in the following order of priority:

(a) first, to pay the Delegate all amounts owing to it under the Transaction Documents in its capacity as Delegate in respect of its fees, costs and expenses and in discharge of or provision for any indemnity to which it is entitled;

(b) second, only if payment is due on a Periodic Distribution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due but unpaid;

(c) third, only if such payment is due on a Redemption Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the Redemption Amount; and

(d) fourth, only if such payment is due on a Redemption Date, in payment of the surplus (if any) to the Issuer.

The Principal Paying Agent shall apply the moneys so received towards the payments set forth above.

5. PERIODIC DISTRIBUTIONS

5.1 Periodic Distribution Amounts and Periodic Distribution Dates

A distribution amount, representing a defined share of the profit in respect of the Trust Assets derived from payments made to the Trustee under the Management Agreement, will be payable by the Issuer on the Certificates and be distributed in accordance with these Conditions.

Subject to Condition 3.2 and Condition 4.2, the distribution payable in respect of the Certificates for any Periodic Distribution Period shall be the Periodic Distribution Amount and will be made in arrears on each Periodic Distribution Date in accordance with Condition 7.

The Periodic Distribution Amount payable on any Periodic Distribution Date shall be distributed pro rata to each Certificateholder (in an amount calculated by multiplying the Periodic Distribution Amount by a fraction of which the numerator is the face amount of the relevant Certificateholder's Certificates and the denominator is the Aggregate Face Amount on the relevant Periodic Distribution Date, and rounding the resultant figure to the nearest U.S.$0.01, U.S.$0.005 being rounded upwards).

5.2 Publication

Following determination of the Periodic Distribution Amount for the forthcoming Periodic Distribution Period and the related Periodic Distribution Date by the Calculation Agent, the Calculation Agent shall, if required to do so by the rules of the relevant stock exchange, listing authority and/or quotation system, notify, or shall procure the notification to, the stock exchange or quotation system on which the Certificates are listed and/or traded at the relevant time, as soon as practicable after the determination thereof but in no event later than the first day of the relevant Periodic Distribution Period, details of such Periodic Distribution Amount. In addition, the Calculation Agent shall arrange for such Periodic Distribution Amount to be published in accordance with Condition 16 as soon as practicable after its determination but in no event later than the fourth Business Day thereafter.

Each Periodic Distribution Amount and Periodic Distribution Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the related Periodic Distribution Period. In the event of any such amendment, the Calculation Agent shall, as soon as practicable thereafter, notify the stock exchange, listing authority and/or quotation system, on which the Certificates are listed and/or traded at the relevant time of the amended Periodic Distribution Amount and Periodic Distribution Date, and shall arrange for such amended Periodic Distribution Amount and Periodic Distribution Date to be published in accordance with Condition 16 as soon as practicable after determination of such amendment but in no event later than the fourth Business Day thereafter.

5.3 Cessation of Accrual

No further amounts will accrue or be payable on any Certificate from and including its due date for redemption.

6. REDEMPTION

6.1 Scheduled Redemption

Unless previously redeemed, the Certificates shall be redeemed in full by the Issuer on the Maturity Date at the Redemption Amount as of such date, and the Trust shall be dissolved following such payment in full.

The Redemption Amount payable on the Maturity Date shall be distributed pro rata to each Certificateholder (in an amount calculated by multiplying the Redemption Amount by a fraction of which the numerator is the face amount of the relevant Certificateholder's Certificates and the denominator is the Aggregate Face Amount on the Maturity Date, and rounding the resultant figure to the nearest U.S.$0.01, U.S.$0.005 being rounded upwards).

6.2 Redemption following a Dissolution Event

Following the occurrence of a Dissolution Event, the Certificates may, subject to Condition 10, be redeemed by the Issuer in full on the Dissolution Redemption Date at the Redemption Amount, and the Trust shall be dissolved following such payment in full.

The Redemption Amount payable on any Dissolution Redemption Date shall be distributed pro rata to each Certificateholder (in an amount calculated by multiplying the Redemption Amount by a fraction of which the numerator is the face amount of the relevant Certificateholder's Certificates and the denominator is the Aggregate Face Amount on the Dissolution Redemption Date and rounding the resultant figure to the nearest U.S.$0.01, U.S.$0.005 being rounded upwards).

6.3 Redemption for Taxation Reasons

(a) Tax Event

Upon exercise by Kuveyt Türk of its option under the Sale Undertaking and the Issuer giving Certificateholders not less than 30 days' and not more than 65 days' notice prior to the date specified in the notice (the "**Tax Redemption Date**") given by the Issuer to the Certificateholders in accordance with Condition 16 (which notice shall be irrevocable), all, but not some only, of the Certificates will be redeemed in whole at the Redemption Amount if:

(i) (1) the Issuer has or will become obliged to pay additional amounts pursuant to Condition 8 as a result of any change in, or amendment to, the laws or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 19 August 2010, and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) Kuveyt Türk has or will become obliged to pay amounts under the Management Agreement or pursuant to the Purchase Undertaking to ensure that the funds available to the Trustee are sufficient to pay the relevant Periodic Distribution Amount or Redemption Amount, as the case may be, as a result of any change in, or amendment to, the laws or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 19 August 2010,

(each a "**Tax Event**"), provided that no such notice of redemption shall be given earlier than 30 days prior to the earliest date on which, in the case of Condition 6.3(a)(i), the Issuer would be obliged to pay such additional amounts were a payment in respect of the Certificates then due and, in the case of Condition 6.3(a)(ii), Kuveyt Türk would be obliged to pay such amounts were a payment to the Trustee under the Management Agreement or pursuant to the Purchase Undertaking then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Delegate (x) a certificate signed by two directors of the Issuer (in the case of Condition 6.3(a)(i)) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (having taken reasonable measures available to it) and (y) an opinion of independent legal or tax advisers of recognised international standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective) and the Delegate shall (without any investigation required of it) accept such certificate and opinion as sufficient evidence of the conditions set out in (i) and (ii) above without liability to any person in which event it shall be conclusive and binding on the Certificateholders.

Following the occurrence of a Tax Event, the Certificates shall be redeemed in full by the Issuer on the Tax Redemption Date at the Redemption Amount and the Trust shall be dissolved following such payment in full.

(b) Redemption Amount

The Redemption Amount payable on the Tax Redemption Date shall be distributed pro rata to each Certificateholder (in an amount calculated by multiplying the Redemption Amount by a fraction of which the numerator is the face amount of the relevant Certificateholder's Certificates and the denominator is the Aggregate Face Amount, in each case on the Tax Redemption Date, and rounding the resultant figure to the nearest U.S.$0.01, U.S.$0.005 being rounded upwards.

6.4 Cancellation

All Certificates which are:

(a) redeemed in full will forthwith be cancelled and accordingly may not be held, reissued or sold; or

(b) surrendered for cancellation by Kuveyt Türk on a Periodic Distribution Date shall be cancelled by the Trustee following notice of such cancellation by the Trustee to the Principal Paying Agent, the Registrar and any other relevant Agent. The Trustee shall make any necessary or desirable modifications to the Transaction Documents reflecting the reduction in the outstanding principal amount of the Certificates resulting from such cancellation subject to Kuveyt Türk being solely responsible for the payment of all fees, costs and expenses arising from any cancellation of its Certificates or such modifications, including any legal fees for the issuances of legal opinions and assurances required by the Trustee.

7. PAYMENTS

7.1 Payments in Respect of Certificates

Subject to Condition 7.2, payment of any Redemption Amount will be made on the relevant due date for payment by the Principal Paying Agent (on behalf of the Issuer) by wire transfer in same day funds to the registered account of each Certificateholder or by a U.S. Dollar cheque drawn on a bank that processes payments in U.S. Dollars and mailed to the registered address of the Certificateholder if it does not have a registered account. Payments of any Redemption Amount due will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents.

Subject to Condition 7.2, payment of any Periodic Distribution Amount will be made on the relevant due date for payment by the Principal Paying Agent (on behalf of the Issuer) by wire transfer in same day funds to the Certificateholder shown on the Register at the close of business on the seventh day before the Periodic Distribution Date. Such payment will be made to the registered account of each Certificateholder or by a U.S. Dollar cheque drawn on a bank that processes payments in U.S. Dollars and mailed to the registered address of the Certificateholder if it does not have a registered account.

For the purposes of this Condition, a Certificateholder's "**registered account**" means the U.S. Dollar account maintained by or on behalf of it with a bank that processes payments in U.S. Dollars, details of which appear on the Register at the close of business on the second Business Day before the due date for payment and a Certificateholder's "**registered address**" means its address appearing on the Register at that time.

7.2 Payments subject to applicable laws

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

7.3 Payment only on a Business Day

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed in each case by the Principal Paying Agent, on the date for payment or, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent.

Certificateholders will not be entitled to any Periodic Distribution Amount and/or Redemption Amount or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the relevant Certificateholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 7 arrives after the due date for payment.

7.4 Agents

The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that it will (i) at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity) and (ii) ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to such Directive. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Issuer in accordance with Condition 16.

7.5 Calculation Agent

(a) Appointment

The Issuer shall procure that so long as any of the Certificates remains outstanding there shall at all times be a Calculation Agent to undertake all necessary calculations and/or determinations required pursuant to the Conditions and the Transaction Documents for the purposes of calculating the relevant amounts due to be paid and/or delivered on the Certificates provided that the Issuer may terminate the appointment of such Calculation Agent in accordance with the provisions of the Agency Agreement.

Unless otherwise specified, all such calculations shall be undertaken in respect of each U.S.$100,000 in face amount of Certificates. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Calculation Agent or failing duly to determine the amount due to be paid or delivered on any Periodic Distribution Date or Redemption Date, the Issuer shall appoint the London office of another major bank engaged in the London interbank market to act in its place. If the Issuer shall fail, within a reasonable time, to appoint any such replacement, the Delegate shall be entitled (but not obliged) to make such appointment. The Calculation Agent may not resign its duties or be removed without a successor having been appointed.

(b) Determinations binding

Any determination or calculation made by the Calculation Agent shall (in the absence of manifest error) be final and binding on the Issuer, the Trustee, the Delegate, Kuveyt Türk, the Certificateholders and the other Agents. The Calculation Agent may consult on any matter with any legal or other adviser selected by it and it shall not be liable in respect of anything done or omitted to be done relating to that matter in good faith in accordance with that adviser's opinion.

8. TAXATION

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

(a) presented for payment (where presentation is required) by or on behalf of a Certificateholder who is liable for such Taxes in respect of such Certificate by reason of having some connection with the Relevant Jurisdiction other than the mere holding of such Certificate; or

(b) presented for payment (where presentation is required) more than 30 days after the due date for payment of the Redemption Amount except to the extent that a Certificateholder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Business Day; or

(c) presented for payment (where presentation is required) by or on behalf of a Certificateholder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) presented for payment (where presentation is required) by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a Member State of the European Union.

9. PRESCRIPTION

Claims in respect of amounts due in respect of the Certificates will become prescribed unless made within periods of ten years (in the case of the Redemption Amount) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect of the Certificates, subject to the provisions of Condition 7.

10. DISSOLUTION EVENTS

The occurrence of any of the following events shall constitute a "**Dissolution Event**":

(a) a default is made in the payment of any Periodic Distribution Amount or the Redemption Amount on the date fixed for payment thereof and such default continues unremedied for a period of seven (7) days; or

(b) the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Declaration of Trust and (except in any case where the failure is incapable of remedy) such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by the Delegate, has been delivered to the Issuer; or

(c) an Event of Default (as defined in the Purchase Undertaking) occurs and is continuing; or

(d) at any time it is or will become unlawful for the Issuer to perform or comply with any of its obligations under the Transaction Documents to which it is a party or any of the obligations of the Issuer under the Transaction Documents to which it is a party are not, or cease to be, legal, valid, binding and enforceable; or

(e) either (i) the Issuer becomes insolvent or is unable to pay its debts as they fall due; (ii) an administrator, receiver, or liquidator of the whole or any part of the undertaking, assets and revenues of the Issuer is appointed (or application for any such appointment is made); (iii) the Issuer takes any action or commences any negotiations or proceedings for a readjustment or deferment of any of its obligations or a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness; or (iv) the Issuer ceases or threatens to cease to carry on all or a substantial part of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

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

(g) any event occurs which under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraphs (e) and (f) above.

Upon the occurrence of a Dissolution Event, the Delegate shall give notice of the occurrence of such Dissolution Event to the Issuer and the Certificateholders in accordance with Condition 16 with a request to such Certificateholders to indicate if they wish the Trust to be dissolved.

Upon the occurrence of a Dissolution Event following the issuance of a notice pursuant to the preceding paragraph, the Delegate in its sole discretion may, and if so requested in writing by the holders of at least 25 per cent. in Aggregate Face Amount, or if so directed by an Extraordinary Resolution of the holders of the Certificates shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice to all the holders of such Certificates in accordance with Condition 16 that the Certificates are immediately due and payable at the Redemption Amount on the date specified in such notice (the "**Dissolution Redemption Date**") and that the Trust is to be dissolved on the day after the last outstanding Certificate has been paid in full.

11. Covenants

The Issuer has irrevocably undertaken in the Declaration of Trust that, among other things, for so long as any Certificate is outstanding, it shall not:

(a) incur any indebtedness in respect of any financing whatsoever, or give any guarantee in respect of any obligation of any person other than those in issue as at the Closing Date or as permitted pursuant to any Transaction Document;

(b) secure any of its present or future indebtedness for any financing by any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law) except pursuant to any Transaction Document;

(c) sell, transfer, assign, participate, exchange, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its rights, interest and benefit, present or future, in, to and under the Trust Assets except pursuant to any Transaction Document and in accordance with the principles of Sharia;

(d) use the proceeds of the issue of the Certificates for any purpose other than as provided for under the Transaction Documents;

(e) subject to Condition 14, amend or agree to any amendment of any of the Transaction Documents to which it is a party or to its constitutional documents;

(f) exercise its option under the Purchase Undertaking except in its capacity as Trustee;

(g) act as trustee in respect of any trust other than the Trust, or in respect of any parties other than the Certificateholders and/or act as agent for any trust arrangement (other than the Trust);

(h) have any subsidiaries or employees;

(i) redeem any of its shares or pay any dividend or make any other distribution to its shareholders;

(j) put to its directors or shareholders any resolution for or appoint any liquidator for its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceedings with respect to it; or

(k) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents and any subscription agreement connected to the issue of the Certificates or engage in any business or activity other than:

    (i) as provided for or permitted in the Transaction Documents;

    (ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and

    (iii) such other matters which are incidental thereto.

12. ENFORCEMENT AND EXERCISE OF RIGHTS

12.1 Actions by Delegate

Subject to Condition 12.2, upon the occurrence of a Dissolution Event, to the extent that the amounts payable in respect of the Certificates have not been paid in full in accordance with these Conditions, the Delegate shall (acting for the benefit of the Certificateholders) take one or more of the following steps:

(a) enforce the provisions of the Purchase Undertaking against Kuveyt Türk; and

(b) take such other steps as the Delegate may consider necessary to recover amounts due to the Certificateholders.

Notwithstanding the foregoing, the Delegate may at any time, at its discretion and without notice, take such proceedings and/or other steps as it may think fit against or in relation to the Issuer and/or Kuveyt Türk (in each of its capacities) to enforce its respective obligations under the Transaction Documents, the Conditions and the Certificates.

12.2 Trustee and Delegate not bound to act

Neither the Trustee nor the Delegate shall be bound to take any action in relation to the Trust Assets or any Dissolution Event or to take any proceedings or any other steps under these Conditions or the Transaction Documents unless required to do so (i) by an Extraordinary Resolution or (ii) in writing by Certificateholders holding at least 25 per cent. in Aggregate Face Amount and in either case, then only if it shall be indemnified and/or secured to its satisfaction against all Liability to which it may render itself liable or which it may incur by so doing.

12.3 Certificateholders not entitled to proceed directly

No Certificateholder shall be entitled to proceed directly against, or to provide instructions to the Trustee to pursue any claim against, the Issuer or Kuveyt Türk arising under the Trust Assets or the Certificates or to enforce the performance of any provisions of any of the Transaction Documents or for any other reason unless:

(a) the Delegate has resigned its appointment in accordance with the terms of the Declaration of Trust and no successor or replacement has been appointed in its place (in accordance with the terms of the Declaration of Trust); or

(b) the Delegate having become bound so to proceed, fails to do so within 90 days of becoming so bound and such failure is continuing and the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against the Issuer or Kuveyt Türk) holds at least 25 per cent. of the Aggregate Face Amount.

Under no circumstances shall the Trustee, the Delegate or any Certificateholders have any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Purchase Undertaking, and the only right of the Trustee, the Delegate and Certificateholders against the Issuer and Kuveyt Türk (in any of its capacities) shall be to enforce their respective obligations under the Transaction Documents.

12.4 Satisfaction of Obligation of Trustee and Delegate

Conditions 12.1, 12.2 and 12.3 are subject to this Condition 12.4. After enforcing and distributing or realising the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with Condition 4.2, the obligations of the Delegate, the Trustee and the Issuer in respect of the Certificates shall be satisfied and no Certificateholder may take any steps against the Delegate, the Issuer or the Trustee to recover any sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Delegate, the Issuer or the Trustee, nor shall any of them have any claim in respect of the Trust Assets of any other trust established by the Trustee.

13. REPLACEMENT OF CERTIFICATES

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

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

14.1 Meetings of Certificateholders

The Delegate and/or the Trustee may convene meetings of Certificateholders in accordance with the provisions contained in the Declaration of Trust to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of these Conditions or the provisions of the Declaration of Trust or any other Transaction Documents. The quorum at any meeting for passing an Extraordinary Resolution will be one or more Certificateholders, proxies or representatives present holding or representing more than two thirds in Aggregate Face Amount or at any adjourned such meeting one or more Certificateholders, proxies or representatives present whatever the face amount of the Certificates held or represented by him or them. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than two thirds of the persons voting on a show of hands or, if a poll is demanded, a majority of not less than two thirds of the votes cast on such poll. An Extraordinary Resolution duly passed at any meeting of Certificateholders will be binding on all holders of the Certificates, whether or not they are present at the meeting and whether or not voting.

14.2 Modification

The Trustee or, as the case may be, the Delegate may agree, without the consent or sanction of the Certificateholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Declaration of Trust or of any other Transaction Documents, or determine, without any such consent as aforesaid, that any Dissolution Event or Potential Dissolution Event shall not be treated as such, if, in the opinion of the Trustee or, as the case may be, the Delegate:

(a) such modification is of a formal, minor or technical nature; or

(b) such modification is made to correct a manifest or proven (to the satisfaction of the Trustee) error; or

(c) such modification is required to effect cancellation of Certificates in accordance with Condition 6.4(b); or

(d) such modification, waiver, authorisation or determination is not materially prejudicial to the interests of Certificateholders.

Any such modification, waiver, authorisation or determination may be made on such terms and subject to such conditions (if any) as the Trustee or, as the case may be, the Delegate may determine, shall be binding upon the Certificateholders and, unless the Trustee or the Delegate, as the case may be, otherwise decides, shall as soon as practicable thereafter be notified to Certificateholders in accordance with Condition 16.

14.3 Entitlement of Trustee

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee or, as the case may be, the Delegate (acting on behalf of the Certificateholders) shall have regard to the general interests of Certificateholders as a class but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders or groups of Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and neither the Trustee nor the Delegate shall be entitled to require, nor shall any Certificateholder be entitled to claim, from the Trustee, the Delegate or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent provided in Condition 8.

14.4 Determinations etc. binding

Any modification, abrogation, waiver, authorisation or determination shall be binding on Certificateholders and any modification, abrogation, waiver, authorisation or determination shall be notified by the Issuer (unless the Delegate agrees otherwise) to Certificateholders as soon as practicable thereafter in accordance with Condition 16.

15. INDEMNIFICATION AND LIABILITY OF THE TRUSTEE AND THE DELEGATE

15.1 Indemnification of Trustee and Delegate

The Declaration of Trust contains provisions for the indemnification of the Trustee and the Delegate, in each case in certain circumstances, and for relief from responsibility, including provisions relieving each of them from taking action (in particular, in connection with the exercise of any of their respective rights in respect of the Trust Assets) unless indemnified and/or secured to its satisfaction. Prior to taking any such action, the Delegate may demand that there be paid in advance such sums as it considers (without prejudice to any further demand) shall be sufficient to indemnify it. Neither the Trustee nor the Delegate shall in any circumstances take any action unless directed to do so in accordance with Condition 12, and then only if the Trustee and/or the Delegate (as the case may be) shall have been indemnified and/or secured to their satisfaction.

15.2 No liability to Certificateholders for payments

Each of the Delegate and the Trustee (solely in its capacity as such) makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of Kuveyt Türk under any Transaction Document to which it is a party and shall not under any circumstances have any liability or be obliged to account to Certificateholders in respect of any payment which should have been made by Kuveyt Türk (in each of its relevant capacities under the Transaction Documents) but is not so made, and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or the Declaration of Trust. The Delegate is not responsible for monitoring compliance by Kuveyt Türk with its obligations. Kuveyt Türk is obliged to notify the Delegate of the occurrence of an Event of Default or a Potential Event of Default.

15.3 No liability in respect of Trust Assets

The Delegate and the Trustee shall not be liable in respect of any loss or theft of the Trust Assets or any cash or for failure in any obligation to insure the Trust Assets or any cash or for any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee.

15.4 Delegate and Trustee not required to incur any Liability

Nothing contained in any Transaction Document, the Certificates or these Conditions shall require the Delegate or the Trustee to expend or risk its own funds or otherwise incur any Liability in the performance of any of its duties or in the exercise of any of its rights, powers, authorities or discretions if it considers that the repayment of such funds or adequate indemnity against, or security for, such risk or Liability is not assured to it.

15.5 Delegate's Rights

The Declaration of Trust also contains provisions pursuant to which no director or officer of the Delegate or of any holding, affiliated or associated company of the Delegate shall be precluded from underwriting the Certificates with or without a commission or other remuneration, or from purchasing or otherwise acquiring, holding, dealing in or disposing of any securities whatsoever or from being interested in any contract or transaction or from accepting and holding the office of trustee or administrator for the holders of any other securities, and in any case neither the Delegate nor any director or officer of the Delegate shall be liable to the Certificateholders for any profit made by it or him thereby or in connection therewith.

16. NOTICES

16.1 Notices to Certificateholders

All notices to the Certificateholders will be valid if:

(a) published in a daily newspaper (which will be in a leading English language newspaper having general circulation) in London approved by the Trustee; or

(b) mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by air mail at their respective addresses in the Register.

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

So long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Certificateholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Certificateholders in substitution for notification as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given to the Certificateholders on the day after the day on which such notice is delivered to the relevant clearing system.

16.2 Notices from Certificateholders

Notices to be given by any Certificateholder shall be given in writing and given by lodging the same (together with the relevant Certificates) with the Registrar and any relevant Agent.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1 Governing Law

The Declaration of Trust, the Agency Agreement and the Certificates and any non-contractual obligation arising out of or in connection with any of these documents shall be governed by and construed in accordance with the laws of England.

18.2 Jurisdiction

The Issuer has in the Declaration of Trust irrevocably and unconditionally agreed for the benefit of the Trustee and Certificateholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Declaration of Trust or the Certificates and that accordingly any suit, action or proceedings arising therefrom or in connection therewith (together referred to as "**Proceedings**") may be brought in the courts of England.

Nothing in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

18.3 Process Agent

The Issuer has in the Declaration of Trust irrevocably and unconditionally appointed an agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act will appoint another person as its agent for that purpose.

19. DEFINITIONS AND INTERPRETATION

19.1 Definitions

In these Conditions:

"**Agents**" means any of the Paying Agents, the Registrar, the Replacement Agent, the Calculation Agent or the Transfer Agents appointed by the Issuer pursuant to the Agency Agreement.

"**Aggregate Face Amount**" means, at any time, the aggregate face amount of the outstanding Certificates which, for the avoidance of doubt, shall be U.S.$100,000,000 on the Closing Date.

"**Authorisation**" means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration.

"**Business Day**" means a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London, Istanbul and New York.

"**Certificates**" means the U.S.$100,000,000 Trust Certificates due 2013 issued by KT Turkey Sukuk Limited on the Closing Date and constituted by the Declaration of Trust and includes any replacements for Certificates issued pursuant to Condition 13 being in definitive or global form, as the context may require.

"**Certificateholders**" means the several persons in whose names the Certificates are for the time being registered (as set out in the Register) and the expressions "**Certificateholder**" and "**holder of Certificates**" and related expressions shall (where appropriate) be construed accordingly.

"**Costs Undertaking**" means the costs undertaking to be dated on or about the Closing Date and executed by Kuveyt Türk.

"**Day Count Fraction**" means, in relation to a Periodic Distribution Period or any other period in respect of which a payment is due to be made, the number of days (calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed) from, and including, the first day of that period to, but excluding, the last day of that period, divided by 360.

"**Dissolution Event**" means any of the events specified as such in Condition 10.

"**Dissolution Redemption Date**" has the meaning given in Condition 10.

"**Event of Default**" has the meaning given in the Purchase Undertaking.

"**Exercise Date**" means the date on which the Exercise Price is due pursuant to the terms of the Purchase Undertaking or the Sale Undertaking.

"**Exercise Notice**" means a notice substantially in the form set out in the Purchase Undertaking.

"**Exercise Price**" means, with respect to any Redemption Date, a U.S. Dollar amount for the Portfolio Assets equal to the Redemption Amount required to be paid on such date and, for the avoidance of doubt, in deriving that dollar amount the value of any receivables comprised in the Portfolio Assets will be at par only and. accordingly, the balance dollar amount will be in consideration for the ijara assets comprised in the Portfolio Assets.

"**Extraordinary Resolution**" means a resolution passed at a meeting of Certificateholders duly convened and held in accordance with the provisions of Schedule 4 to the Declaration of Trust by a majority of not less than two thirds of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than two thirds of the votes cast on such poll.

"**Guarantee**" means the guarantee deed to be dated on or about the Closing Date and executed by Kuveyt Türk in favour of the Trustee.

"**Guarantor Seller**" means Kuveyt Türk as Guarantor Seller under the Guarantee.

"**Kuveyt Türk**" means Kuveyt Türk Katılım Bankası A.Ş.

"**Liability**" means any actual loss, damage, cost (excluding costs of funding), charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever (including, without limitation, in respect of taxes, duties, levies, imposts and other charges) and including any value added tax or other tax charged or chargeable in respect thereof and properly incurred legal fees and expenses on a full indemnity basis.

"**Managing Agent**" means Kuveyt Türk as Managing Agent under the Management Agreement.

"**Management Agreement**" has the meaning given in Condition 4.1.

"**Maturity Date**" means the Periodic Distribution Date falling in August 2013.

"**Original Leased Assets**" means the assets which are the subject of the lease transaction documents listed in schedule 1 to the Purchase Agreement.

"**Original Murabaha Rights**" means the rights, benefits and entitlements, present or future, in and to the murabaha contracts listed in schedule 2 to the Purchase Agreement.

"**outstanding**" means all the Certificates issued other than:

(a) those Certificates which have been redeemed in full pursuant to these presents;

(b) those Certificates in respect of which the final date for redemption in accordance with the Conditions has occurred and the redemption moneys (including all profit payable thereon) have been duly paid to the Trustee or to the Principal Paying Agent, as applicable, in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the Certificateholders in accordance with Condition 16) and remain available for payment against presentation of the relevant Certificates;

(c) those Certificates in respect of which claims have become prescribed under Condition 9;

(d) those mutilated or defaced Certificates which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 13;

(e) (for the purpose only of ascertaining the Aggregate Face Amount and without prejudice to the status for any other purpose of the Certificates) those Certificates which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 13; and

(f) the Global Certificate to the extent that it shall have been exchanged for Individual Certificates pursuant to its provisions,

provided that for each of the following purposes, namely:

(i) the right to attend and vote at any meeting of the Certificateholders and any direction or request by the holders of the Certificates;

(ii) the determination of how many and which Certificates are for the time being outstanding for the purposes of clause 17 and Schedule 4 of the Declaration of Trust and Conditions 10, 12 and 14;

(iii) any discretion, power or authority (whether contained in these presents or vested by operation of law) which the Delegate is required, expressly or impliedly, to exercise in or by reference to the interests of the Certificateholders; and

(iv) the determination by the Delegate whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the Certificateholders,

those Certificates which are for the time being held by or on behalf of or for the benefit of the Issuer, Kuveyt Türk or any of its Subsidiaries in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding;

"**Periodic Distribution Amount**" means, in respect of each Periodic Distribution Period, an amount equal to the product of (i) the Periodic Distribution Rate; (ii) the Aggregate Face Amount (as of the final day of such Periodic Distribution Period) and (iii) the Day Count Fraction; and in each case plus such additional amounts as may be payable pursuant to Condition 8.

"**Periodic Distribution Date**" means 24 February and 24 August in each year, commencing on 24 February 2011 up to and including 24 August 2013 (or if any such day is not a Business Day, the following Business Day unless it would thereby fall into the next calendar month, in which event such day shall be the immediately preceding Business Day).

"**Periodic Distribution Period**" means the period from and including the Closing Date to but excluding the first Periodic Distribution Date, and thereafter each successive period from and including a Periodic Distribution Date to but excluding the immediately following Periodic Distribution Date or the Redemption Date (if such date is not a Periodic Distribution Date).

"**Periodic Distribution Rate**" means 5.25 per cent. per annum.

"**person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company or government or agency, or political subdivision thereof, or other entity.

"**Portfolio Assets**" has the meaning given in the Management Agreement.

"**Potential Dissolution Event**" means any event which, with the giving of notice, lapse of time or fulfilment of any other applicable condition (or any combination of any of the foregoing) would constitute a Dissolution Event.

"**Potential Event of Default**" means any event which, with the giving of notice, lapse of time or fulfilment of any other applicable condition (or any combination of any of the foregoing) would constitute an Event of Default.

"**Purchase Agreement**" has the meaning given in Condition 4.1.

"**Purchase Undertaking**" means the purchase undertaking to be dated on or about the Closing Date and executed by Kuveyt Türk in favour of the Trustee.

"**Redemption Amount**" means, as of any date, the Aggregate Face Amount plus all unpaid accrued Periodic Distribution Amounts and all other unpaid accrued amounts (if any) due and payable under these Conditions as of the relevant Redemption Date, including such additional amounts as may be payable pursuant to Condition 8.

"**Redemption Date**" means any of the Dissolution Redemption Date, the Tax Redemption Date, the Maturity Date or any other date specified in accordance with these Conditions for the redemption of all of the Certificates.

"**Register**" has the meaning given in Condition 1.1.

"**Regulation S**" means Regulation S of the U.S. Securities Act of 1933.

"**Relevant Date**" means, in respect of any payment in relation to a Certificate, the later of (a) the date on which the payment first becomes due, and (b) if the full amount payable has not been received by the Principal Paying Agent on or before the due date, the date on which (the full amount having been so received) notice to that effect has been given to the Certificateholders by the Issuer in accordance with Condition 16.

"**Relevant Jurisdiction**" means the Cayman Islands (in the case of any payment by the Issuer) or Turkey (in the case of payments by Kuveyt Türk) or, in either case, any political subdivision or any authority thereof or therein having power to tax.

"**Sale Undertaking**" means the sale undertaking to be dated on or about the Closing Date and executed by the Trustee in favour of Kuveyt Türk.

"**Tax Event**" has the meaning given in Condition 6.3.

"**Tax Event Exercise Notice**" means a notice substantially in the form set out in the Sale Undertaking.

"**Tax Redemption Date**" has the meaning given in Condition 6.3.

"**Taxes**" has the meaning given in Condition 8.

"**TL**" and "**Turkish lira**" denotes the Turkish lira, being the legal currency for the time being of Turkey.

"**Transaction Account**" means the U.S. Dollar non-interest bearing account of the Trustee maintained for the deposit of payments by Kuveyt Türk (in whatever capacity) to the Trustee for the Certificateholders under the Transaction Documents.

"**Transaction Documents**" means the Purchase Agreement, the Purchase Undertaking, the Sale Undertaking, the Management Agreement, the Guarantee, the Declaration of Trust, the Agency Agreement, the Costs Undertaking, the Certificates and any other agreements and documents designated as such by the Issuer and Kuveyt Türk.

"**Trust**" has the meaning given in Condition 4.1.

"**Trust Assets**" has the meaning given in Condition 4.1.

"**Turkey**" means the Republic of Turkey.

"**U.S.$**" and "**U.S. Dollar**" denotes the United States dollar, being the legal currency for the time being of the United States of America.

19.2 Interpretation

In these Conditions headings and sub-headings are for ease of reference only and shall not affect the construction of these Conditions.

GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Certificates whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in the paragraphs below.

Holders

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

Payments

Payment of the Periodic Distribution Amounts and the Redemption Amount in respect of Certificates represented by the Global Certificate will be made to the registered holder of the Global Certificate upon presentation and, if no further payment is to be made in respect of the Certificates, against presentation and surrender of the Global Certificate to or to the order of the Registrar.

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

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

Notices

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

Registration of Title

Registration of title to the Global Certificate in a name other than that of the Common Depositary or its nominee will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies the Issuer that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate, and in each case a successor clearing system approved by the Delegate is not appointed by the Issuer within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances title to the Global Certificate may be transferred into the names of holders notified by the Common Depositary in accordance with the Conditions, except that certificates in respect of Certificates so transferred may not be available until 21 days after the request for transfer is duly made.

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

Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants, as more fully described under "Clearance and Settlement".

Certificates in Definitive Form

This Global Certificate will be exchangeable in whole but not in part (free of charge to the holder) for Certificates in individual form ("**Individual Certificates**") only (i) if the Delegate has given notice in accordance with Condition 10 that a Dissolution Event has occurred which is continuing or (ii) if the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor or alternative clearing system satisfactory to the Trustee is available (each an "**Exchange Event**"). The Delegate will promptly give notice to the Certificateholders in accordance with Condition 16 upon the occurrence of an Exchange Event, and any exchange shall occur no later than 30 days after the date of receipt of the first relevant notice by the Registrar. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Individual Certificates.

USE OF PROCEEDS

The entire proceeds of the issue of the Certificates will be used by the Issuer to purchase a portfolio of assets consisting of Kuveyt Türk's beneficial interest and rights in and to the Original Leased Assets and the Original Murabaha Rights.

SELECTED FINANCIAL INFORMATION

The following information set forth below has been derived from Kuveyt Türk's Audited IFRS Accounts for the financial years ended 31 December 2009 and 2008, and the Unconsolidated Reviewed Interim Financial Statements for the three months period ended 31 March 2010 (each as defined in *Presentation of Financial and other Information*).

Kuveyt Türk's Audited IFRS Accounts have been substantially prepared in conformity with IFRS, and Kuveyt Türk's Unconsolidated Reviewed Interim Financial Statements have been prepared in accordance with Turkish GAAP. For a description of highlights of certain differences among IFRS and Turkish GAAP, see *Summary of Differences between IFRS and Turkish GAAP* set forth in Appendix B and *Business Description of Kuveyt Türk—Credit Risk—Credit Classification and Provisioning Policy—IFRS/BRSA Provisioning*. The Unconsolidated Reviewed Interim Financial Statements prepared in accordance with Turkish GAAP are not directly comparable to the Audited IFRS Accounts, which are consolidated, prepared in accordance with IFRS and audited by Ernst &Young.

The selected financial information set forth below should be read in conjunction with Kuveyt Türk's financial statements and related notes thereto, appearing elsewhere in the Prospectus. The results of operations for any period are not necessarily indicative of the results to be expected for any future period.

Selected Balance Sheet Data

	As at 31 December			As at 31 December		
	2009	2008	2007	2009	2008	2007
	(Thousands of TL)			*(Thousands U.S.$*)*		
Assets						
Cash and balances with the Central Bank	239,090	248,988	155,508	159,951	161,593	132,959
Balances with other banks and financial institutions	903,319	938,608	421,431	604,320	609,157	360,324
Reserve deposits at the Central Bank	218,689	213,421	191,811	146,303	138,510	163,998
Financial assets—held for trading	27	64	133	18	42	114
Financial assets—available-for-sale	4,520	1,389	577	3,024	901	493
Financial assets—held to maturity	7,529	7,583	5,852	5,037	4,921	5,003
Due from financing activities, net.	4,586,786	3,879,553	2,747,645	3,068,560	2,517,830	2,349,236
Minimum finance lease payments receivable, net	53,512	113,475	160,940	35,800	73,645	137,604
Derivative financial instruments	9,925	13,933	3,978	6,640	9,043	3,401
Other assets	590,221	123,008	23,719	394,858	79,832	20,280
Construction projects, net	3,025	3,087	3,140	2,024	2,003	2,685
Investment in associate	12,315	—	—	8,239	—	
Investment properties, net	47,207	67,586	59,389	31,581	43,863	50,778
Property and equipment, net	108,180	84,150	69,742	72,372	54,613	59,629
Intangible assets, net	8,256	2,847	1,591	5,523	1,848	1,360
Deferred tax assets	12,749	14,596	7,886	8,529	9,474	6,743
Assets and a disposal group held for sale	9,547	6,410	6,673	6,387	4,160	5,705
Total assets	**6,814,897**	**5,718,698**	**3,860,015**	**4,559,166**	**3,711,435**	**3,300,312**
Liabilities and Equity						
Due to other financial institutions and banks	383,681	820,954	433,318	256,683	532,799	370,487
Current and profit/loss sharing investors' accounts	5,545,201	4,119,460	2,969,670	3,709,739	2,673,530	2,539,068
Derivative Financial instruments	6,281	25,664	6,647	4,202	16,656	5,683
Total equity attributable to equity holders of the parent	817,481	688,700	404,422	546,895	446,966	345,781
Total liabilities and equity	**6,814,897**	**5,718,698**	**3,860,015**	**4,559,166**	**3,711,435**	**3,300,312**

* Applying TL to U.S.$ conversion rate of 1: 0.669 as at 31 December 2009;
* Applying TL to U.S.$ conversion rate of 1: 0.649 as at 31 December 2008; and
* Applying TL to U.S.$ conversion rate of 1: 0.855 as at 31 December 2007.

Selected Income Statement Data

	As at 31 December			As at 31 December		
	2009	2008	2007	2009	2008	2007
	(Thousands of TL)			(Thousands U.S.$*)		
Total Income from financing activities	620,640	508,106	354,008	415,208	329,761	302,677
Profit shares distributed to participation account	(349,348)	(306,462)	(185,865)	(233,714)	(198,894)	(158,915)
Profit shares distributed to other banks and financial institutions	(20,496)	(30,234)	(30,284)	(13,712)	(19,622)	(25,893)
Provision for impairment of amounts due form financing activities and lease receivables	(64,821)	(83,306)	(34,150)	(43,365)	(54,066)	(29,198)
Foreign exchange gain, net	32,731	35,154	14,114	21,897	22,815	12,067
Total other operating income	216,774	214,537	131,331	145,022	139,235	112,288
Total comprehensive income for the year	134,281	91,268	67,078	89,834	59,233	57,352
Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)	0.269	0.218	0.276	0.179	0.14	0.235
Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share) from continuing operations	0.260	0.224	0.282	0.17	0.14	0.24

* Applying TL to U.S.$ conversion rate of 1: 0.669 as at 31 December 2009;
* Applying TL to U.S.$ conversion rate of 1: 0.649 as at 31 December 2008; and
* Applying TL to U.S.$ conversion rate of 1: 0.855 as at 31 December 2007.

Results of Business Segments

Year ended 2009, 2008 and 2007 compared

Total operating income, credit loss expense and net profit

The table below shows the breakdown of Kuveyt Türk's revenues for each of 2009, 2008 and 2007.

	Total Operating Income	Credit loss expense	Net Profit	Total Operating Income	Credit loss expense	Net Profit	Total Operating Income	Credit loss expense	Net Profit
	31 December 2009			31 December 2008			31 December 2007		
	TL Thousands (U.S.$ Thousands*)								
Retail Banking	201,893	30,443	194,843	211,520	24,652	203,405	46,140	16,870	29,270
	(135,066)	(20,366)	(130,350)	(137,276)	(15,999)	(132,010)	(39,449)	(14,423)	(25,026)
Corporate and Commercial	220,811	34,378	213,472	164,101	58,654	159,460	204,992	23,338	181,654
Banking	(147,723)	(22,999)	(142,813)	(106,502)	(38,066)	(103,490)	(175,268)	(19,954)	(155,314)
International and Investment Banking	49,045		45,218	20,154		17,479	1,360		1,360
and Treasury	(32,811)	—	(30,250)	(13,080)	—	(11,344)	(1,162)	—	(1,162)

* Applying TL to U.S.$ conversion rate of 1: 0.669 as at 31 December 2009;
* Applying TL to U.S.$ conversion rate of 1: 0.649 as at 31 December 2008; and
* Applying TL to U.S.$ conversion rate of 1: 0.855 as at 31 December 2007.

Recent Developments

Kuveyt Türk recently prepared its Unconsolidated Reviewed Interim Financial Statements for the three months period ended 31 March 2010 in accordance with Turkish GAAP. The Interim Financial Statements disclosed a decrease in gross profit of TL50.2 million compared to TL55.9 million for the corresponding period in 2009. Kuveyt Türk reported revenue of TL158.3 million compared to TL175.9 million for the corresponding period in 2009. Net profit was TL89.8 million compared to TL86.3 million for the corresponding period in 2009. For further information, see *Financial Information* beginning on page F-1 in this Prospectus.

Kuveyt Türk increased its share capital to TL850 million on 30 June 2010 through cash payments by Kuveyt Türk's existing shareholders (TL300 million). The amount due as a result of the increase in share capital was paid up by 21 July 2010. The proportionate shareholdings of Kuveyt Türk's shareholders remain as set out in section *Shareholders and Capital Structure—Shareholders*.

Kuveyt Türk expects that its second quarter financial statements prepared in accordance with Turkish GAAP will be published on or around mid September 2010.

BUSINESS DESCRIPTION OF KUVEYT TÜRK KATILIM BANKASI A.Ş.

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**) over the last 20 years, see *Business Description of Kuveyt Türk—History* for further details. Kuveyt Türk's business is undertaken in compliance with the principles of interest-free banking, known as participation banking in Turkey.

Kuveyt Türk was incorporated on 22 November 1988 as a joint stock company and commenced operations on 31 March 1989 with the name Kuveyt Türk Evkaf Kurumu A.Ş., after being granted a licence by the Central Bank of Turkey (**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 were transferred to the BRSA), Kuveyt Türk was reclassified as a "Participation Bank" (*katilim bankasi*), see *Turkish Banking Sector and Regulations* for further details. On 26 April 2006, in accordance with the BRSA's new regulations, Kuveyt Türk subsequently changed its name to Kuveyt Türk Katılım Bankası A.Ş.

Kuveyt Türk's core business segments are:

(i) **Retail Banking**: which focuses on deposit taking (current and participation accounts), the provision of loans, credit card facilities and funds transfer facilities to individual customers and to small to medium sized retail enterprises (**SMEs**) (with an annual turn over of less than TL5 million and additionally where the provision of credit is below U.S.$300,000 (**Retail SMEs**)) (see *Business Description of Kuveyt Türk—Business Activities—Retail Banking* for further details);

(ii) **Corporate and Commercial Banking**: which focuses on the provision of loans, other credit facilities and banking services to corporate SMEs (SMEs with an annual turn over in excess of TL5 million (**Corporate SMEs**)) and corporate clients (including institutional customers) (see *Business Description of Kuveyt Türk—Business Activities—Corporate and Commercial Banking* for further details); and

(iii) **International and Investment Banking and Treasury Services:** which focuses on (i) international banking services to Kuveyt Türk's retail and corporate customers such as international trade finance; (ii) investor relations and growth of Kuveyt Türk's international network; (iii) investment banking; and (iv) treasury services, which is responsible for managing Kuveyt Türk's liquidity and market risks (see *Business Description of Kuveyt Türk—Business Activities—International and Investment Banking and Treasury Services* for further details).

As at 31 December 2009, Kuveyt Türk had approximately 500,000 individual customers, 50,000 SMEs (comprising both Retail SMEs and Corporate SMEs) and 50,000 corporate clients, predominately originating from Turkey, to which it provided retail, corporate and international banking services. Kuveyt Türk operates through a network of 139 branches across Turkey (57 branches of which are located in the Istanbul and Anatolia regions).

In addition to its head office and branches in Istanbul and Anatolia, Kuveyt Türk provides Retail Banking, Corporate and Commercial Banking and International and Investment Banking and Treasury Services to international customers through its wholesale banking branch in the Kingdom of Bahrain (**Bahrain**) and through its subsidiary in the Emirate of Dubai (**Dubai**) in the United Arab Emirates (**UAE**). Kuveyt Türk also services its international customers through a representative office in Kazakhstan and a financial services branch in Mannheim, Germany, see *Business Description of Kuveyt Türk—Group Structure, Subsidiaries, International Branches and Strategic Relationships* for further details.

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

History

Kuveyt Türk is joint stock company, incorporated on 22 November 1988 in Turkey and a subsidiary of Kuwait Finance House KSC (**KFH**) (a financial institution incorporated in the State of Kuwait (**Kuwait**)). See *Business Description of Kuveyt Türk—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 within five years. Since 2003, Kuveyt Türk has adopted a more retail-oriented approach to service Retail SMEs and individuals and further diversified its portfolio of services to include small business and individual credits. Kuveyt Türk was becoming the first participation bank in Turkey to provide products and services to retail customers.

In 2000, Kuveyt Türk began implementing its growth strategy (see *Description of Kuveyt Türk—Strategy* for further details) and opened a total of 8 new branches, thereby almost 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 ATM (Automated Teller Machines) 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, Kingdom of Saudi Arabia (**Saudi Arabia**), Qatar, 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 *Description of Kuveyt Türk—Group Structure, Subsidiaries, International Branches and Strategic Relationships* for further details). The main activities undertaken by the Bahrain branch include providing an avenue for Kuveyt Türk to tap funding sources through Wakala, commodity Murabaha and Mudaraba investments from financial institutions in order to assist Kuveyt Türk in maintaining liquidity as well as investing part of Kuveyt Türk's excess liquidity within financial institutions based in the GCC. The branch also provides foreign financing to Turkish corporate clients.

In May 2005, Kuveyt Türk established a representative office in Germany to focus on trade financing and fund mobilisation from the local German population of Turkish decent.

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

On 12 May 2009, Kuveyt Türk established a representative office in Kazakhstan to capitalise on trade finance opportunities based on its customer's corporate operations in Central Asia. On 28 August 2009, Kuveyt Türk received a financial services branch licence from the German Federal Financial Supervisory Authority (**BaFin**) in respect of its German representative office, permitting Kuveyt Türk to convert the representative office into a financial services branch. On 26 April 2010 Kuveyt Türk commenced its operations from the financial services branch. The branch is anticipated to provide Kuveyt Türk with an opportunity to access deposits from customers in Germany. The licence permits fund collection and the intermediation of funds for retail investments for customers however, currently restricts Kuveyt Türk from providing credit to customers from the branch.

On 15 November 2009, Kuveyt Türk was granted a license to establish a subsidiary in Dubai to undertake interest-free finance activities from the Dubai International Financial Centre (**DIFC**) in Dubai. Early this year, Kuveyt Türk added an additional eight new branches to its network, all of which were established in Turkey, bringing the total number of branches in Turkey to 133.

Shareholders and Capital Structure

Shareholders

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

Shareholders	Per cent.
KFH	62.23
General Directorate of Vakif Foundations—Turkey (**GDF**)	18.72
Public Institution for Social Security—Kuwait (**PIFSS**)	9.00
Islamic Development Bank (**IDB**)	9.00
Others	1.05
Total	100.0

KFH

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

GDF

The GDF consists of a large number of recorded foundations which were founded prior to 1926. Pursuant to the Foundations Law No. 2762 and the Law on the Organisation and Duties of the General Directorate of Vakif Foundations, the assets and properties of the recorded foundations are administered and managed by the GDF. 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 Prime Minister.

PIFSS

PIFSS was founded in 1976, to implement the Kuwaiti social security system including (i) security of old age, disability, sickness and death for civil workers in the government sector, private and oil sectors; (ii) security of old age, disability, sickness and death for the self-employed, working for their own account and their affiliates; and (iii) security of occupational diseases. PIFSS is a major investor on the KSE and in other Arab and Islamic countries.

IDB

The IDB is an international financial institution 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 7.84 per cent. of the outstanding shares of the IDB. Other major shareholders include Saudi Arabia, Kuwait, Libya, Iran and the UAE. The head office of the IDB is located in Jeddah in Saudi Arabia. As at the date of this Prospectus, IDB is rated Aaa by Moody's and AAA by Standard and Poors.

Capital Structure

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

Date of registration	Capital (TL)
5 May 2005	200,188,000
2 May 2007	213,500,000
30 June 2007	260,000,000
30 May 2008	500,000,000
30 May 2010	550,000,000

Kuveyt Türk's share capital was also increased on 16 May 2007 from retained earnings (TL13,312 million) and through a cash payment (TL69,750 million) by Kuveyt Türk's shareholders for 46,500,000 shares, which allowed Kuveyt Türk to extend additional cash credits, resulting in increased income from current accounts and equity (see *Business Description of Kuveyt Türk—Corporate and Commercial Banking—Cash Credits* for further details on cash credits).

For the year ended 31 December 2009, Kuveyt Türk had 500,000,000 shares outstanding, with a nominal value of TL1 each. 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 objective is to establish itself as the "leading participation bank" within Turkey for those seeking interest-free banking solutions and accordingly seeks to become one of the top 10 banks (in terms of assets) in Turkey by 2018. Kuveyt Türk's strategy to achieve its objective involves (i) enhancing its loan growth with a special focus on non-cash business and increasing its market share generally; (ii) growing its local customer base through the expansion of its branch network and alternative distribution channels; (iii) leveraging its existing customer base through enhanced product offerings and increasing product diversity and service quality; (iv) achieving further growth while enhancing profitability and efficiency and improving operational efficiency through cost control initiatives; (v) increasing market share in international trade business; and (vi) growth through strategic investments and international expansion.

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

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

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 representing high growth opportunities. Kuveyt Türk aims to have over 250 branches within Turkey by 2014 and in this regard Kuveyt Türk's senior management (**Senior Management**) have identified Anatolia as a key area which they believe is under-banked and provides opportunities for expansion of its branch network over the next few years. By the end of 2010, Kuveyt Türk aims to have opened 10 additional branches.

Kuveyt Türk also aims to increase its customer base through the expansion of its alternative distribution channels. Alternative distribution channels include internet banking, ATMs, Automated Teller Safes, call centres and kiosks (which are located at Kuveyt Türk's branches and enable customers to interface, via interactive touch screens, a variety of banking services without queuing at branches and creating a form of virtual branch). Kuveyt Türk aims to expand its network and abilities by increasing its alternative delivery channels and accordingly decrease operational costs. Kuveyt Türk also aims to grow its international customer base by expanding its geographical presence in key countries (see *Business Description of Kuveyt Türk—Strategy—Strategic investments and international expansion* for further details).

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

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

Kuveyt Türk aims to distinguish itself from competitors by providing innovative products (such as gold products, see *Business Activities—Retail Banking* 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 increase 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.

Achieving further growth while enhancing profitability and efficiency 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 vehicles requirements, to car fleet companies.

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

Increasing market share in international trade business

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

Strategic investments and international expansion

Although Kuveyt Türk's strategic plan is to primarily focus on organic growth opportunities (including those resulting from the increased consumer demand for interest-free banking services and products), Kuveyt Türk from time to time may seek to supplement growth through sector-specific 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 aligns with its strategy to become a 'house' bank. An example of this is Kuveyt Türk's investment in Neova Sigorta A.S., an insurance company, (**Neova**) to provide interest-free insurance to Turkish customers (see *Group Structure, Subsidiaries, International Branches and Strategic Relationships—Associates* for further details).

Kuveyt Türk's strategy for international expansion comprises two 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); and (ii) 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 and endeavours to increase its income and market share in these jurisdictions by enhancing customer satisfaction through competitive offerings. In this regard, subject to the development of the regulatory market for interest-free financial institutions in Germany, Kuveyt Türk also aims to convert its German financial services branch into a full offshore branch to capture customer's requirements for the provision of interest-free retail credit facilities.

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 and maintain its business with a sustainable growth and profitability.

Retail Banking

Kuveyt Türk's retail business activities are currently targeted at individual customers and Retail SMEs. Kuveyt Türk aims to increase its retail credit exposure specifically to Retail SMEs and thereby increase corresponding fee income by actively targeting its current retail customer base and leveraging of its branch network and alternative distribution channels to attract new customers. Kuveyt Türk intends to maintain its focus on growing its retail banking business by expanding its branch network, increasing its marketing force and offering new products, with an increased focus on non-cash credit products offered to Retail SMEs.

Corporate and Commercial Banking

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

Kuveyt Türk intends to continue developing and enhancing its asset base and building a more diversified loan portfolio. In some cases, Kuveyt Türk will consider increasing exposure with selected corporates to support project financing requirements of such corporates. Aside from the short term working capital needs of its customers, Kuveyt Türk intends to increase its exposure in mid and long term credits enhanced with providing opportunities for its customers to access international markets to raise funds and loans. Kuveyt Türk will continue to diversify corporate and commercial banking efforts through the opening of new branches with an understanding of segmentation concept and offering tailor-made solutions for its clients.

International Banking Business Segment

Kuveyt Türk aims to consolidate and strengthen its various departments within its international banking business segment by increasing the rate of uptake by customers' investment services products by 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.

Funding

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; and (iii) shareholders' equity.

Kuveyt Türk was the first Turkish participation bank to raise funds from the international market through a U.S.$200 million syndicated commodity Murabaha in 2006 (which was renewed in the amount of U.S.$115 million in 2009 and repaid in full in April 2010) through its Bahrain branch. 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). Accordingly, Kuveyt Türk aims to continue capitalising on new interest-free funding opportunities and, in the future, may also consider raising capital by increasing its equity share capital by way of a public or private offering.

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

	As at 31 December					
	2009	**%**	**2008**	**%**	**2007**	**%**
			(TL in thousands)			
Deposit from customers	5,545,201	81.37	4,119,460	72.03	2,969,670	76.93
Credits	383,681	5.63	820,954	14.36	433,318	11.23
Total shareholders' equity	817,481	12.00	688,700	12.05	404,422	10.48
Other liabilities*	68,534	1.00	89,584	1.56	52,605	1.36
Total	6.814.897	100.00	5,718,698	100	3,860,015	100.00

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

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

Business Activities

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

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

	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury
		(TL in millions)	
Year ended 31 December 2009	201,893	220,811	49,045
Year ended 31 December 2008	211,520	164,101	20,154
Year ended 31 December 2007	142,933	182,819	28,256

The below is an overview of Kuveyt Türk's core business areas.

Retail Banking

For the year ended 31 December 2009, Retail Banking accounted for approximately 31 per cent. of Kuveyt Türk's total assets (excluding unallocated assets), and 65 per cent. of Kuveyt Türk's total liabilities. As at 31 December 2008, Retail Banking accounted for approximately 21 per cent. of Kuveyt Türk's total assets (excluding unallocated assets), and 55 per cent. of Kuveyt Türk's total liabilities.

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

For the year ended 31 December 2009, Kuveyt Türk had approximately 570,000 active retail customers (including Retail SMEs and individuals) with outstanding cash or non-cash credit balances (as compared to 510,000 active retail customers for the same period in 2008). The customers of Kuveyt Türk's Retail Banking Department had total cash credits outstanding as at 31 December 2009 of approximately TL1,498 million, as compared to TL1,161 million for the same period in 2008 (including commercial instalment loans, as per Kuveyt Türk's BRSA accounting reports). Kuveyt Türk's deposits from customers comprise deposits that are primarily denominated in Turkish lira, Euro and US Dollar.

Kuveyt Türk offers its customers a range of retail products such as:

- **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 to two months. Most of these deposits are typically rolled over on maturity.
    - *Current Accounts:* These are accounts which may be opened in the Turkish lira or foreign currency in return for a Special Current Account Deposit Book in the name of the customer and may be withdrawn at any time partially or completely (as preferred by the customer). The accounts allow customers to pay invoices via automatic payment instruction, carry out electronic fund transfers (**EFTs**), collect cheques-bonds or make credit payments. As at 31 December 2009, Kuveyt Türk had 279,760 current accounts opened for customers (as compared to 205,386 current accounts for the same period in 2008). Under Current Accounts, customers do not receive any mark-ups on their deposits.
    - *Participation Accounts:* These are accounts which are high-revenue accounts that may be opened in one of three currencies (Turkish lira, U.S. Dollars or the Euro). These accounts offer customers the option of participating in the profit and loss of Kuveyt Türk which occurs through the investment facilities of the deposited funds by Kuveyt Türk. The funds are accumulated in participation accounts which are used in the financing of the real estate sector (in order to be compliant with the principles of interest-free banking). Kuveyt Türk has three types of participation accounts: the Classical Account, the Golden Account and the Platinum Account, each of which differs according to minimum deposit

requirement. In participation accounts, customers forfeit any accrued profits if amounts on deposit are withdrawn prior to maturity. As at 31 December 2009, Kuveyt Türk had 86,633 participation accounts opened for customers (as compared to 64,780 participation accounts for the same period in 2008).

- **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: Enable customers to open gold accounts (through which they can invest in gold (buy or sell). Through the Gold Storage Account accountholders have the added benefit of minimising risk particularly as the government, through a separate scheme, guarantees the weight of gold up to the value of U.S.$35,000. In addition, these accounts can have varying maturity dates, providing greater flexibility to customers, specifically enabling them to convert their gold savings into TL or U.S. Dollars at market value on demand.
  - Participation Accounts (denominated in gold): Are participation accounts, which can be opened with 10 grams of gold and provide 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, six months or 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, 2.5, 5, 10, 20, 50 and 100 grams certified and coined by the Istanbul Gold Refinery. This is an alternative product offered to customers who prefer to have physical gold rather than cash accounts. The Kuveyt Türk gold purchased from Kuveyt Türk branches and other gold products carrying the certificate of the Istanbul Gold Refinery can be resold to all branches after the necessary security checks have been undertaken.
  - *GoldCheck:* Kuveyt Türk has introduced a cheque product which is akin to a gift certificate which enables a customer to purchase a cheque denominated in grams of gold and gift the same to a recipient. The recipient cashes in the cheque by either opting for the physical gold or for value of the gold corresponding to the weight of gold set out in the cheque in cash calculated at a spot rate.
  - *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.
- **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 current prices (a first of its kind product to be provided by a participation bank). This product allows customers to buy silver or platinum for investment purposes which Kuveyt Türk holds at the Istanbul 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 predetermined 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 finance purchases of land, properties (including villas and apartments) which have been or are being built by an approved developer, as well as properties on the secondary market. Kuveyt Türk also provides financing for self-construction however, in each instance approved on a case-by-case basis. Property financing is provided on either a fixed rate basis or a variable rate basis. Kuveyt Türk introduced, for the first time in Turkey, the credit system indexed to Consumer Price Index (**CPI**) with variables rates. Unlike other fixed price instalment leasing transactions, a CPI Indexed Real Estate Leasing product is a new leasing product where leasing instalments can be indexed to inflation through the CPI rate announced by the Turkish Statistical Institute on the third day of every month and vary according to economic conditions.
- **Personal Finance**: 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 credibility of each customer and is evaluated on case by case basis.
- **Credit and Debit Cards**: Kuveyt Türk was the first to introduce interest-free debit cards and credit cards to its customers in 2001 and 2002, respectively. For the year ended 31 December 2009, Kuveyt Türk had a total of approximately 56,702 active debit cards and 38,474 active credit credits as compared to 31,519 active debit cards and 61,550 active credit cards for the same period in 2008. The decline in the number of such active credit cards between 2009 and 2008 is mainly attributable to Kuveyt Türk's increased focus on other types of credit card products. Kuveyt Türk intends to continue developing unique card products to

capture niche markets. Specifically, Kuveyt Türk has developed business cards (which are credit cards with particular features designed for its corporate and SME customers). 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 was the first Turkish participation bank to be a member of Visa® International, and currently issues Visa Classic® and Visa Gold® credit cards. Kuveyt Türk has also developed the first and only pre-paid credit card in Turkey, the Siz Card, which can be used worldwide at locations authorised by Visa® International. For the year ended 31 December 2009, Kuveyt Türk has approximately 18,000 Siz Cards in circulation. Since 1 August 2009, Kuveyt Türk has also begun issuing MasterCard® credit cards. For the year ended 31 December 2009, there are 5,100 Master Card® credit cards issued by Kuveyt Türk in circulation.

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

- **Esnaf Finans**: Esnaf Finans is a packaged product offered to tradesman, which includes checking accounts, business credit cards, funding and alternative distribution channels for SMEs and individuals to maintain their business activities. This product provides both Kuveyt Türk and the customer with various advantages including discounts on daily banking transactions and receiving competitive loan discounts subject to certain pre-conditions.

In addition to earning fees from the customers' usage of credit cards, Kuveyt Türk has Point of Sale (**POS**) terminals in stores throughout Turkey from which Kuveyt Türk earns a fee from each transaction in which the cards are used (regardless of whether they are used by a customer of Kuveyt Türk or not). The number of Kuveyt Türk POS terminals through which transactions using Kuveyt Türk's own debit or credit cards and the credit cards of other banks are effected has slightly increased from 12,995 units as at 31 December 2008 to a total of 13,145 as at 31 December 2009. The volume of transactions increased to TL1,207 million as at 31 December 2009 compared to TL986 million as at 31 December 2008. For the year ended 31 December 2009, Kuveyt Türk had approximately 9,500 member merchants who used its POS terminals (according to Kuveyt Türk's internal reports).

Kuveyt Türk conducts its retail banking operations through its 133 branches located throughout Turkey and an offshore branch in Bahrain, as well as its alternative distribution channels including ATMs, internet banking, 24-hour telephone banking, and POS terminal payment locations. Kuveyt Türk has also expanded its alternative distribution channels by entering into an agreement with the Turkish Postal Organisation (**PTT**), which allows customers to repay their individual and credit card credits at over 2,750 PTT Bank branches throughout Turkey, without paying additional commission.

As at 31 December 2009, Kuveyt Türk had TL1,498 million in outstanding retail credits as compared to TL1,161 million as at 31 December 2008. Home financings accounted for approximately 54 per cent., or TL806.6 million of Kuveyt Türk's total retail credit portfolio as compared to 54 per cent., or TL627.7 million, as at 31 December 2008. Auto financings accounted for approximately 5 per cent., or TL74 million, of Kuveyt Türk's total retail credit portfolio as at 31 December 2009, as compared to 4 per cent., or TL48 million, as at 31 December 2008. All of Kuveyt Türk home and vehicle financings are collateralised by the property or vehicles purchased with the proceeds of such credits. Credit Card financings accounted for approximately 6.5 per cent., or TL97 million, of Kuveyt Türk's total retail credit portfolio as at 31 December 2009, as compared to 14 per cent., or TL164 million, as at 31 December 2008. The remaining 34.5 per cent. of Kuveyt Türk's retail credit portfolio as at 31 December 2009 was comprised of Retail SME credits and other personal credits (all as per Kuveyt Türk's BRSA accounting reports).

Kuveyt Türk's retail products are supported by the adoption of stringent credit criteria, including specified lending limits for each retail product. See *Business Description of Kuveyt Türk—Risk Management* for further details.

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

Customers

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

The individuals 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 2009, Kuveyt Türk provided retail banking services to approximately 500,000 individuals. For the year ended 31 December 2009 the total amount of its outstanding cash credits to individuals represented approximately 62 per cent. of the total cash credit portfolio of Kuveyt Türk's Retail Banking Department, amounting to approximately TL942 million. For the same period in 2008, the total amount of Kuveyt Türk's outstanding cash credits to individuals represented approximately 68 per cent. of the total cash credit portfolio of its Retail Banking Department, amounting to approximately TL786 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 2009, the total amount of Kuveyt Türk's outstanding cash credits to Retail SME customers represented approximately 38 per cent. of the total cash credit portfolio of its Retail Banking Department, amounting to approximately TL556 million. For the same period in 2008, the total amount of Kuveyt Türk's outstanding cash credits to Retail SME customers represented approximately 32 per cent. of the total cash credit portfolio of its Retail Banking Department, amounting to approximately TL375 million (all as per Kuveyt Türk's BRSA accounting reports).

Corporate and Commercial Banking

For the year ended 31 December 2009, Corporate and Commercial Banking accounted for approximately 45 per cent. of Kuveyt Türk total assets (excluding unallocated assets), and 28 per cent. of Kuveyt Türk's total liabilities. As at 31 December 2008, Corporate and Commercial Banking accounted for approximately 52 per cent. of Kuveyt Türk's total assets (excluding unallocated assets), and 25 per cent. of Kuveyt Türk's total liabilities.

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

Cash Credits

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

Kuveyt Türk focuses on high volume, short term financing provided for the purposes of production support and working capital requirements (described below) in order to mitigate any adverse effects of 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. As conventional banks are not allowed to engage directly in leasing activities under Turkish law, Kuveyt Türk, as a participation bank, can effect leasing transactions more efficiently to its customers than conventional banks can (due to the fact that conventional banks are only permitted to do so through their subsidiaries). Kuveyt Türk has also introduced a Basket Loans product which allows customers who seek to reduce foreign exchange risk with foreign exchange indexed loans, to borrow in two or three different currencies for the same project. For the year ended 31 December 2009, Kuveyt Türk had TL53.5 million, excluding unearned profit share, in outstanding leases (representing the total of financial leasing receivables, net of unearned profit share) (as compared to TL113.5 million for the same period in 2008). The decrease in lease receivables was mainly as a result of amendments in Turkey's tax legislation, implemented at the beginning of 2008, which removed the tax advantage offered in respect of financial leasing receivables and thereby increasing the value added tax ratio from 1 per cent. to 18 per cent. Kuveyt Türk also provides commercial customers with a variety of credit card services. See *Business Description of Kuveyt Türk—Retail Banking* for a detailed discussion on credit card offerings.

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

Non-Cash Credits

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

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

Corporate and Commercial Banking in Participation Banks

In accordance with the principles underlying Kuveyt Türk's participation banking principles, 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 in its operations, including, among other things, raw materials, machinery, tools, vehicles and equipment and for the payment of certain service providers, so long as such services (such as installation services) are provided in connection with the acquisition of tangible assets.

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

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

Customers

For the year ended 31 December 2009, Kuveyt Türk had over 50,000 corporate clients (of which 1,000 are institutional banking clients), to whom designated corporate relationship managers provide a dedicated point of contact throughout, assessing their cash management, treasury, trade finance, working capital finance, asset and project finance requirements (as compared to 48,000 corporate and commercial clients for the same period in 2008). Kuveyt Türk corporate and commercial customers had a total cash credit outstanding with Kuveyt Türk of approximately TL3,557 million and total non-cash credits (comprising of letters of credit, letters of guarantee, commitments and acceptance credits) outstanding with Kuveyt Türk of approximately TL5.255 million (as compared to TL3,179 million cash credits and TL3,849 million non-cash credits for the same period in 2008 outstanding with Kuveyt Türk) (all as per Kuveyt Türk's BRSA accounting reports).

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

International and Investment Banking and Treasury Services

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

For the year ended 31 December 2009 international banking segment accounted for approximately 24 per cent. of total assets (excluding unallocated assets). For the year ended 31 December 2008, the international banking segment accounted for approximately 27 per cent. of the total assets (excluding unallocated assets).

International Banking Department

To cater for the worldwide needs of both its corporate and retail customers, Kuveyt Türk's International Banking Department offers customers a wide range of services, including international payments, international documentary credits, letters of guarantee and other services involving counterparties outside of Turkey. To provide these services, Kuveyt Türk (as at 31 December 2009) has established and maintains relationships with 1,000 correspondent banks in 100 countries, one of the largest international networks amongst the Turkish participation banks.

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

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

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

Investment Banking Department

Kuveyt Türk's Investment Banking Department offers customers credit arrangement services and corporate products related to structured international financing projects. Kuveyt Türk was the first Turkish participation bank to have an investment banking arm when it established its Investment Banking Department in 2000. Kuveyt Türk's Investment Banking Department has undertaken a number 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 two different transaction types, both of which have been the first of their kind in Turkey. First, the Investment Banking Department introduced the "matched Murabaha" to the Turkish market in 2005. A second significant Turkish "market first" for Kuveyt Türk's Investment Banking Department was the internationally syndicated commodity Murabaha transaction that was arranged to meet Kuveyt Türk's funding need. The U.S.$200 million facility, which was concluded in 2006 (and renewed in the amount of U.S.$115 million in 2009 and repaid in full in April 2010) and which was over-subscribed by international investors, was the first of its kind by a participation bank in Turkey. Since then, other participation banks in Turkey have followed this model and established their own syndicated Murabaha facilities.

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

Treasury Department

The Treasury Department is responsible for managing Kuveyt Türk's funding and liquidity requirements and acts under the supervision of the Assets and Liabilities Committee (**ALCO**) see Business Description of Kuveyt Türk—Risk Management for further details. This department also manages Kuveyt Türk's risk profile, asset/ liability maturity mismatches and foreign exchange trading.

The Treasury Department is also active in the money market and currency trading see *Business Description of Kuveyt Türk—Risk Management* for further details. The core strategy for Kuveyt Türk's Treasury Department is to focus on liquidity and market risk management. In addition, the Treasury Department carries out limited proprietary trading in currencies as well as securities and gold through intra-day or overnight positions. Kuveyt Türk does not act as a market maker. The main element of Kuveyt Türk's proprietary trading strategy is to abide by set positions and stop-loss limits. Kuveyt Türk's annual proprietary trading stop-loss limit is currently U.S.$950,000. As at 31 December 2009, Kuveyt Türk's foreign exchange trade volume was U.S.$4 billion.

The Treasury department is also responsible for the marketing of treasury products that Kuveyt Türk offers to customers. These products include currency spot trading, precious metals trading and currency forwards and swaps. Kuveyt Türk has also entered into a number of ISDA (International Swaps and Derivatives Association) agreements that are based on the Murabaha principle with an international counterparty. As at 31 December 2009, Kuveyt Türk's total Murabaha transactions volume amounted to U.S.$710 million and swap volume transactions amounted to U.S.$400 million.

Investor Relation Department

The Investor Relations Department was set up to organise and manage Kuveyt Türk's relationship with correspondent banks and third parties in line with Kuveyt Türk's basic corporate management principles. The Investor Relations Department also disseminates various economic research, banking and industry reports to key employees within Kuveyt Türk. The department co-ordinates the cooperation and relation between its international organisation and head office.

Group Structure, Subsidiaries, International Branches and Strategic Relationships

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

Subsidiaries

Körfez Gayrimenkul İnşaat Taahhüt Turizm San. Tic. A.Ş. (***Körfez Gayrimenkul***)

Körfez Gayrimenkul was incorporated on June 1996 as a joint stock company under the Turkish Commercial Code and its registered address is Büyükdere Caddesi, Esentepe, Istanbul. Körfez Gayrimenkul is engaged in (i) the development, marketing and sale of real estate projects; (ii) property valuations; and (iii) property management.

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

Körfez Gayrimenkul total revenue for the year ended 31 December 2008 was TL7.741 million (as per BRSA accounting reports) which accounted for 0.27 per cent. of Kuveyt Türk's consolidated financial statement for the same period.

On 23 November 2009, Kuveyt Türk entered into an agreement with Hayat Investment Company (a Kuwait incorporated company) to sell 51 per cent. of its shareholding in Körfez Gayrimenkul. On 10 June 2010, Kuveyt Türk repurchased 51 per cent. of the shares at the original price. As at the date of this Prospectus, Körfez Gayrimenkul is wholly owned by Kuveyt Türk and its share capital is TL65,822,000.

Körfez Tatil Beldesi Turistik Tesisler ve Devremülk Işletmeciliği San. Tic. A.Ş. (***Körfez Tatil Beldesi***)

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

Körfez Tatil Beldesi's total revenue for the year ended 31 December 2009 was TL656,000 which accounted for 0.075 per cent. of Kuveyt Türk's consolidated financial statement. For the financial year ended 31 December 2008, no revenue was accounted for in Kuveyt Türk's consolidated financial statement for the same period.

Kuwait Turkish Participation Bank Dubai Ltd (KT Dubai)

KT Dubai was established on 15 November 2009 on being issued a licence to operate as a subsidiary branch office from within the DIFC on 15 November 2009. Kuveyt Türk undertakes it's banking business in Dubai as a separate entity for local law requirements through KT Dubai. KT Dubai is a wholly-owned subsidiary of Kuveyt Türk. The subsidiary was established with a capital of U.S.$12 million and has been granted a "Category 5" licence by the DIFC permitting it to operate as an Islamic Financial Institution. The subsidiary is key to Kuveyt Türk's operations as it will provide further opportunities that are not currently available to Kuveyt Türk through its Bahrain branch due to regulatory restrictions. Prior to the establishment of KT Dubai, Kuveyt Türk was developing business with financial institutions and corporates through its Bahrain branch with limited products and services. However, since KT Dubai has commenced operations, Kuveyt Türk is able to offer a wider scope of products and services to customers.

International Branches

In line with its strategy to expand its international network, Kuveyt Türk has established an offshore branch in Bahrain and a financial services branch in Germany (see *Business Description of Kuveyt Türk—History* for further details). Through the Bahrain branch Kuveyt Türk is able to diversify its funding sources and accordingly enhance its product offerings. Kuveyt Türk's financial services branch in Germany was recently converted from a representative office.

Representative Office

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

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

Associates

Neova

Neova was incorporated in Istanbul in 2008. As at the date of this Prospectus, Kuveyt Türk holds seven per cent. of the shares in Neova. Neova is the first insurance company providing *Sharia* compliant insurance products in Turkey. Neova's management anticipate that the company will commence operations by the end of 2010 once approval from the Treasury of Turkey has been received.

*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. Kuveyt Türk owns nine per cent. of the shares of the IIRA.

Competition and Competitive Advantages

As of 30 May 2010, according to the Banks Association of Turkey, there were 45 banks operating in Turkey, including four participation banks and seven branches of foreign banks established and licensed outside Turkey. The private commercial banks in Turkey can be divided into three groups: large private banks (with a bank-only asset size between TL1 billion and TL20 billion), small private banks (with a bank-only asset size less than TL1 billion), and banks under foreign control.

Although the main competition faced by Kuveyt Türk is from the four participation banks in Turkey, Kuveyt Türk also faces competition from large and small-sized private Turkish banks and from foreign banks operating in Turkey. The principal bases for such competition are in the areas of SMEs and retail banking activities as Kuveyt Türk is competing against all banks in Turkey in respect of the provision of mortgage credits (as banks are able to fully collateralise these and 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 (again providing attractive opportunities for Kuveyt Türk in the region).

Kuveyt Türk considers its main competitors, aside from the three other participation banks in Turkey, to be the small-sized private banks in terms of asset size, specifically Fortis Turkey, Şekerbank T.A.Ş. and Citibank A.Ş. 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 these banks do not have Islamic windows and do not operate in accordance with interest-free principles. This provides 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 and allows Kuveyt Türk to capitalise upon the advantages of being a first mover.

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

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

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

Experienced management team with a proven track record: Kuveyt Türk has a highly experienced management team with a clearly defined, long term focus on developing Kuveyt Türk's operations and a proven track record in growing Kuveyt Türk's operations and profitably in a competitive market. Kuveyt Türk's management team has over 80 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 focus on sustainable, profitable growth.

Growing and attractive interest-free banking market: The Turkish banking sector has been one of the fastest growing in the MENA region between 2001 and 2006 in terms of loan growth. Senior Management expect that this 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 (e.g., the third largest population in Europe (approximately 73 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 6.0 per cent. as at 31 December 2009). In addition, Senior Management believe that there is a growing demand for interest-free banking products not only in Turkey but also from the Turkish and other Muslim populations living outside Turkey. To access this demand, Kuveyt Türk has an off-shore branch in Bahrain and a financial services branch in Germany, has a subsidiary in Dubai and a representative office in Kazakhstan. Senior Management believe that the breadth of its current and future product and service offerings, its experience and its significant and expanding branch network that is supported by Kuveyt Türk's alternative distribution channels and advanced Information Technology (IT) systems, makes 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 business: Through the expansion of its branch network Senior Management believe that Kuveyt Türk has a strong deposit base. In addition, Senior Management believe that Kuveyt Türk has a track record of increasing customer deposits and reducing the costs of deposits. Additionally, Kuveyt Türk actively endeavours to diversify its funding base through the establishment of its international branches, which, together with its relationship with KFH, provides Kuveyt Türk with access to financing in the GCC. As at the date of this Prospectus, the majority of Kuveyt Türk's financing is provided through its Bahrain branch. Access to international financing, through its Bahrain branch, has also provided it with additional long term funding and allowed it to enhance its asset-liability management. In addition, Kuveyt Türk's access to foreign investors has allowed it to develop new ways to raise financing. For example, Kuveyt Türk was the first participation bank in Turkey to execute a Murabaha syndication in 2004 for a customer, and was the first participation bank in Turkey to obtain financing through an internationally syndicated U.S.$200 million commodity Murabaha facility in 2006 (which was renewed in the amount of U.S.$115 million in 2009 and repaid in full in April 2010). Senior Management believe that Kuveyt Türk's subsidiary in Dubai will provide it with greater flexibility for future funding.

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

Kuveyt Türk was the first participation bank to offer retail banking services in Turkey when it established its dedicated Retail Banking department in 2000. Senior Management believe that this first mover position has been an important factor behind the market leading 29.1 per cent. share Kuveyt Türk had in individual credits of participation banks as at 31 December 2008 and 30.5 per cent. as at 31 December 2009. Kuveyt Türk has also introduced a number of innovative retail products and services with attractive pricing tailored to meet the needs of Kuveyt Türk's customers, including the Siz Card, the first and only pre-paid credit card in Turkey, internet and telephone banking services, service packages customised to meet the needs of different customer segments, and gold savings and trading products, which are unique in the Turkish market.

Kuveyt Türk has also introduced a number of pioneering products in Turkey in the area of structured trade finance, such as the "matched Murabaha" product which was the first such product offered in Turkey. 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, who trust it to provide them with products that meet their needs, provides it with a strong platform for future growth, in particular in retail banking which Senior Management believe offers good growth prospects.

High asset quality, prudent risk management and solid credit policies and procedures: Kuveyt Türk has a diversified loan portfolio. Kuveyt Türk has achieved a strong loan portfolio growth over the last three years and expects to maintain this growth while adhering to solid credit approval processes and concentration limits. Senior Management believe that proper assessment and control of risk is critical to its success. Therefore, Kuveyt Türk has strengthened its balance sheet by diversifying its asset base and decreasing credit concentration in its cash and non-cash portfolios. Kuveyt Türk has also focused on building a stable pool of deposits with high retention rates and developed its risk management platforms to enable it identify and closely measure, monitor and manage the various risks arising from its operations. Kuveyt Türk has, for example, centralised the registration of all collaterals using its document management system, and all collaterals taken from customers are registered and approved at its head office. Kuveyt Türk's risk management policies are constantly being revised and updated based on its analysis of new market trends and risks.

Well established strategy for improving service quality and customer oriented business: Kuveyt Türk continues to emphasise the importance of high quality service and customer satisfaction in all its operations and on all levels of 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 as well as in the development of the awareness of Kuveyt Türk's brand among its customers. 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 to achieve further growth while enhancing 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. 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 maturity mismatch Finally, the monthly principal repayment structure of its credits gives Kuveyt Türk the opportunity to have more predictable month-to-month cash inflow than conventional banks. On the other hand, as part of the liquidity management policies, Kuveyt Türk places some of its idle funds in Murabaha investments in commodity markets or swap facilities for the short term, through correspondent banks with which it has established business lines. In compliance with its well-established business strategies, Kuveyt Türk does not work with a speculative line in treasury transactions, preferring to keep a square position in foreign currencies. Therefore Kuveyt Türk tends to be less exposed to foreign currency risk than some conventional banks since its policy is to maintain an even opposition by matching foreign currency deposits and foreign currency credits. Senior Management believe that this access to funds affords it greater flexibility in fixing its mark-up rates to the market and channelling its resources into better performing sectors.

Risk Management

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

(i) credit risk;

(ii) funding and liquidity risk;

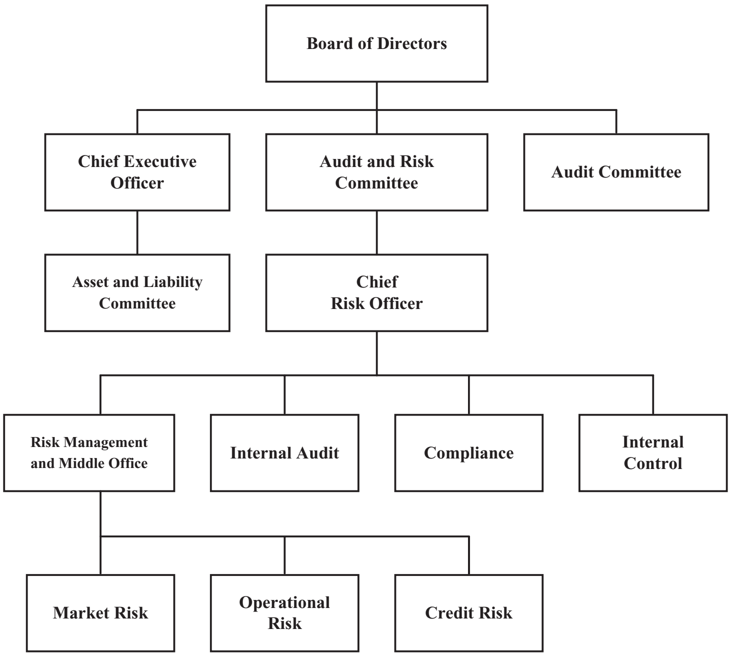
(iii) market risk (including pricing, foreign exchange and interest rate risk); and

(iv) operational risk (including strategic and reputation risks).

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

Risk Management Structure

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



Risk Committees

Audit Committee

The Audit Committee, which consists of two directors, oversees and is responsible for (i) the adequacy and efficiency of Kuveyt Türk's internal systems; (ii) the functioning of these systems as well as 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 conducting preliminary evaluations for the selection of Kuveyt Türk's external independent auditing firms and rating agencies, which are ultimately selected by the Board. The Audit Committee is also responsible for continuously monitoring the auditing firms after they are selected by the Board and monitoring its relationships with rating agencies. The Audit Committee meets at least six times per 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 financial markets. The ALCO meets on a weekly basis and reports to the Board. In each case, the ALCO undertakes a profitability/risk analysis of each position.

The ALCO's responsibilities also include:

- developing and reviewing all policies and procedures relating to credit, market and operational risk;
- making weekly decisions on the overall funding structure as well as regularly determining the amount of resources available to the business segments;
- establishing risk concentration limits, economic sectoral limits and portfolio diversification tools and processes for managing risks;
- managing Kuveyt Türk's balance sheet and establishing contingency procedures in respect of liquidity risk;
- managing liquidity policies;
- developing and monitoring business continuity and disaster recovery planning;
- developing and monitoring Kuveyt Türk's expense management policy as well as its authorisation and empowerment policy guidelines; and
- making decisions regarding maturities and pricing of assets and liabilities as well as the buying and selling of securities to manage Kuveyt Türk's position.

The ALCO has nine members including Kuveyt Türk's CEO, the Chief Financial Officer (**CFO**), the Chief Audit and Risk Officer (**CRO**), the Chief Operating Officer (**COO**), the Assistant General Manager of Retail Banking, Corporate and Commercial Banking, Treasury International and Investment Banking, Operations and Technology and Risk follow up Legal Affairs.

Audit and Risk Committee (ARC)

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

The ARC is responsible for the following departments:

Internal Control (IC) Department

The objective of Kuveyt Türk's IC Department is to design, implement, manage and monitor the internal control activities and report the results to ARC. To achieve this objective, the IC Department, which comprises of 10 employees, provides the following services:

- ***Internal control activities:*** exercises both on-site control and central control (i.e., remote monitoring over the system) and carries out independent risk-focused controls of the departments at Kuveyt Türk's head office and branches to evaluate the degree of risk in Kuveyt Türk's activities to ensure that all activities are carried out in a manner that is in line with Kuveyt Türk's policies and procedures in accordance with changing conditions;
- ***Central Control and Monitoring:*** includes activities of continuous monitoring of Kuveyt Türk's operations. This continuous monitoring process is undertaken with computer assisted audit tools, reports generated using scenario analysis and tasks; and
- ***Information and Internal Control System:*** designing, developing and implementing systems in relation to Kuveyt Türk's internal control systems.

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 *Business Description of Kuveyt Türk—Anti-Money Laundering and Client Identification* for further details).

In addition to the compliance function, the Compliance Department is also responsible for tracking regulatory changes and advising branches and head office on legal and regulatory issues. The Compliance Department reports directly to the ARC and consists of five 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 22 employees. The department provides the following services:

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

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

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

Risk Management and Treasury Middle Office Department (RMMO)

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

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

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

Credit Risk

Credit risk refers to the potential risk of financial loss if Kuveyt Türk's customer or counterparty fails to meet its commitments in accordance with the agreed terms. Kuveyt Türk is exposed to credit risk through its lending, trading, treasury and investing activities and when it acts as an intermediary on behalf of its customers or third parties or 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. In certain instances, this means that limits can be 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 and exposure and the sensitivity analysis 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 comprehensive centralised approach in relation to credit applications, with approval authorities resting with credit committees and joint authorities. Authority for extending new loans is delegated across different hierarchical levels (see *Description of Kuveyt Türk—Credit Risk*) within Kuveyt Türk and is dependent upon a number of factors including the internal rating of the customers, the amount of the proposed loan and the type of collateral available. Every product (whether retail or corporate) is supported by defined policy guidelines and processes for credit risk management (i.e. credit appraisal, approval, monitoring and administration). Particular focus is directed on sustained growth and optimum usage of resources without compromising Kuveyt Türk's asset quality and which are approved by the Board. Kuveyt Türk's approval process is based on the Banking Law and internal procedures established by the Board.

Collateral

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

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 value to the loan to be granted and the threshold levels for top-up of collateral security. Collateral where expert reports are required (such as for real estate) is controlled by the CRMD. Kuveyt Türk obtains insurance against collateral (at the borrower's cost) which is undertaken by Kuveyt Türk's Credit Operations Department (the department responsible for, amongst other things, the payment of loans).

Kuveyt Türk generally has a first charge over collateral in 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 may consider other forms of collateral on a case-by-case basis when supported by acceptable business reasons. Kuveyt Türk generally obtains security with a minimum value of 100 per cent. of the approved credit facility. Collateral exceptions 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 2009, the total gross maximum exposure of cash credit risk was TL4,640 million and the total gross non-cash credit risk was TL5,255 million, totalling TL9,895 million. As at 31 December 2008, the total gross maximum exposure of cash credit risk was TL3,993 million and the total gross non-cash credit risk was TL3,849 million, totalling TL7,842 million. Approximately all credit risk was collateralised and the quality of such collateral is periodically monitored and assessed.

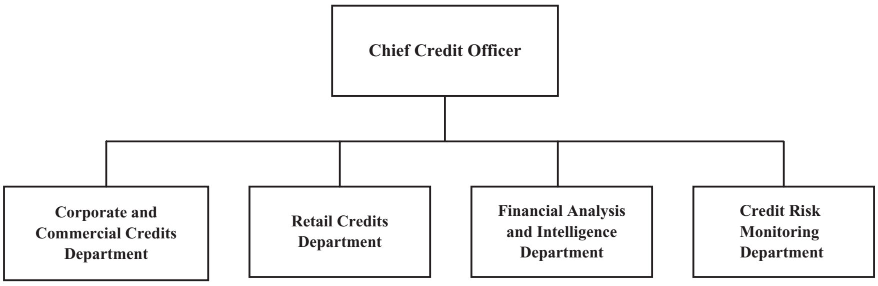
Financing

The main objectives of Kuveyt Türk's lending policies are:

- ensuring that the business subject to finance is compliant with key interest-free banking principles;
- that credits remain performing;
- ensuring 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;
- ensuring that the loan portfolio is diversified;
- ensuring that profitability, efficiency and liquidity are closely monitored; and
- ensuring 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 duly approved by the Board. Senior Management believe this tiered hierarchy of delegated approval assists in effectively controlling its 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 *Business Description of Kuveyt Türk—Credit Risk—Retail Credits Department (RCD)* and *CCCD* for details).

Stage 2: The branch credit committee provides an initial decision or requests further information. Once complete, the credit proposal is submitted to the Regional Credit Committee or Corporate and Commercial Credits Department (**CCCD**) for authorisation by the relevant credit committees.

Stage 3: The RCD or CCCD independently reviews and evaluates the credit proposals and accordingly the relevant department decides whether or not to reject or submit the credit proposal to the relevant credit committees (see *Business Description of Kuveyt Türk—Credit Risk—Retail Credits Department (RCD)* and *CCCD* for further details).

Stage 4: The relevant credit committee or the Board of Directors makes the final decision.

Stage 5: The RCD or CCCD insert the agreed limits into the limits management system and notify the relevant branches.

Stage 6: The relevant branch completes the necessary documentation based on condition precedent documents and in accordance with the required and set collaterals, following which the operations team disburses the facility(ies) to the customer.

Retail Credits Department (RCD)

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

Both the RCD and the branches have authority to grant credits to customers. If the credit limit of applicants exceeds the branch's authority or conflicts with Kuveyt Türk's retail credit policy, applications are sent to the RCD. After the RCD finalises the credit evaluation process, credit files are presented to the "Retail Credit Allocation" and "Retail Allocation Upper" Committees to assess credit limits.

Credit approval at a branch 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. The greater the low delinquency ratio is while maintaining the uprising risk volume, the more authority the branch has.

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

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

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

	Branch Retail Credit Classification (U.S.$)[1]						
	Small Business & Individual Loans		Small Business			Individual	
Branch Class	Real Estate **(MAX-1)**	Vehicle	Real Estate **(MAX-2)**	Cheque	Signature*	Real Estate **(MAX-3)**	Signature**
A Class	300.000	100.000	300.000	100.000	30.000	150.000	30.000
B Class	225.000	75.000	200.000	75.000	20.000	100.000	20.000
C Class	150.000	50.000	100.000	30.000	10.000	75.000	10.000
D Class	100.000	30.000	—	—	—	—	—
E Class	Related Branch Committee authority does not exist						

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

MAX-2 = Maximum total amount of loan to be granted for Small Business product group

MAX-3 = Maximum total amount of loan to be granted for Retail product group

* In small Business;

1- The limits against signature, netted from limits with cheque and pledge.

2- The limits with cheque collateral, netted from the limits with pledge.

** In Individual; limits against cheque is netted from limits with pledge.

RCD's organisation structure consists of three units:

1. Credit Unit for Individual & Retail SMEs

The unit is responsible for the appraisal process for credits provided to individuals up to U.S.$1,000,000 and the appraisal process of Retail SMEs credits up to U.S.$300,000

1.1 Individual Segment:

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 information systems maintained by the CBT,

(ii) the Kredit Kayit Bürosu A.S. (**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 centralised 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 (**SSK**) (the national social security agency) to compare the income information given by the applicant to the income registered in the SSK system. Kuveyt Türk also calculates the applicant's debt versus income ratio to assess the applicant's ability to repay the credit. The LTVs (Loan to Value) ratios are set out as follows:

Product	Percentage
Real Estate	75
New Vehicles	80
Used Vehicles	75

Kuveyt Türk has a point scoring model for its individual applicants. The model consists of demographic parameters, credit bureau parameters and past repayment history of the applicant. At the model analysing stage, applicants are categorised according to their scores from highest to lowest.

1.2 Retail SME Segment:

For the purposes of Kuveyt Türk's credit appraisal, Retail SMEs with annual revenues of under TL5,000,000 fall under the supervision of the Retail SME Credit Unit, provided that the credit that has been applied for is under U.S.$300,000. As with individual credits, applications for Retail 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 Retail SMEs, this information comprises the applicant's financial statements, records held by the central chamber of commerce as well as shareholder structure of the applicant. Kuveyt Türk uses this information to assess the applicant's ability to repay the credit, for example, by analysing the financial statements and relevant ratios. Kuveyt Türk also expects the applicant to have at least three years of business experience within the sector.

Kuveyt Türk's main sources of information are:

(i) the information systems maintained by the CBT;

(ii) the KKB; and

(iii) SABAS.

Kuveyt Türk applies a similar scoring system model as per the Individual Segment.

2. Projects Unit for buildings under construction:

This unit is responsible for applicants seeking credit for real estate that has not yet been completed. According to the Turkish consumer law, banks are responsible for the customer's principal amount provided to Kuveyt Türk until construction of the property is completed. Therefore, constructors and their projects are evaluated by this unit (including the civil engineers on the project) before applicants are able to obtain credit from Kuveyt Türk.

3. Information & Decision Systems Management Unit:

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

CCCD

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

Since 2006, Kuveyt Türk has applied a company rating system for its corporate and commercial customers. The rating process comprises three main stages: (i) financial analysis of the applicant's historical balance sheets, income statements and other available financial documents of the applicant; (ii) inquiries through other banks and financial institutions and through information sources in relation to the relevant sector in which the company operates; and (iii) on-site visits and interviews, including collection of additional information concerning the applicant (such as information regarding the applicant's business type, capital structure, shareholders, managerial staff, and market share as well as data regarding competitors). The weight of the financial analysis stage in the grading system is 60 per cent., and the weight of the inquiries and site visits is 40 per cent.

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. An analytical hierarchical method is used in evaluating the significance of the different criteria applied. 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.

Risk/Credit Risk Monitoring

Primary responsibility for day-to-day management of existing credit exposure is delegated to the Credit Risk Monitoring Department (**CRMD**) who, in turn, must adhere to the detailed requirements for monitoring loans which includes regular review of client files and analysis of their financial position. CRMD commences monitoring the credit risks from the first utilisation until default occurs. After the occurrence of a default, the Risk Follow-Up Department (**RFD**) assumes responsibility for following-up the relevant credit balances.

Kuveyt Türk reviews client accounts at least annually or as required when requests are made for additional credit. A credit review typically covers account conduct, utilisation, settlement history, profitability, financial review, credit references and an assessment of collateral quality. Credit exposures found to rank below satisfactory grades are segregated and more actively supervised separately as impaired assets under the guidance or supervision of the RFD, with escalating levels of specific loan loss provisions applied as appropriate.

The IAD is responsible for carrying out risk reviews to assess and provide an independent opinion on the quality of credit exposures and Kuveyt Türk's adherence to credit policies and procedures. Kuveyt Türk's internal audit procedure policy is in place to ensure independent review of the credit approval framework. Internal audit activities, in respect of credit approval procedures include (i) random review of selected credit facility files; (ii) periodic review of the overall credit portfolio; and (iii) regular review of Kuveyt Türk's monitoring, management and reporting mechanisms.

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 every six months 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. A credit is categorised as non-performing when mark-up, fees or principal remain unpaid for 90 days after the due date.

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

	As at 31 December		
	2009	2008	2007
	(TL thousands, except ratios)		
Balance at beginning of period	157,668	82,109	80,650
Additions in the current period/year	115,777	118,727	39,307
Recoveries	14,279	13,286	7,254
Write-offs	77,016	29,882	30,594
Impairment allowance	182,150	157,668	82,109
Collective Reserve	20,919	19,469	12,728
Non-performing loans ratio	6.42%	6.53%	4.53%

The following table indicates certain information relating to Kuveyt Türk's credits in arrears and related provisions based on Turkish GAAP at the dates indicated.

	As at 31 December								
	2009			2008			2007		
	Credits in arrears	Total provision	% Reserved	Credits in arrears	Total provision	% Reserved	Credits in arrears	Total provision	% Reserved
	(TL in thousands, except percentages)								
Risk Category									
Provisioning rates:									
Doubtful	72,199	24,464	33.88	60,384	18,666	30.91	28,016	3,634	12.97
Substantial	74,879	35,154	46.95	69,154	32,092	46.41	35,125	11,826	33.67
Loss	151,131	87,993	58.22	86,808	62,226	71.68	69,987	44,114	63.03
Total credits classified as credits in arrears	289,209	147,611	51.04	216,346	112,984	52.22	133,128	59,574	44.74

IFRS/BRSA Provisioning

The provisioning policy used in the preparation of Kuveyt Türk's IFRS financial statements differs from that required by the Banking Law. Under BRSA accounting principles, provisioning is based on the length of the period of default whereas, under IFRS, provisioning is based on an evaluation made by management. BRSA regulations require that credits that have been in default for 90 days are classified as non-performing credits. After 90 days, 20 per cent. of the total credit of the defaulting customer (after deducting collateral, if any) must be provisioned. After 180 days, the required provision increases to 50 per cent. (after deducting collateral, if any) and, after 360 days, to 100 per cent. of the total credit of the defaulting customer (after deducting collateral, if any).

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 (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 effective 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 experience and management's judgment of the level of losses that will most likely be recognised from assets in each credit risk category by reference to 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 the 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 credits after the 90 day period from the initial default. If a credit payment is considered doubtful or if a credit is otherwise classified as a non-performing credit, its mark-up is placed on a non-accrual status.

Portfolio Concentrations

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

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

Concentration of risk is managed by counterparty and by industry sector. The maximum cash credit exposure to any counterparty other than the Central Bank as at 31 December 2009 was TL89,956 (31 December 2008—TL93,514) and non cash credit exposure as at 31 December 2009 was TL144,788 (31 December, 2008—TL145,423) before taking account of collateral or other credit enhancements.

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

	2009	2008
	Gross exposure	Gross exposure
Construction and materials	2,598,052	2,000,939
Financial services	3,302,596	1,590,039
Manufacturing	747,025	1,176,063
General retailers	836,214	1,033,007
Mining operations	535,504	619,587
Electricity	229,971	224,542
Telecommunications	215,597	191,891
Health care and social services	265,292	198,183
Forestry	70,614	142,017
Food and beverages	51,505	52,814
Real estate	28,455	19,603
Other	2,517,596	1,974,677
Total	**11,398,421**	**9,223,362**

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

	As at 31 December					
	2009		2008		2007	
	Amount	% of total	Amount	% of total	Amount	% of total
	(TL thousands, except percentages)					
Real estate	806,635	54	627,699	54	462,745	50
Credit cards	96,900	6	163,828	14	118,223	13
Vehicles	285,342	19	126,720	11	139,000	15
Other	309,225	21	242,614	21	209,531	22
Total	1,498,102	100	1,160,861	100	929,499	100

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

	As at 31 December											
	2009				2008				2007			
	Cash credits		Non-cash credits		Cash credits		Non-cash credits		Cash credits		Non-cash credits	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(TL thousands, except percentages)											
TOTAL												
Agriculture	121.260	2.5	15,842	0.3	161,478	3.9	81,630	2.1	127,817	4.4	58,246	2.8
Industry	1,038,752	21.4	462,957	8.8	1,236,559	29.9	747,199	19.4	1,010,808	34.4	555,457	26.2
Construction	782,399	16.1	1,802,262	34.3	644,446	15.6	1,345,931	35.0	349,068	11.9	823,106	38.9
Services	1,445,230	29.8	930,742	17.7	999,205	24.2	941,811	24.5	719,610	24.5	276,328	13.0
Other	1,467,296	30.2	118,838	2.3	1,092,662	26.4	76,729	2.0	728,912	24.8	56,646	2.7
Commitments	—	—	1,924,469	36.6	—	—	655,231	17.0	—	—	346,571	16.4
Total	**4,854,937**	**100**	**5,255,100**	**100**	**4,134,350**	**100**	**3,848,531**	**100**	**2,936,215**	**100**	**2,116,354**	**100**

Proprietary Investments

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

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and information technology systems, work flows (including new product design and implementation risk) or from external events. This definition includes legal risk but excludes strategic and reputational risk. Although strategic and reputational risks are not included in the capital measurement calculations for Basel II purposes, assessment and monitoring of these risks also fall under the purview of the RMMO Department. Examples of events that are included under this definition of operational risk include losses from fraud, computer systems failures, settlement errors, model errors and natural disasters. Kuveyt Türk also maintains an operational loss database in order to quantify and monitor operational risks. See *Risks relating to Kuveyt Türk'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, processes and procedures for managing operational risks. By promptly detecting and addressing these deficiencies, Kuveyt Türk can substantially reduce the potential frequency or severity of a loss event. The RMMO Department makes specific proposals to the head of the ARC whenever it determines that existing operational risks warrant changes to Kuveyt Türk's existing Internal Systems Regulations and Risk Management Policies. The operational risk reports are periodically submitted to Kuveyt Türk's Senior Management.

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

Legal Risk

Kuveyt Türk has a full-time legal team which deals with both routine and more complex legal issues. Situations of a particular complexity and sensitivity are referred to external firms of lawyers, either in Turkey or overseas, as appropriate. Kuveyt Türk also seeks to mitigate legal risk through the use of properly reviewed standard documentation and appropriate legal advice in relation to its non-standard documentation.

Market Risk

Market risk is the risk of loss to future earnings, to fair values of assets and liabilities or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change 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, in Kuveyt Türk's case, credits, deposits and borrowings. The primary market risk Kuveyt Türk faces are the indirect effects of interest rate fluctuation and the direct effects of exchange rate fluctuation. See *Risks relating to Kuveyt Türk's Business* and *Foreign Exchange Risk* below.

The RMMO Department measures and monitors the market risk exposure to the value of the financial instruments and 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 securities by utilising the position limits. The RMMO Department coordinates the monitoring of the limits. Foreign currency transactions both with customers and as part of Kuveyt Türk's proprietary trading usually generate foreign currency positions. Kuveyt Türk hedges these positions within set intra-day and/or overnight limits and executes transactions only in major convertible foreign currencies.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of Kuveyt Türk's financial instruments. In a conventional bank, interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the re-pricing characteristics of assets and liabilities. As Kuveyt Türk does not have financial assets that are sensitive to interest rate movements (such as government bonds) and because Kuveyt Türk does not guarantee depositors a fixed rate of return, Senior Management believe that

Kuveyt Türk has lower interest rate risk than conventional banks. The principal objective of Kuveyt Türk's interest rate risk management activities is to enhance profitability by limiting the effect of adverse interest rate movements in the banking sector and increasing mark-up income by managing mark-up rate exposure. Kuveyt Türk monitors interest rate sensitivity by analysing the composition of its assets and liabilities and off-balance sheet financial instruments. See *Risks relating to Kuveyt Türk's Business* for further details.

Foreign Exchange Rate Risk

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

Profit Rate Risk

Profit rate risk arises from the possibility that changes in the conventional interest rate 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. This measures the effect on the net profit and accordingly allows Kuveyt Türk to match profit related assets and liabilities. 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. See *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 available 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 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 in the past, 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 utilises the U.S.$200 million syndicated interest-free commodity Murabaha facility, which was the first in the Turkish market, obtained in 2006 to balance its liquidity needs. The transaction was renewed in the amount of U.S.$115 million in 2009 and repaid in full in April 2010.

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

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

	As at 31 December		
	2009	**2008**	**2007**
Net cash credits/asset	68%	70%	75%
Net cash credits/deposits	84%	97%	98%
Net cash credits/shareholders’ equity	568%	580%	719%
Liquid assets(1)/total assets	17%	21%	15%
Liquid assets/deposits(2)	20%	24%	16%

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

(2) Includes funds borrowed.

The following table summarises Kuveyt Türk’s estimated maturity analysis for certain assets and liabilities as at 31 December 2009 and contains certain information regarding Kuveyt Türk’s funding and liquidity risk (according to Kuveyt Türk’s BRSA accounting reports).

	Call	**Less than one month**	**1 to 3 months**	**3 to 12 months**	**More than one year**	**Unallocated (*)**	**Total**
31 December 2009							
Assets							
Cash and balances with Central Bank	867,201	—	—	—	—	—	867,201
Deposits with other banks and financial institutions	531,395	—	—	—	—	—	531,395
Financial assets at fair value through profit or loss	—	8,154	714	1,057	—	—	9,925
Receivables from money market	—	—	—	—			—
Financial assets available-for-sale	27	—	—	—			27
Due from financing activities, net	—	1,010,590	710,457	1,694,687	1,489,198	—	4,904,932
Financial assets held to maturity	—	—	7,529	—			7,529
Other assets(1)	—	86,282	30,032	23,796	72,645	370,762	583,517
Total Assets	**1,398,623**	**1,105,026**	**748,732**	**1,719,540**	**1,561,843**	**370,762**	**6,904,526**
Liabilities							
Due to banks	8,932	39,750	47,364	28,373	—	—	124,419
Other special current and profit/loss sharing investors’ accounts	1,209,723	80,373	3,068,632	408,837	466,273	—	5,233,838
Due to other financial institutions	—	79,906	—	298,479	5,296	—	383,681
Payables to money market	—	—	—	—	—	—	—
Securities issued	—	—	—	—	—	—	—
Other financial liabilities	36,141	—	12,158	70,497	—	—	118,796
Other liabilities(1)	—	114,015	39,634	—	—	890,143	1,043,792
Total Liabilities	**1,254,796**	**314,044**	**3,167,788**	**806,186**	**471,569**	**890,143**	**6,904,526**
Net balance sheet liquidity gap	**143,827**	**790,982**	**(2,419,056)**	**913,354**	**1,090,274**	**(519,381)**	**—**
December 31, 2008							
Total Assets	1,204,712	935,528	697,708	1,393,847	1,275,079	—	
Total Liabilities	890,087	2,649,064	913,628	554,417	11,544	—	
Net balance sheet liquidity gap	314,625	(1,713,536)	(215,920)	839,430	1,263,535	—	

(1) Unallocated other assets column represents property and equipment, subsidiaries and affiliates, pre-paid expenses and non-liquid other assets. Unallocated other liabilities column represents total shareholders’ equity and provisions.

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

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

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

Capital Adequacy

Kuveyt Türk calculates its capital adequacy ratio in accordance with guidelines promulgated by the BRSA, which are based on the standards established by Kuveyt Türk of 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 2009. Kuveyt Türk currently calculates its capital adequacy ratio requirements by applying a combination of Basel II standard weighted methodology and Basel I methodology. Senior Management are in the process of adopting the standard weighted methodology entirely based on Basel II.

As at 31 December 2009, Kuveyt Türk's capital adequacy ratio was 14.56 per cent. and 15.63 per cent. as at 31 December 2008. See *Risks relating to Kuveyt Türk's Business* for further details.

Information Technology

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

Kuveyt Türk's IT department is subdivided into the following four separate sub-groups:

- ***Project Management and Quality:*** who are responsible for implementing project management methodology on strategically important projects to accomplish desired quality levels with Kuveyt Türk;
- ***IT Software Development and Support:*** who are responsible for developing banking software and all other in-house information technology applications as well as systems integration with third party applications or organisations;
- ***IT System Support and Operations:*** who are responsible for a variety of operational tasks such as Kuveyt Türk's 24/7 helpdesk for end-users, network management, server systems management and end-user computing support, including support relating to hardware and all non-banking software; and
- ***IT Enterprise Architecture:*** modeling software development infrastructure to map business requirements with technical solutions;
- ***IT Security:*** who are responsible for implementing and managing security systems to protect data and IT systems.

Kuveyt Türk's core banking systems run on Microsoft Windows Systems infrastructure and core databases are hosted on Microsoft SQL 2008 servers. The core banking system used within Kuveyt Türk is a 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, utility payment systems etc.

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

In 2010, the Disaster Recovery Centre (**DRC**) was established in Ankara, approximately 450 kilometres from Istanbul, and 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 Istanbul become inoperable.

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

Kuveyt Türk has initiated the Core Banking Systems Transformation Project (the **Project**) in order to support business strategies and continuous growth opportunities for Kuveyt Türk through utilising most recent technologies. The IT Enterprise Architecture team has developed a new business oriented enterprise framework which aims to incorporate recent software technologies and provide a foundation for the growth and development of systems to meet Kuveyt Türk's growth plans. The Project is scheduled for completion in three years and includes complete transformation of all banking systems.

Kuveyt Türk's IT systems are audited by an independent auditing firm that performs two different audits periodically—an application controls audit and an IT audit based on Control Objectives for Information and related Technology (**COBIT**) control objectives. 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 control objectives 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 control objectives. 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 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 24 trademarks in Turkey, including those relating to the "Kuveyt Türk Sağlam Bankacilik", "Kuveyt Türk Katilim Bankasi A.Ş. Bankacilikta Çözüm Ortağiniz", "Kuveyt Türk aile", "Kuveyt Türk Altin", "Kuveyt Türk Duyarli Kazanç", "Kuveyt Türk Duyunet", "Kuveyt Türk Evkaf", "Kuveyt Türk Gold" and "Kuveyt Türk Gümüş" brands. In addition, Kuveyt Türk licence's the "Visa®" mark from Visa International Service Association and the "MasterCard®", "Maestro®" and "Cirrus®" marks from MasterCard International Incorporated.

Insurance

Kuveyt Türk maintains adequate 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 as Director's Office of Liability, Banker's Blanket Bond, Electronic Crime and Professional Indemnity are also covered by insurance with co-ordination with the RMMO Department.

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

Anti-Money Laundering and Client Identification

The BRSA laws and regulations with respect to AML are applicable to Kuveyt Türk. Kuveyt Türk is committed to ensuring adherence to AML 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 and Combating the Financing of Terrorism Policy (**AML & CRT**), all employees, regardless of their role in Kuveyt Türk are trained in Kuveyt Türk's AML and anti-terrorism financing policies on an annual basis.

Kuveyt Türk has appointed a MLRO who is responsible for supervising Kuveyt Türk's AML activities and for maintaining appropriate and effective systems, controls and records to ensure compliance with local AML regulations and the provisions of Kuveyt Türk's AML manual. The MLRO is also responsible for reviewing and reporting any suspicions concerning a client or an account to the respective regulator.

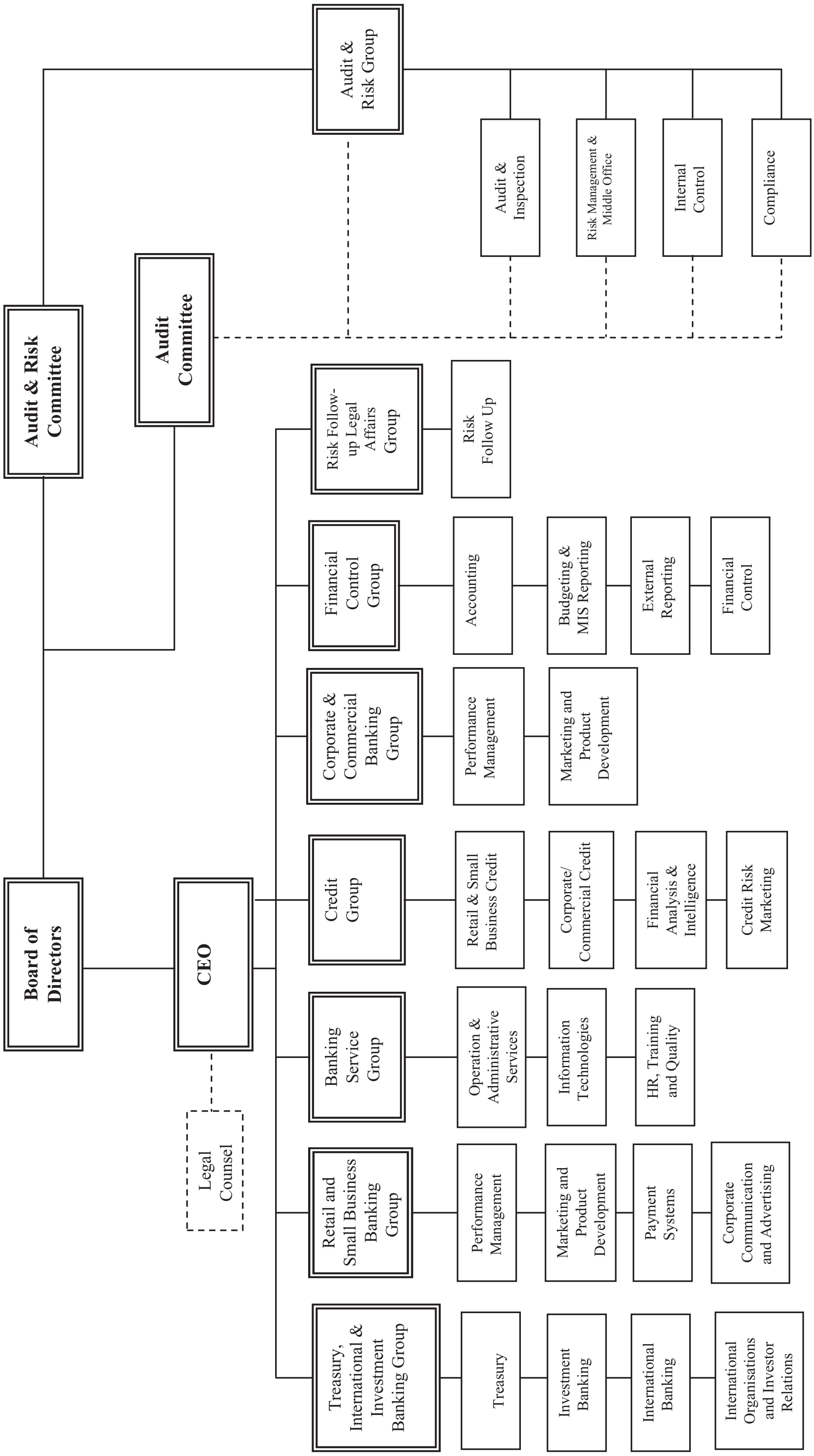
In order not to be unknowingly used as an intermediary in money laundering or similar criminal activities, Kuveyt Türk implemented comprehensive anti-money laundering and know-your-customer policies and procedures to comply with Turkish and international anti-money laundering rules and regulations to be followed by the whole personnel. These policies and procedures apply to all of 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 anti-money laundering policies.

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

Legal Proceedings

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

Kuveyt Türk—Organisational Management Chart



Management

Board of Directors

As at the date of this Prospectus, the Board comprised of nine directors (**Directors**) under the chairmanship of Mohammad S.A.L. Alomar. Seven members of the Board are appointed by Kuveyt Türk's shareholders. Kuveyt Türk's general manager also sits as a member of the Board as required by the Banking Law. Each Director is appointed for a term of three years and the Board meets six times annually. The business address of each member of the Board is Büyükdere Caddesi, No: 129, 34394 Esentepe, Istanbul, 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
Mohammad S.A.I. Alomar	1959	Chairman	2000
Abdullah Tivnikli	1959	Vice Chairman	2001
Dr Adnan Ertem	1965	Director	2002
Azfar Hussain Qarni	1956	Director	2003
Fawaz KH E Alsaleh	1963	Director	2006
Yusuf Beyazit	1962	Director	2010
Khaled Nasser Abdulaziz Al Fouzan	1954	Director	2006
Shaheen Hamad Abdulwahab Al Ghanem	1968	Director	2006
Ufuk Uyan	1958	Director, General Manager	1999

Mohammad S.A.I. Alomar—*Chairman*

Mr. Alomar obtained a bachelor's degree from the Chapman University Department of Economics in California in 1986.

Mr Alomar has been Kuveyt Türk's chairman since 2000 and also serves as the general manager of Kuwait Finance House. He is also a member of Kuveyt Türk's Executive Committee and Credit Committee. Mr. Alomar joined Kuwait Finance House as deputy assistant general manager in 1992 after working as a financial analyst and manager in construction and real estate, investments, and purchasing. Mr. Alomar served as deputy vice president of the Kuwait Finance House International Construction and Real Estate sector after serving in various capacities within the same department. He served as deputy general manager at Kuwait Finance House between 2005 and 2006. Between 2004 and 2006, Mr. Alomar was the chairman and managing director of Al-Muthanna Investment Company. Mr. Alomar has been a board member of Kuwait Finance House (Bahrain) B.S.C.(c) since 2004.

Abdullah Tivnikli—*Vice Chairman*

Mr. Tivnikli graduated from the Mechanical Engineering Department of Istanbul Technical University in 1981. Thereafter, he received his master's degree from the School of Business Administration of Istanbul Technical University in 1983.

Mr. Tivnikli has been Kuveyt Türk's vice chairman since 2001. He also serves as a member of Kuveyt Türk's Executive Committee and Credit Committee. Mr. Tivnikli served in management positions in several private sector companies before assuming the office of manager of the project and financing department at Albaraka Türk Katılım Bankası A.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., İltek İletişim 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 Enerji Yatırım 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 his graduate degree from the School of Political Science, Public Administration Department of Istanbul University in 1987. Thereafter, in 1990, he received his master's degree from the Institute of Social Sciences of Political Science Department of Istanbul 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 Istanbul Regional Director of Foundations in 2002 after serving in various positions within the same organisation. He currently serves as deputy secretary at the Prime Ministry of Turkey.

Azfar Hussain Qarni—*Director*

Mr. Qarni received his graduate degree from the Chemical Engineering Department of Ned University in 1980. In 1981, he received his master's degree from the Business Administration Department of the Karachi University School of Business Administration and Economics.

Mr Qarni has been a member of Kuveyt Türk's board of directors since 2003. He also serves as a member of Kuveyt Türk's Audit Committee and Audit and Risk Committee. He served at various levels in the National Development Finance Corporation of Pakistan and was eventually promoted to vice president in 1995. Mr. Qarni was appointed as the Project Capital Officer of the Islamic Development Bank in 1996.

Fawaz KH E Al Saleh—*Director*

Mr. Al Saleh graduated 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.

Yusuf Beyazıt—*Director*

Mr. Beyazıt received his graduate degree in Law from Ankara University in 1990. Thereafter, in 1992, he received his master's degree in Public Administration from The Institute of Turkey Middle East Public Administration, Ankara University.

Mr. Beyazıt has been a member of Bank's board of directors since April 2010. He was appointed as the General Manager of T.R Institutions Head Office in 2003. He has also served as the Chairman of the Board of Directors of VakıfBank between 2003 and 2010, after serving in various positions in İstanbul Metropolitan Municipality, ISKI and in the Ministry of National Education.

Khaled Nasser Abdulaziz Al Fouzan—*Director*

Mr. Al Fouzan received his graduate degree from the Business Administration Department of Kuwait University in 1978.

Mr. Al Fouzan has been a member of Kuveyt Türk's board of directors since August 2006. He also serves as a member of Kuveyt Türk's Audit and Risk Committee. In 2004, he was appointed as the assistant general manager of Finance & Management Department of the Kuwait Social Security Institution and as the manager of the Banking Department in 1984. Prior to this, he was appointed as the Director of Participations at the Kuwait Social Security Institution in 1978. Mr. Al Fouzan started his professional career at Kuwait Commercial Bank in the same year.

Shaheen Hamad Abdulwahab Al Ghanem—*Director*

Mr. Al Ghanem received his graduate degree from the Department of Economic and Political Sciences of Kuwait University in 1994.

Mr. Al Ghanem has been a member of Kuveyt Türk's board of directors since 2006. He also serves as a member of Kuveyt Türk's Corporate Governance Committee, Audit Committee and Audit and Risk Committee. He was appointed manager of the Financial Control Department at Kuwait Finance House in 2001. Mr. Al Ghanem started his professional career as the chief accountant of the Kuwait National Gas Company in 1989.

Ufuk Uyan—*Director and General Manager*

Mr. Uyan graduated from Boğaziçi University with a degree in Economics 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 Boğaziçi 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 general manager.

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, Istanbul, 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	General Manager	1999
Ahmet Karaca	1970	Assistant General Manager (Financial Affairs)	2006
Ahmet Süleyman Karakaya	1953	Assistant General Manager (Corporate and Commercial Banking)	2003
Bilal Sayın	1966	Assistant General Manager (Credits)	2003
Hüseyin Cevdet Yılmaz	1966	Chief Audit and Risk Offices (Internal Audit and Risk Management Systems)	2002
İrfan Yılmaz	1970	Assistant General Manager (Retail Banking)	2005
Nurettin Kolac	1966	Assistant General Manager (Risk Follow-up and Legal Affairs)	2010
Murat Çetinkaya	1976	Assistant General Manager (International and Investment Banking and Treasury, Investor Relations	2008
Ruşen Ahmet Albayrak	1966	Assistant General Manager (Operations, Technology and Administrative Services)	2005

Ahmet Karaca—*Assistant General Manager (Financial Affairs)*

Mr. Karaca obtained his graduate degree from the Department of Public Administration of Ankara University in 1990. He completed his masters degree in Economics at the State University of New York in 2006.

Mr Karaca has been the assistant general manager 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 Undersecretariat of Treasury of the Republic of Turkey and was appointed as a sworn bank auditor in 1995.

Ahmet Süleyman Karakaya—*Assistant General Manager (Corporate and Commercial Banking)*

Mr. Karakaya graduated from Istanbul University with a degree in Business and Finance in 1979.

Mr. Karakaya has been the assistant general manager in charge of Kuveyt Türk's Corporate and Commercial Banking department 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—*Assistant General Manager (Credits)*

Mr. Sayın graduated from Orta Doğu Teknik Üniversitesi with a degree in Public Administration in 1990.

Mr Sayin has been the assistant general manager 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. as a specialist.

Hüseyin Cevdet Yılmaz—*Chief Audit and Risk Officer (Internal Audit and Risk Management Systems)*

Mr. Yılmaz graduated from the Business School of Boğaziçi 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—*Assistant General Manager (Retail Banking)*

Mr. Yılmaz completed his undergraduate studies at Istanbul Technical University with a degree in Business Engineering in 1989.

Mr. Yılmaz has been the assistant general manager in charge of Kuveyt Türk's Retail 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 in 1998 became its chairman. He began his banking career in 1990 at Kuveyt Türk spending six years in the Financial Control department as officer.

Nurettin Kolaç—*Assistant General Manager (Risk Follow-up, Legal Affairs)*

Mr. Kolaç holds a BA degree in Law from Marmara University. He worked for Türkiye Halk Bank A.Ş. and its subsidiaries as an attorney at law between 1989 and 2004. He started his career at Turkish banking regulatory authority, BRSA in 2007 and became the Head of Legal Affairs in 2007.

Mr. Kolaç joined Kuveyt Türk on April 2010 and has been appointed as the Assistant General Manager who is responsible for legal affairs & follow-up.

Murat Çetinkaya—*Assistant General Manager (International and Investment Banking and Treasury, Investor Relations)*

Mr. Çetinkaya graduated from the Boğazici University Faculty of Economics and Administrative Sciences, Department of Political Science and also holds a degree from Bogaziçi University Faculty of Arts and Sciences Department of Sociology as a second major program in 1998. He received his master's degree in social sciences from Boğaziçi University Institute of Social Sciences in 2003.

Mr. Çetinkaya has been the assistant general manager in charge of Kuveyt Türk's International Banking, Treasury and Investor Relations since January 2008. Prior to this, Mr. Çetinkaya was responsible for International Banking and Investor Relations in Halkbank in 2007, prior to which he held various managerial positions at Halkbank between 2003 and 2007. He began his career in 1998 at Albaraka Türk Katılım Bankası A.Ş. where served in several departments including Foreign Operations, Treasury and Financial Institutions.

Dr. Ruşen Ahmet Albayrak—*Assistant General Manager (Operations, Technology and Administrative Services)*

Dr. Albayrak completed his undergraduate study at Istanbul Technical University with a degree in Industrial Engineering in 1988 and completed his doctor of philosophy degree at Istanbul Technical University in Business

Management in 2007. He received his masters degree in Organizational Leadership and Management from University of North Carolina in 1993.

Dr. Albayrak has been the assistant general manager in charge of Kuveyt Türk's Operations, Technology and Administrative Services 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.

Board and Management Committees

Kuveyt Türk has established several management committees responsible for various aspects of Kuveyt Türk's operations. The committees are the Internal Audit Committee; the Audit and Risk Committee; the Credit Committee see *Business Description of Kuveyt Türk—Risk Management* for further details and 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's when the Board is not in service.

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.

Employees

As at 31 December 2009, Kuveyt Türk employed 2,531 full-time employees. As at 31 December 2009, the average age of Kuveyt Türk's employees was approximately 31 years of age and approximately 74 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 under each subsidiary for the periods indicated.

	For the years ended December 31		
	2009	**2008**	**2007**
Kuveyt Türk	2,425	2,238	1,785
Körfez	6	6	6
Auto Land	N/A	24	21
Total	**2,431**	**2,268**	**1,812**

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, for example, 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 program for employees. Kuveyt Türk currently provides approximately 70 per cent. of all training in-house and each employee attends on average of 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. In addition, Kuveyt Türk offers its employees a selection of other benefits based on their seniority, including car allowances, cell phone allowances based on seniority, lunch benefits, dressing, education, transportation and other social contributions such as health, marriage, birth and death contributions. In addition to their base salaries, Kuveyt Türk may also pay employee's annual performance bonuses based on the individual employee's performance as well as Kuveyt Türk's overall financial performance. The Total bonus pool generally ranges from 8 per cent. to 15 per cent. of its annual net profit in the event at least 80 per cent. of the targeted annual net profit is reached. If the annual net profit exceeds over 15 per cent. of the targeted annual net profit, the bonus pool is increased to 20 per cent. of the exceeding amount over annual net profit. On average, these performance bonuses have been approximately 2.5 times the employee's monthly salary.

Advisory Board

The Advisory Board comprises Islamic scholars with high reputations 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
Sheikh Shefik Karanfil	Member
Associate Professor Yusuf Bayindir	Member
Associate Professor Abdullah Durmus	Member

OVERVIEW OF THE TURKISH BANKING SECTOR AND REGULATIONS

Summary

The Turkish banking legislation has changed substantially over the last few years. The Banks Act No. 4839 was replaced by the Banking Law No. 5411 on 1 November 2005 (the **Banking Law**). The Banking Law governs the activities conducted by commercial banks as well as participation banks. Please see *The Turkish Banking Sector and Regulations—Types of Banks in Turkey* below for further details.

Regulatory Environment

The regulatory responsibility in the Turkish banking sector is split between the Banking Regulatory and Supervisory Authority (the **BRSA**), the Central Bank (Türkiye Cumhuriyet Merkez Bankası) (the **Central Bank**) and the Savings Deposit and Insurance Fund (**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. See *The Turkish Banking Sector and Regulation—Regulatory Environment—The Role of the BRSA* for further details. The Central Bank is the entity responsible for the Government's fiscal and monetary policies. See *The Turkish Banking Sector and Regulations—Regulatory Environment—The Role of the Central Bank* for further details. 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. For further details please see *The Turkish Banking Sector and Regulations—Regulatory Environment—The Role of the SDIF*.

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. The BRSA's role is to protect the rights and benefits of depositors and to establish a competitive, disciplined and efficient banking and financial sector within Turkey. Accordingly, the BRSA is authorised to undertake all necessary steps to ensure it effectively monitors and regulates the Turkish banking sector and is the sole regulatory and supervisory authority for the Turkish Banking sector.

The BRSA sets mandatory reserve levels and liquidity ratios. All banks operating within Turkey must provide to the BRSA, on a regular and timely basis, information adequate to permit off-site analysis by the BRSA of such banks' financial performance, including balance sheets, profit and loss amounts, board of directors' reports and auditors' reports.

The BRSA conducts on-site and off-site supervision of banks' internal controls, internal audit systems, risk management systems and banks' general financial integrity.

The BRSA's on-site supervision is conducted through a team of sworn bank auditors and other experts who are part of the BRSA. In addition, the chairman of the BRSA has the authority to commission independent audit teams to examine specific matters within any bank that the chairman deems appropriate.

In addition to the above-mentioned requirements, all banks are obliged to have an internal control system and an audit committee, which must include non-executive members of the board of directors. The audit committee prepares reports, at least once every six months, with respect to a bank's compliance with the Banking Law and other relevant legislation. Such reports are required to be presented to the board of directors of the bank as well as to the BRSA.

The Role of the Central Bank

The Central Bank was founded in 1930 in order to provide financing mainly for the Government and public sector agencies. The Central Bank exercises its powers independently and is responsible for its affairs within the bounds of the Government's defined policies.

Currently, the Central Bank is the sole regulator of the volume and circulation of the national currency. It has the responsibility for developing and implementing the Government's monetary policy, as well as managing and controlling official gold and foreign exchange reserves. The Central Bank also acts as the Government's treasurer, financial agent and economic adviser. The Central Bank 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 Central Bank monitors a centralized risk valuation system in an effort to better supervise the banking system in collaboration with Turkey's Treasury (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. It is able to complement these measures provided the management and control of the bank has been transferred to the SDIF in accordance with Article 71 of the Banking Law.

Pursuant to Article 63 of the Banking Law, the savings deposits and participation funds belonging to real persons in credit institutions are insured by the SDIF. The coverage and amount of the savings deposits and participation funds belonging to real persons which will be subject to insurance is set by the SDIF upon the approval of the Central Bank, the BRSA and the Treasury. According to the Banking Law, the risk-based insurance premium rate cannot exceed 20/1,000 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 Savings Deposit Insurance Fund, the insurance premium rate to be paid by Kuveyt Türk as of the date of this Prospectus is 19/10,000 of the deposits and participation funds subject to insurance. The SDIF may apply to the Treasury to borrow funds and/or securities from the Treasury in circumstances where SDIF deems it necessary to make such application. The principles and procedures regarding government securities including their interest rates and terms and conditions of repayments to the Treasury are determined collectively by the Treasury and the SDIF.

Where the resources of the SDIF do not match its needs, the Central Bank 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 Central Bank upon consultation with the SDIF.

As at the date of this Prospectus, Birleşik Fon Bankası (BFB) and Adabank are the only banks under the supervision and administration of the SDIF. BFB has been incorporated by the SDIF by merging the assets of Egebank A.Ş., Etibank A.Ş., İktisat Bankası T.A.Ş., Interbank A.Ş., Esbank A.Ş., EGSBank A.Ş., Kentbank A.Ş. and Toprakbank A.Ş. into Bayındırbank A.Ş. and by converting the latter into Birleşik Fon Bankası A.Ş.

Types of Banks in Turkey

Banks in Turkey are classified as public sector commercial banks; private sector commercial banks; foreign commercial banks; development and investment banks; participation banks and banks under the control of the SDIF.

The Banking Law permits commercial banks to engage in all areas of financial activities including deposit taking, corporate and consumer lending, foreign exchange transactions, certain capital markets activities, securities trading and investment banking (except collecting participation funds and financial leasing activities). The Banking Law permits participation banks to engage in all areas of financial activities (other than accepting deposits).

Public Sector Commercial Banks

There are three public sector commercial banks within Turkey, each of which is owned or controlled by state entities. They generally have large branch networks and were originally established for development purposes, such as for agriculture, housing or foundations, rather than for profit motives.

Through their broad branch networks and ownership structures, these banks have traditionally been able to collect a substantial amount of deposits and thereby access cost-efficient funding sources.

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, medium and small branch network commercial banks. Most private sector banks belong to large industrial groups, which may provide additional support to the banks.

Despite significant growth in the number of small commercial banks, larger commercial banks (both private and public) continue to dominate the banking sector. As at the date of this Prospectus, out of 11 privately owned commercial banks, apart from the four largest banks, there are 7 medium sized privately owned commercial banks. The remaining private sector commercial banks consist of smaller banks, which have, in aggregate, relatively negligible bank market share (having less than U.S.$1 billion in total assets).

Foreign Commercial Banks

The strengthening of regulations and the transparency of the Turkish economy over the past decade has resulted in an increase in the number of foreign commercial banks operating in Turkey. As at the date of this Prospectus there are 17 foreign banks in total, 11 of which are locally incorporated banks and six of which are branches of foreign banks.

Development and Investment Banks

Development banks are funded by the Central Bank, 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.

Participation Banks

Participation banks structure their products and provide services on an interest-free basis. Participation banks are subject to the Banking Law and are permitted to engage in financial activities other than accepting deposits. As at the date of this Prospectus, there were four participation banks, and each of these participation banks is a member of The Participation Banks Association of Turkey, a cooperative organization of Turkish participation banks.

Key Regulatory Characteristics of the Turkish Banking System

Collection of Funds and Financing Activities of Participation Banks

Participation banks may collect funds in two ways: (i) "special current accounts" (an account that consists of funds that can be partially or fully withdrawn by a depositor. No payment of interest or income is made to the account holder); and (ii) "participation accounts" (an account that consists of funds that yield a participation in the loss or profit arising from their use by the relevant financial institutions. Such accounts do not require payments of pre-determined return).

Participation banks may designate special fund pools exclusively for the financing of pre-determined projects and other investments; such funds are utilized in separate pools as per their maturities and are segregated from other pools of accounts. The BRSA must be informed within 15 days of the formation of special fund pools and must be updated as to the status of such pools at three-month intervals. Such special fund pools must remain open for a minimum of three months and must be liquidated at the end of the financing period.

Lending Limits

The Banking Law restricts the total financial exposure (including extension of credits, issuance of guarantees, etc.) that a bank may have to any one customer or risk group (risk groups include an individual, his or her spouse and children, and partnerships in which any one of such persons is a member of the board of directors or a general manager or partnerships that are directly or indirectly controlled by any one of such persons or a legal person either individually or jointly with third parties or partnerships in which any one of such persons participate with unlimited liability) directly or indirectly to 25 per cent. of its equity. Furthermore, the total financial exposure that a bank may have for the risk group, which includes the bank and its qualified shareholders, members of the board of directors and general manager or the partnerships in which such persons, together or individually, directly or indirectly, have control or participate with unlimited liability, or of which such person is a member of the board of directors or general manager, cannot exceed 20 per cent. of its equity. Banks are obliged to regularly report to the BRSA the loans extended to persons who are in their risk groups. The banks are obliged to liquidate loans that are made in violation of applicable regulations by no later than six months after being so requested. Loans made available to a bank's shareholders holding more than 1 per cent. of the share capital of the bank, as well as individuals who would constitute risk groups together with such shareholders may not exceed 50 per cent. of the bank's equity.

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

Loan Loss Reserves

The Banking Law stipulates that all banks must implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans and other receivables. In addition, such policies must address issues such as monitoring the loans, follow-up procedures and the repayment of overdue loans.

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 as provided by the Calculation Regulation. The weekly average of the absolute values of the standard ratios of a bank's net short foreign currency position to its capital base calculated over the working days in that week cannot exceed 20 per cent. based on both consolidated and non-consolidated financials.

Capital Adequacy

The Turkish Central Bank observes the recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision (**Basel II**). Basel II refers to revised regulations on bank supervision and contains rules purporting to protect the equity positions of financial service institutions. Basel II was made binding in corresponding EU directives (bank directive 2006/48/EC and the capital adequacy directive 2006/49/EC) for EU member states as of 2007.

Basel II accord members are representatives of central banks and supervisory authorities from over 25 countries, including Turkey's Central Bank. Basel II introduces stricter capital requirements for financial institutions and rests on three pillars, namely (i) minimum capital requirements (**Pillar 1**); (ii) examination procedures of risk assessment (**Pillar 2**); and (iii) disclosure obligations (**Pillar 3**). Pillar 1 introduces rules for determining minimum equity requirements to manage bank default risks. Pillar 2 deals with the examination of bank credit-assessment procedure and contains corresponding rules on the auditing process of bank supervision. Pillar 3 imposes disclosure obligations on banks not only on the capital necessary for risk provisioning but also on the quality of bank investment, credit portfolios and bank systems for risk measurement and management.

Kuveyt Türk underwent transition in 2007 to meet Basel II standards which included technology implementation to meet risk management requirements (for more on Kuveyt Türk and Basel II, see *Business Description of Kuveyt Türk—Funding and Liquidity Risk—Capital Adequacy*).

Pursuant to the Regulation on Measurement and Assessment of Capital Adequacy of Banks (the **Capital Adequacy Regulation**), as well as Article 45 of the Banking Law, banks are required to maintain and report a minimum capital adequacy ratio of 8 per cent. (both on a consolidated and unconsolidated basis) whereas banks that have off-shore branches were required in 2009 to maintain a 12 per cent. capital adequacy ratio at minimum.

Equity of a bank comprises its share capital, additional capital and third generation capital. Third generation capital includes, among other capital items, (i) the amount of the additional capital exceeding 100 per cent. of the share capital and (ii) the borrowings or capital markets instruments with an initial maturity of two years bearing the qualities of Tier II capital. The amount of third generation capital cannot exceed 250 per cent. of the part of the share capital that is not reserved for credit risk, but for market risk.

Reserves and Liquidity Reserve Requirement

The BRSA requires Turkish banks to provide a general reserve calculated as 1 per cent. of their cash loan portfolios plus 0.2 per cent. of their non-cash loan portfolios excluding loans in arrears. Furthermore, Turkish banks are also required to maintain additional mandatory reserves for Turkish lira liabilities and foreign currency liabilities in the amount of 5 per cent. and 9.5 per cent., respectively, with the Central Bank on specific accounts. The period for maintaining such reserves is 14 days, starting from the date which is a Friday and which is two weeks from the date on which the relevant liabilities are calculated.

Audit of Banks

Banks are required to provide on a quarterly and semi-annual basis separate and consolidated financial statements which must be prepared in accordance with consolidation principles promulgated by the BRSA.

Year-end separate and consolidated financial statements must be audited whereas quarterly and semi-annual consolidated financial statements are subject to limited review procedures by independent auditing firms. The reports prepared by the independent auditing firms are also filed with the CMB if the bank's shares are quoted on the Istanbul Stock Exchange.

All banks (public and private) also undergo an annual audit by sworn bank auditors which are organized under the BRSA. These audits encompass all aspects of a bank's operations, its financial statements and also other matters affecting the bank's financial status, including its domestic banking activities, foreign exchange transactions and tax liabilities. Additionally, such audits seek to ensure compliance with applicable laws and with each bank's constitutional documents.

Pursuant to the Banking Law, banks are required to establish and operate adequate and efficient internal control, risk management and internal audit systems in order to monitor and control the risks that banks encounter. Internal audit activities must be performed in an impartial and independent manner with the exercise of due professional care by an adequate number of auditors.

Annual Reporting

The Banking Law stipulates that banks are required to prepare an annual activity report that includes information about their status, management and organization structures, human resources, activities, financial situations, assessment of the management and expectations; together with financial statements, summary of board of directors' report and independent audit report. The annual report is subject to the approval of the board of directors and must be published in printed form and on the internet by the end of May of each year.

Anti-Money Laundering Policies

The anti-money laundering policies applicable to banks are defined under the Law on the Prevention of Laundering of Crime Profits No. 5549, the Anti Money Laundering Law No. 4208 the Turkish Criminal Code No. 5237 and the Regulation on Program of Compliance with Obligations of Anti- Money Laundering and combating the Finance of Terrorism and the Regulation on measures Regarding Prevention of Laundering proceeds of Crime and Financing of Terrorism (together the **Anti Money Laundering Laws**).

Pursuant to the Anti Money Laundering Laws, banks are required to identify their customers and the persons carrying out transactions on behalf or account of their customers. In the event there is any information or concern that a transaction concluded by a customer is a suspicious transaction or there are reasonable grounds to suspect that the asset which is the subject of the transaction carried out or attempted to be carried out within or through a bank, is acquired through illegal means or used for illegal purposes, such a transaction must be reported by the relevant bank to the Turkish Financial Crimes Investigation Board. The notifying bank cannot disclose such notification to third parties, including the parties to the suspicious transaction, other than to the investigators assigned to inspect the transaction and the competent courts during legal proceedings.

When requested by the Financial Crimes Investigation Board or the investigators thereof, banks are required to provide information relating to their customers and their transactions. Furthermore, banks are required to maintain all the documents, books and records of identification documents regarding all transactions for eight years starting from the transaction date, the last record date and the last transaction date.

Banks breaching any of the obligations set out in the Anti Money Laundering Laws may be subject to an administrative fine of approximately TL15,000. Furthermore, real persons who are found not to have complied with their duty to notify suspicious transactions to the Financial Crimes Investigation Board may be imposed with imprisonment with terms ranging from one year to three years.

DESCRIPTION OF THE ISSUER

General

KT Turkey Sukuk Limited, a Cayman Islands exempted company with limited liability, was incorporated on 11 June 2010 under the Companies Law (2009 Revision) of the Cayman Islands with company registration number 241886. The Issuer has been established as a special purpose vehicle for the sole purpose of issuing the Certificates and entering into the transactions contemplated by the Transaction Documents.

The registered office of the Issuer is at Maples Finance Limited, PO Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands.

The authorised share capital of the Issuer is U.S.$50,000 consisting of 50,000 ordinary shares of U.S.$1.00 each, of which 250 shares have been issued. All of the issued shares (the "**Shares**") are fully-paid and are held by Maples Finance Limited as share trustee (the "**Share Trustee**") under the terms of a trust deed (the "**Trust Deed**") dated 13 August 2010 under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Trust Deed). Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power to benefit the Certificateholders or qualified charities (as further described in the Trust Deed). It is not anticipated that any distribution will be made whilst any Certificate is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity.

The Share Trustee has no other interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

Business of the Issuer

The Issuer has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the issue of the Certificates. The Certificates are the obligations of the Issuer alone and not the Share Trustee.

The objects for which the Issuer is established are set out in clause 3 of its Memorandum of Association as registered on 11 June 2010. The objects are expressed to be unrestricted and therefore would include the issue of the Certificates, execution of Transaction Documents to which it is a party and any other agreement necessary for the performance of its obligations under the transactions contemplated thereby and undertaking activities pursuant to or that are not inconsistent with the terms and conditions of the Certificates.

Directors of the Issuer

The Directors of the Issuer are as follows:

Name:	Principal Occupation:
Guy Major	Director, Maples Finance Limited
Carlos Farjallah	Senior Vice-President, Maples Finance Limited

The business address of each Director is PO Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

Other than in their capacities as employees and officers of the Issuer Administrator as disclosed under *Description of the Issuer—The Administrator*, there are no potential conflicts of interest between the private interests or other duties of the Directors listed above and their duties to the Issuer.

Fiscal Year / Financial Statements

The fiscal years of the Issuer will end on 31 December of each year, beginning in 2010. Since the date of its incorporation, no financial statements of the Issuer have been prepared and the Issuer has not carried out any operations. The Issuer is a special purpose vehicle and will not prepare its own financial statements or accounts.

Other than as described herein, the Issuer does not have any loan, capital, borrowings or contingent liabilities and has not changed its equity capital.

The Administrator

Maples Finance Limited will act as administrator of the Issuer (in such capacity, the "**Issuer Administrator**"). The office of the Issuer Administrator will serve as the general business office of the Issuer.

Through the office, and pursuant to the terms of the corporate services agreement executed between the Issuer and the Issuer Administrator (the "**Corporate Services Agreement**"), the Issuer Administrator will perform in the Cayman Islands various administrative functions on behalf of the Issuer, including the provision of registered office facilities to the Issuer and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Issuer Administrator will receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses.

The terms of the Corporate Services Agreement provide that the Issuer may terminate the appointment of the Issuer Administrator by giving 14 days notice to the Issuer Administrator at any time within 12 months of the happening of certain stated events, including any breach by the Issuer Administrator of its obligations under the Corporate Services Agreement. In addition, the Corporate Services Agreement provides that the Issuer Administrator shall be entitled to retire from its appointment by giving at least three months notice in writing.

The Issuer Administrator will be subject to the overview of the Issuer's Board of Directors. The Corporate Services Agreement may be terminated (other than as stated above) by either the Issuer or the Issuer Administrator giving the other party at least three months written notice.

The Issuer Administrator's principal office is PO Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

The Directors of the Issuer are all employees or officers of the Issuer Administrator. The Issuer has no employees and is not expected to have any employees in the future.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Issuer.

The proceeds of the issue of the Certificates will be used by the Issuer to purchase a portfolio of assets in accordance with the Purchase Agreement.

Purchase Agreement

Pursuant to the Purchase Agreement dated the Closing Date and entered into between Kuveyt Türk, as Seller, and the Trustee, as Purchaser, Kuveyt Türk will sell and transfer a portfolio of assets comprising the following to the Purchaser such that the Seller will:

(a) sell and transfer to the Trustee all of Kuveyt Türk's beneficial interest and rights in and to a portfolio of leased assets (the "**Original Leased Assets**"); and

(b) assign to the Trustee all of Kuveyt Türk's rights, benefits and entitlements, present or future, in and to a portfolio of murabaha contracts (the "**Original Murabaha Rights**"),

each portfolio as further described in the Purchase Agreement, at a price equal to the issue price of the Certificates.

Legal title to the Original Leased Assets will remain vested in Kuveyt Türk, and Kuveyt Türk is under no obligation to notify any Original Murabaha Counterparty (as defined in the Purchase Agreement) of the assignment of the Original Murabaha Rights.

"**Closing Date**" means 24 August 2010 or such other date as the Issuer, Kuveyt Türk and the Joint Lead Managers may agree.

Declaration of Trust

Pursuant to the Declaration of Trust dated the Closing Date, the Issuer will declare (in its capacities as Issuer and Trustee) that it will hold the Trust Assets upon trust absolutely for the Certificateholders pro rata according to the face amount of Certificates held by each Certificateholder subject to and in accordance with the Declaration of Trust and the Conditions. The Issuer shall cause all income from the Trust Assets to be distributed, and all payments in respect of the Certificates to be made, in accordance with the Conditions.

Under the Declaration of Trust, Kuveyt Türk will enter into the information covenants set out therein and in particular, undertake with the Trustee and the Delegate the following:

(a) to provide copies of the most recent audited consolidated annual financial statements and reviewed consolidated half-year financial statements, each prepared in accordance with IFRS, and the most recent reviewed unconsolidated quarterly financial statements prepared in accordance with Turkish GAAP within 150 days and 60 days (respectively);

(b) to supply details of any litigation, arbitration or administrative proceedings which might, if adversely determined, have a Material Adverse Effect; and

(c) to give notice upon the occurrence of an Event of Default or an event which, with the giving of notice, lapse of time, determination of materiality or fulfilment of any other applicable condition would constitute an Event of Default.

The Declaration of Trust provides that no payment of any amount whatsoever shall be made in respect of the Certificates by the Issuer or the Trustee or any of their respective agents except to the extent that funds are available therefor from the Trust Assets.

For the purpose of the foregoing:

"**Event of Default**" has the meaning giving below (see *Purchase Undertaking*).

"**Material Adverse Effect**" has the meaning given below (see *Purchase Undertaking*).

"**Trust Assets**" means all of the Trustee's interest and rights in and to the Portfolio Assets, all of the Trustee's rights, interest and benefit, present and future, in, to and under the Transaction Documents, all moneys which on the Closing Date may be, or thereafter from time to time are, standing to the credit of the Transaction Account and all proceeds of the foregoing.

"**Portfolio Assets**" comprises the assets purchased under the Purchase Agreement and any assets at any time replacing those assets in accordance with any of the Transaction Documents.

Management Agreement

Pursuant to the Management Agreement dated on the Closing Date, Kuveyt Türk will be appointed to act as Managing Agent for the Trustee and, in that capacity, for so long as the Trustee has any right or interest in or to the Portfolio Assets, to provide, *inter alia*, the following services to the Trustee with respect to the Portfolio Assets (the "**Services**"):

(a) it shall hold, take delivery of and manage the Portfolio Assets on behalf of the Trustee to generate profit in accordance with the Management Agreement (including executing any Sharia compliant currency and profit protection documents) and in particular so that, in respect of each Distribution Period, the expected Portfolio Profit is at least equal to the Periodic Distribution Amount payable on the related Periodic Distribution Date;

(b) it shall monitor the Portfolio Assets such that not less than 51 per cent. of the Portfolio Assets comprise beneficial interests and rights in and to assets which are the subject of rental generating financial lease (ijara) contracts (the "**Leased Portfolio Assets**");

(c) it shall do all acts and things (including execution of such documents, issue of notices and commencement and enforcement of any proceedings) that it considers reasonable and prudent to ensure the assumption and compliance by each Portfolio Transaction Party of its covenants, undertakings or other obligations under the Portfolio Transaction Documents to which the Managing Agent is party or for the benefit of the Managing Agent in accordance with applicable law and the terms of the Portfolio Transaction Documents;

(d) it shall pay and discharge all Portfolio Liabilities on behalf of the Trustee;

(e) it shall collect all Portfolio Revenues, investigate non-payment of Portfolio Revenues and generally make reasonable efforts to collect or enforce the collection of Portfolio Revenues as and when the same shall become due;

(f) to the extent that Portfolio Revenues (including any insurance proceeds) do not, in the opinion of the Managing Agent, constitute distributable Portfolio Profit, the Managing Agent shall:

   (i) apply them in acquiring beneficial interest and rights in and to Sharia compliant assets, including financial lease (ijara) transactions with any person the Managing Agent thinks fit to be a Lease Transaction Party; and

   (ii) pending such application, apply Portfolio Revenues in Sharia compliant deposits or like liquidity investments;

(g) the Managing Agent on behalf of the Trustee shall meet all obligations in respect of any of the Leased Portfolio Assets required by the Sharia to be assumed by a lessor, including insurance against total or partial loss and reinstatement of any assets which are the subject of a partial loss;

(h) in discharging its obligations under paragraph (g), the Managing Agent may procure that those obligations are delegated to a Portfolio Transaction Party acting as service agent (in a manner and on such terms as are compliant with the Sharia) in accordance with any Portfolio Transaction Document such service agent is or will become a party to;

(i) it shall pay all Taxes (if any) charged, levied or claimed in respect of the Portfolio Assets by any relevant taxing or other authority;

(j) it shall obtain and maintain all necessary authorisations in connection with any of the Portfolio Assets and its obligations under or in connection with the Management Agreement; and

(k) it shall maintain the Portfolio Account and the Profit Reserve Account and shall comply with all its other obligations under the Management Agreement.

On the second Business Day prior to each Periodic Distribution Date (each, a "**Distribution Date**"), the Managing Agent shall pay the Portfolio Profit to the Trustee and the Trustee will apply the same to pay the Periodic Distribution Amount due on the immediately succeeding Periodic Distribution Date.

If the Portfolio Profit (net of any deduction or withholding for or on account of any Taxes) payable to the Trustee on a Distribution Date is greater than such Periodic Distribution Amount, that surplus Portfolio Profit will be used as a reserve for the payment of future Portfolio Profits and must be credited to the Profit Reserve Account accordingly.

The Managing Agent may at any time prior to the Redemption Date withdraw any amount standing to the credit of the Profit Reserve Account on account of the incentive fee payable to the Managing Agent on the Redemption Date (each such withdrawal, an "**Advance Incentive Fee**"), subject to:

(a) the Managing Agent re-crediting to the Profit Reserve Account any Advance Incentive Fee on a Distribution Date if, and to the extent, the aggregate of (i) the Portfolio Profit and (ii) the amount then standing to the credit of the Profit Reserve Account is (net of any deduction or withholding for or on account of any Taxes) less than the relevant Periodic Distribution Amount;

(b) the amount so re-credited being paid to the Trustee on the relevant Distribution Date in or towards payment of the relevant Periodic Distribution Amount.

If, notwithstanding such re-crediting of the Profit Reserve Account, there is insufficient funds to enable the Trustee to pay the Periodic Distribution Amount due on the related Periodic Distribution Date in full, the Managing Agent shall be entitled (but is under no obligation) to pay a U.S. Dollar amount equal to the shortfall, on account of future Portfolio Profit (an "**On-Account Payment**"). The Managing Agent shall be entitled (in its sole discretion) to satisfy the Trustee's liability to the Managing Agent for any On-Account Payment from future Portfolio Revenues.

For the purposes of the foregoing:

"**Distribution Period**" means the period from and including the Closing Date to, but excluding, the Distribution Date falling in February 2011 and thereafter each period from, and including, a Distribution Date to, but excluding, the next Distribution Date.

"**Lease Transaction Documents**" means any financial lease contract in connection with Portfolio Assets and any related documentation entered into or to be entered into by any Lease Transaction Party, including the grant of Security to secure the obligations of any Lease Transaction Party.

"**Lease Transaction Party**" means any person (other than Kuveyt Türk) which is or will become a party to any Lease Transaction Document.

"**Murabaha Transaction Documents**" means any murabaha agreement comprising the Portfolio Assets and any related documentation (including any purchase contract) entered into or to be entered into by any Murabaha Transaction Party, including the grant of Security to secure the obligations of any Murabaha Transaction Party.

"**Murabaha Transaction Party**" means any person (other than Kuveyt Türk) which is or will become a party to any Murabaha Transaction Document.

"**Portfolio Account**" means a U.S. Dollar denominated book-entry account of the Managing Agent for the purpose of recording credits and debits made in respect of all Portfolio Revenues and Portfolio Liabilities.

"**Portfolio Liabilities**" means the amount of any claims, losses, costs and expenses properly incurred by, or reimbursable to, the Managing Agent in providing the Services.

"**Portfolio Profit**" means, in respect of a Distribution Period, the amount (after deduction or withholding of any Taxes imposed or levied thereon) by which Portfolio Revenues exceed the aggregate of (i) Portfolio Revenues required to be reinvested to maintain compliance with the Management Agreement and (ii) Portfolio Liabilities.

"**Portfolio Revenues**" means all rental income, sale proceeds or other income or consideration, damages, insurance proceeds, compensation, or other sums received by the Managing Agent or paid into the Transaction Account in whatever currency in connection with the Portfolio Assets.

"**Portfolio Transaction Documents**" means the Lease Transaction Documents and the Murabaha Transaction Documents.

"**Portfolio Transaction Parties**" means the Lease Transaction Parties and the Murabaha Transaction Parties.

"**Profit Reserve Account**" means a U.S. Dollar denominated book-entry account of the Managing Agent for the purpose of recording credits and debits made in respect of any reserved Portfolio Profit and, if applicable, payment and re-crediting of any Advance Incentive Fee in accordance with the Management Agreement.

"**Security**" means any mortgage, charge, assignment by way of security, pledge, hypothecation, lien, right of set off, retention of title provision or trust arrangement (for the purpose of, or which has the effect of, granting security) or any other security interest of any kind whatsoever, or any agreement, whether conditional or otherwise, to create any of the same.

Guarantee

Under the Guarantee executed by Kuveyt Türk in favour of the Trustee on the Closing Date, Kuveyt Türk irrevocably and unconditionally, without any requirement or necessity for any demand, claim, notice or other formality:

(a) guarantees to the Trustee due and punctual payment of all sums payable under or pursuant to any of the Portfolio Transaction Documents as and when the same become due and payable; and

(b) undertakes as a primary obligation to indemnify the Trustee against any cost, actual loss or liability (excluding costs of funding, opportunity costs and any payment in the nature of interest) suffered by the Trustee if any obligation guaranteed by Kuveyt Türk is not fulfilled or is or becomes unenforceable, invalid, void or illegal. The amount of the cost, loss or liability shall be equal to the amount which the Trustee would otherwise have been entitled to recover. The indemnity constitutes a separate and independent obligation from the other obligations under the Guarantee and shall give rise to an independent cause of action.

The Guarantee is continuing and will extend to any outstanding sums payable under or pursuant to any of the Portfolio Transaction Documents.

Purchase Undertaking

Under the Purchase Undertaking executed by Kuveyt Türk in favour of the Trustee on the Closing Date, Kuveyt Türk undertakes:

(i) provided that a Dissolution Event has occurred and is continuing, at any time between the Closing Date and the Maturity Date (each as defined in the Conditions); or

(ii) on the Maturity Date;

to purchase, in each case by paying the Exercise Price in full, without any deduction, set-off or counterclaim, into the Transaction Account two Business Days prior to the relevant Redemption Date, all of the Trustee's interest and rights in and to the Portfolio Assets at the Exercise Price specified in the Exercise Notice in U.S. Dollars on an "as is" basis (without any warranty express or implied as to condition, fitness for purpose, suitability for use or otherwise and if any warranty is implied by law, it shall be excluded to the full extent permitted by law) and otherwise on the terms and subject to the conditions of the Purchase Undertaking.

The Trustee (or the Delegate on its behalf, as the case may be) may exercise its option under the Purchase Undertaking as follows:

(a) in the case of (i) by delivering an Exercise Notice to Kuveyt Türk specifying the Dissolution Redemption Date, such Dissolution Redemption Date being a minimum of three Business Days following the delivery of such Exercise Notice; and

(b) in the case of (ii) by delivering an Exercise Notice to Kuveyt Türk no later than three Business Days and no earlier than 30 Business Days prior to the Maturity Date.

Promptly following Kuveyt Türk's payment of the Exercise Price in accordance with the Purchase Undertaking, the sale and transfer of all of the Trustee's interest and rights in and to the Portfolio Assets shall occur by Kuveyt Türk and the Trustee executing a sale agreement.

If Kuveyt Türk fails to settle all or a part of the Exercise Price that is due in accordance with the Purchase Undertaking (the "**Outstanding Exercise Price**"), Kuveyt Türk shall pay a late payment amount in respect of the period from, and including, the due date for settlement to, but excluding, the date of full settlement, calculated on a daily basis, as the product of (a) 1 per cent. per annum, (b) the Outstanding Exercise Price and (c) on the basis of a year of 360 days consisting of 12 months of 30 days each and in the case of an incomplete month, the actual number of days elapsed. Any late payment amount received by the Trustee must be donated (on behalf of Kuveyt Türk) to the Red Crescent Society, being the charity of Kuveyt Türk's choice.

Events of Default

Under the Purchase Undertaking, the following events constitute an "**Event of Default**":

(a) **Non-payment:** Kuveyt Türk fails to pay any amount due under any Transaction Document to which it is a party, and such default continues unremedied for a period of seven (7) days;

(b) **Breach of financial covenants:** Kuveyt Türk fails to comply with either of the financial covenants as to capital adequacy ratio and consolidated tangible net worth of the Purchase Undertaking (see below);

(c) **Breach of other obligations:** Kuveyt Türk does not perform or comply with any one or more of its other obligations or undertakings in any of the Transaction Documents to which it is a party which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days of the earlier of the Trustee giving notice to Kuveyt Türk or Kuveyt Türk becoming aware of such default;

(d) **Misrepresentation:** any representation or warranty made by Kuveyt Türk under any Transaction Document is or proves to have been incorrect or misleading in any material respect on or as of the date made;

(e) **Cross-default:**

(i) any Financial Indebtedness of Kuveyt Türk is not paid when due or, as the case may be, within any originally applicable grace period, or

(ii) any Financial Indebtedness of Kuveyt Türk becomes due and payable prior to its stated maturity by reason of any non-payment event of default (howsoever described) or other event of default (howsoever described), or

(iii) Kuveyt Türk fails to pay when due any amount payable by it under any Guarantee of any Financial Indebtedness,

provided that the amount of the relevant Financial Indebtedness referred to in sub-paragraph (i) and/or (ii) above and/or the Financial Indebtedness guaranteed by the Guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds U.S.$10,000,000 (or its equivalent in any other currency or currencies);

(f) **Insolvency:**

(i) Kuveyt Türk is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness;

(ii) the value of the assets of Kuveyt Türk is less than its liabilities (taking into account contingent and prospective liabilities); or

(iii) a moratorium is declared in respect of any indebtedness of Kuveyt Türk;

(g) **Insolvency proceedings:** any corporate action, legal proceedings or other procedure or step is taken in relation to:

(i) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of Kuveyt Türk;

(ii) a composition, compromise, assignment or arrangement with any creditor of Kuveyt Türk;

(iii) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of Kuveyt Türk or any of its assets; or

(iv) enforcement of any Security Interest over any assets of Kuveyt Türk (where the aggregated value of such assets is in excess of U.S.$10,000,000 or its equivalent in another currency or currencies),

or any analogous procedure or step is taken in any jurisdiction.

(h) **Creditors' process:** any expropriation, attachment, sequestration, distress or execution affects any asset or assets of Kuveyt Türk if the aggregated value of such asset or assets is in excess of U.S.$10,000,000 (or its equivalent in another currency or currencies) and is not, if contested in good faith by Kuveyt Türk, discharged or dismissed within 30 days of any of the same affecting such asset or assets;

(i) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution of Kuveyt Türk, or Kuveyt Türk ceases or threatens to cease to carry on all or a substantial part of its business or operations, or enters into any amalgamation, demerger or merger, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or demerger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders;

(j) **Unlawfulness:** it is or becomes (at any time) unlawful for Kuveyt Türk to perform or comply with any or all of its obligations under any of the Transaction Documents;

(k) **Repudiation:** Kuveyt Türk repudiates a Transaction Document or does or causes to be done any act or thing evidencing an intention to repudiate a Transaction Document;

(l) **Banking licence:** the banking licence of Kuveyt Türk ceases to be effective or is revoked, suspended, withdrawn or not renewed;

(m) **Material adverse change:** any event or series of events occur which has or could reasonably be expected to have a Material Adverse Effect;

(n) **Failure to pay final judgments:** Kuveyt Türk fails to comply with or pay any sum due from it under any final judgment or any final order made or given by a court or arbitral forum of competent jurisdiction;

(o) **Authorisation and consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order to enable Kuveyt Türk lawfully to exercise its rights and perform and comply with its obligations under or in respect to the Transaction Documents is not taken, fulfilled or done;

(p) **Necessity to carry on business:** it is or becomes necessary under the laws of the Republic of Turkey and/or the constitution of Kuveyt Türk:

    (i) in order to enable the Trustee to enforce its rights under the Transaction Documents; or

    (ii) by reason only of the execution, delivery and performance of the Transaction Documents,

    that the Trustee should be licensed, qualified or otherwise entitled to carry on business in the Republic of Turkey;

(q) **Foreign currencies:** any restriction is imposed on the ability of Kuveyt Türk to hold and deal with any currency other than Turkish lira, which would make it impossible for Kuveyt Türk to perform its obligations under the Transaction Documents;

(r) **Change of control:** Kuwait Finance House KSC:

    (i) either ceases to own, directly or indirectly, more than 51 per cent. of the issued share capital of Kuveyt Türk; or

    (ii) otherwise ceases to control, directly or indirectly, Kuveyt Türk,

    and for the purpose of this paragraph, Kuwait Finance House KSC will be deemed to "**control**" Kuveyt Türk if (whether directly or indirectly and whether by ownership of share capital, the possession of voting power, contract, trust or otherwise) it is able to direct its affairs and policies and/or to direct the composition of its board of directors or other governing body of Kuveyt Türk; or

(s) **Nationalisation and expropriation:** all or any substantial part of the undertaking or assets of Kuveyt Türk shall be expropriated, nationalised, compulsorily acquired or taken into public ownership or Kuveyt Türk or shall cease to be able or entitled to exercise the rights of control or ownership of the same.

Covenants

Under the Purchase Undertaking, Kuveyt Türk will enter into the following covenants:

(a) **Compliance with laws and maintenance of legal validity:** Kuveyt Türk shall:

    (i) comply in all respects with all laws to which it may be subject, if failure so to comply would materially impair its ability to perform its payment obligations under the Transaction Documents; and

    (ii) ensure that it does all that is necessary to preserve or maintain in force its existence as a bank, duly licensed and in good standing under the laws of the Republic of Turkey.

(b) **Negative Pledge:** Kuveyt Türk shall not create or permit to subsist any Security Interest, other than Permitted Security, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any of its Financial Indebtedness or any Guarantee of Financial Indebtedness given by Kuveyt Türk.

(c) **Disposals:** for so long as any Certificates remains outstanding, Kuveyt Türk shall not enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to sell, lease, transfer or otherwise dispose of any asset, except in the case that such sale, lease, transfer or other disposal is:

(i) made in the ordinary course of Kuveyt Türk's business, including, without limitation, its treasury, real estate and investment activities;

(ii) made in exchange for other assets comparable or superior as to type, value and quality;

(iii) made pursuant to an interest-free financing structure, provided that the assets which are the subject of such financing structure can not be ultimately sold or otherwise disposed of, except to Kuveyt Türk and no other person;

(iv) approved by an Extraordinary Resolution of the Certificateholders; or

(v) where the higher of the market value or consideration receivable (when aggregated with the higher of the market value or consideration receivable for any other sale, lease, transfer or other disposal, other than any permitted under paragraphs (i) to (iv) above inclusive) does not exceed an amount (or its equivalent in another currency or currencies) equal to 20 per cent. of the book value of Kuveyt Türk's "total assets" shown in Kuveyt Türk's most recent consolidated financial statements;

(d) **Change of business:** Kuveyt Türk shall procure that no substantial change is made to the general nature of its business from that carried on at the date of this Undertaking.

(e) **Pari Passu Ranking:** Kuveyt Türk shall ensure that at all times its payment obligations under the Transaction Documents will rank at least pari passu with the claims of all its other present and future unsecured and unsubordinated creditors of Kuveyt Türk, save for liabilities which are preferred solely by the laws of Turkey, including, without limitation, (a) liabilities which are preferred by reason of reserve and/or liquidity requirements required by law to be maintained by Kuveyt Türk with the Central Bank of Turkey, (b) claims of the individual depositors with Kuveyt Türk to the extent of any excess which such depositors are not fully able to recover from the Savings Deposit Insurance Fund of Turkey, (c) claims which the Savings Deposit Insurance Fund of Turkey may have against Kuveyt Türk and (d) claims which the Central Bank may have against Kuveyt Türk with respect to the advance made by it to Kuveyt Türk in accordance with Article 40.I(c) of the Central Bank Law of the Republic (Law No. 1211) (as amended).

(f) **Accounting Standards:** Kuveyt Türk shall prepare their consolidated annual and half-year financial statements in accordance with IFRS.

(g) **Capital adequacy ratio:** Kuveyt Türk shall ensure that its capital adequacy ratio shall not be less than the greater of (unless compliance therewith is waived by the Central Bank of Turkey or the BRSA or any other competent governmental agency of Turkey):

(i) the percentage calculated applying current regulations and guidelines set by The Bank for International Settlements; and

(ii) the minimum set by the Turkish Banking Regulation and Supervision Agency (the "**BRSA**") (as amended from time to time);

Without prejudice to the foregoing, Kuveyt Türk shall comply with such regulations and guidelines in respect of capital adequacy as are in force and are applicable to it from time to time as well as applicable in Turkey.

(h) **Consolidated Tangible Net Worth:** Kuveyt Türk shall at all times ensure that its consolidated tangible net worth shall not be less than an amount equal to the greater of TL600,000,000 or U.S.$300,000,000. For the purpose of this paragraph, "**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 but adjusted by deducting any amount attributable to goodwill and any other item of an intangible nature as determined in accordance with IFRS.

For the purpose of the foregoing:

"**Dissolution Event**" means any event defined as such in Condition 10.

"**Dissolution Redemption Date**" has the meaning given in Condition 10.

"**Exercise Price**" means a U.S. Dollar amount for the Portfolio Assets equal to the Redemption Amount and, for the avoidance of doubt, in deriving that dollar amount the value of any receivables comprised in the Portfolio Assets will be at par only and accordingly, the balance dollar amount will be in consideration for the ijara assets comprised in the Portfolio Assets.

"**Extraordinary Resolution**" has the meaning given in the Conditions.

"**Financial Indebtedness**" means any indebtedness for or in respect of:

(a) moneys borrowed;

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

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

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

(e) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with applicable law and generally accepted accounting standards or IFRS, be treated as a finance or capital lease;

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

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

(h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and

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

"**Group**" means Kuveyt Türk and its Subsidiaries from time to time.

"**Guarantee**" means, in relation to any Financial Indebtedness of any person, any obligation of another person to pay such Financial Indebtedness following valid demand or claim on that person, including (without limitation):

(a) any obligation to purchase such Financial Indebtedness;

(b) 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;

(c) any indemnity against the consequences of a default in the payment of such Financial Indebtedness; and

(d) any other agreement to be responsible for such Financial Indebtedness.

"**Holding Company**" means, in relation to a company or corporation, any other company or corporation in respect of which Kuveyt Türk is a Subsidiary.

"**Material Adverse Effect**" means a material adverse effect on:

(a) the business, operations, assets, condition (financial or otherwise), performance or prospects of Kuveyt Türk;

(b) the ability of Kuveyt Türk to perform its obligations under the Transaction Documents to which it is party;

(c) the countries (including, without limitation, the financial, political or economic conditions in the countries) in which Kuveyt Türk's assets and the Holding Company are located or in the markets for loans to debt securities of Turkey and Bahrain;

(d) the legality, validity or enforceability of any Transaction Document; or

(e) the rights or remedies of any other party under the Transaction Documents.

"**Maturity Date**" has the meaning given in Condition 19.1.

"**Permitted Security**" means each and any of the following classes of Security Interest:

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

(b) any Security Interest securing any Financial Indebtedness of Kuveyt Türk arising by operation of law, provided such Security Interest is discharged within 60 days of arising;

(c) any Security Interest created by or arising out of title retention provisions in a vendor's or supplier's standard sale or supply terms and conditions and in the ordinary course of business;

(d) any Security Interest arising in the ordinary course of banking arrangements or investment transactions (including, without limitation, sale, lease and repurchase transactions and any netting or set-off arrangements entered into in the ordinary course of Kuveyt Türk's banking arrangements for the purpose of netting debit and credit balances), provided that the Security Interest is limited to the assets which are the subject of the relevant transaction;

(e) any Security Interest over or affecting any asset acquired by Kuveyt Türk after the Closing Date, if such Security Interest was created at the time of such acquisition to secure any Financial Indebtedness incurred for the purpose of financing such acquisition;

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

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

(h) any Security Interest arising in connection with any payment or close-out netting or set off arrangement pursuant to any hedging transaction entered into by Kuveyt Türk for the purpose of (1) hedging any risk to which it is exposed in its ordinary course of business or (2) its profit rate or currency management operation which are carried out in the ordinary course of business and, in any case, for non-speculative purposes only and excluding, in each case, any Security Interest under a credit support arrangement in relation to a hedging transaction;

(i) any Security Interest created or outstanding with the approval of an Extraordinary Resolution of the Certificateholders;

(j) any Security Interest not otherwise permitted by the above paragraphs securing Financial Indebtedness of Kuveyt Türk in an aggregate principal amount at any time outstanding not exceeding an amount equal to 20 per cent. of Kuveyt Türk's consolidated tangible net worth. For the purpose of this paragraph, Kuveyt Türk's "**consolidated tangible net worth**" means the amount equal to the aggregate of the fully paid and issued share capital, share capital premium, all reserves and retained earnings of the Group as shown in the then most recent consolidated annual financial statements of Kuveyt Türk prepared in accordance with IFRS.

"**Redemption Amount**" has the meaning given in Condition 19.1.

"**Securitisation Indebtedness**" means any Financial Indebtedness issued, borrowed or raised by Kuveyt Türk in connection with any securitisation of existing or future assets or revenues, provided that:

(a) any Security Interest given by Kuveyt Türk in connection therewith is limited solely to the assets and/or revenues which are the subject of the securitisation;

(b) 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 the money advanced or payment of any other liability); and

(c) there is no other recourse to Kuveyt Türk in respect of any default by any person under or in connection with the securitisation.

"**Security Interest**" means any mortgage, charge, lien, pledge, or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

"**Subsidiary**" means in relation to any company or corporation, a company or corporation:

(a) which is controlled, directly or indirectly, by the first mentioned company or corporation;

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

(c) which is a Subsidiary of another Subsidiary of the first mentioned company or corporation, and for this purpose, a company or corporation shall be treated as being controlled by another if that other company or corporation (whether directly or indirectly and whether by ownership of share capital, the possession of voting power, contract, trust or otherwise) is able to direct its affairs and policies and/or to direct the composition of its board of directors or other governing body.

"**Transaction Account**" means the account defined as such in Condition 19.1.

Sale Undertaking

The Trustee shall execute a Sale Undertaking to be dated on the Closing Date in favour of Kuveyt Türk.

Early Redemption following a Tax Event

Pursuant to the Sale Undertaking, the Trustee undertakes to sell and transfer to Kuveyt Türk all of its interest and rights in and to the Portfolio Assets on an "as is" basis (without any warranty express or implied as to the condition, fitness for purpose, suitability for use or otherwise and if any warranty is implied by law, it shall be excluded to the full extent permitted by law) at the Exercise Price following Kuveyt Türk exercising its option under the Sale Undertaking.

Subject to no Dissolution Event being continuing, Kuveyt Türk may exercise its option following the occurrence of a Tax Event (as defined in Condition 6.3) by delivering a Tax Event Exercise Notice to the Trustee by no earlier than 65, and no later than 45, days prior to the Tax Redemption Date to be specified in the Tax Event Exercise Notice in accordance with the Conditions.

The Exercise Price shall be paid in full, without deduction, set-off or counterclaim into the Transaction Account two Business Days prior to the Tax Redemption Date. Promptly following such payment, the sale and transfer of all of the Trustee's interest and rights in and to the Portfolio Assets shall occur by Kuveyt Türk and the Trustee executing a tax redemption sale agreement substantially in the form set out in the Sale Undertaking.

Substitution of Portfolio Assets

If Kuveyt Türk wants to purchase all or any part of the Trustee's interest and rights in and to the Portfolio Assets (the "**Original Portfolio Assets**") by payment in kind with beneficial interests and rights in and to other Sharia compliant assets (the "**Replacement Portfolio Assets**"), the Trustee undertakes pursuant to the Sale Undertaking to sell and transfer the same to Kuveyt Türk on an "as is" basis (without any warranty express or implied as to the condition, fitness for purpose, suitability for use or otherwise and if any warranty is implied by law, it shall be excluded to the full extent permitted by law), subject to the following conditions:

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

(b) Kuveyt Türk delivering a substitution exercise notice to the Trustee no later than 10 days prior to the replacement date as set out in the substitution exercise notice;

(c) the value of the Original Portfolio Assets must be certified by Kuveyt Türk (in U.S. Dollars) in the substitution exercise notice, and that certified value will be the U.S. Dollar purchase consideration (the "**Sale Price**") for the Original Portfolio Assets;

(d) the Sale Price must be paid in kind by Kuveyt Türk transferring all its beneficial interest and rights in and to the Replacement Portfolio Assets subject to the value of the Replacement Portfolio Assets being equal to or greater than the Sale Price and certified as such in the substitution exercise notice; and

(e) any costs and expenses for such transfer must be paid in full by Kuveyt Türk.

Agency Agreement

Pursuant to the Agency Agreement to be dated the Closing Date, the Issuer will appoint:

(a) Citibank N.A. as principal paying agent, calculation agent and replacement agent in respect of the Certificates; and

(b) Citigroup Global Markets Deutschland AG as registrar and transfer agent in respect of the Certificates.

Costs Undertaking

Pursuant to the Costs Undertaking to be dated the Closing Date and executed by Kuveyt Türk, Kuveyt Türk will agree to pay certain fees and expenses arising in connection with the issue of the Certificates and under the Transaction Documents.

TAXATION

The following is a general description of certain tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates. Prospective purchasers of Certificates should consult their tax advisers as to the consequences under the tax laws of the country of which they could be resident for any tax purposes and the tax laws of Turkey of acquiring, holding and disposing of Certificates and receiving payments of Redemption Amounts, Periodic Distribution Amounts and/or other amounts under the Certificates. This summary is based upon laws, decrees, rulings, administrative practice and judicial decisions as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date and which could have retroactive effect.

Turkish Taxation

The following summary of the anticipated tax treatment in Turkey in relation to the payments on the Certificates is based on the taxation law and practice in force at the date of this Prospectus, and does not constitute legal or tax advice and prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Certificates and the receipt of any payments in respect of any Periodic Distribution Amounts and distributions (whether or not on a winding-up) with respect to such Certificates under the laws of the jurisdictions in which they may be liable to taxation.

Overview

The Certificates will be analysed for Turkish tax purposes under the rules applicable to debt instruments.

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile is in Turkey or its effective place of management is in Turkey. A resident legal entity is subject to Turkish taxes on its world-wide income (unlimited tax liability), whereas a non-resident legal entity is only liable to the Turkish taxes for trading income made through a permanent establishment or a permanent representative, or for income otherwise sourced in Turkey (limited tax liability).

A natural person is a resident of Turkey if it has established domicile in Turkey, or stays in Turkey more than six months a calendar year. A resident individual is liable for Turkish taxes on world-wide income, while a non-resident individual is only liable for Turkish taxes on trading income made through a permanent establishment or permanent representative, or for income otherwise sourced in Turkey.

Taxation of Interest and Capital Gains

Turkish resident Certificateholders should treat Periodic Distribution Amounts paid in accordance with the terms and conditions of the Certificates as ordinary interest income for Turkish tax purposes, and any gain realised on the disposal or redemption of Certificates will be subject to income or capital gains taxes.

Periodic Distribution Amounts received and capital gains realised in respect of the Certificates held by non-Turkish resident Certificateholders are not subject to any Turkish income or capital gains taxes provided that (i) non-Turkish resident Certificateholders have not acquired the Certificates through Turkish on shore bank accounts or received the proceeds from the sale of the Certificates into Turkish on-shore bank accounts and (ii) the purchase and sale of the Certificates is not carried out in Turkey (i.e. no Turkish intermediaries are involved in the transaction).

Withholding Tax

Payments of Periodic Distribution Amounts or the Redemption Amount under the terms and conditions of the Certificates made by the Issuer to the Certificateholders should be made free of withholding taxes under Turkish law as the Issuer is not a resident in Turkey.

Article 30.1(c) of the Corporation Tax Law (Law No. 5520) ("**Corporation Tax Law**") requires a withholding tax, at a rate of 15 per cent., to be withheld from all payments of interest and fees on loans obtained by borrowers resident in Turkey from limited liability tax persons (i.e. entities resident outside Turkey), except that (a) the Council of Ministers' Decree No. 2009/14593 (the "**Decree**") issued pursuant to Article 30.8 of the Corporation Tax Law reduces the Turkish withholding tax rate applicable on payments of interest on loans to one per cent. if such loans are obtained by banks or entities through securitisations outside Turkey, and (b) fees under or pursuant to such loans are, in the opinion of the Ministry of Finance, to be assimilated to payments of interest for the purposes of such Corporation Tax Law and the Decree, with the result that the Turkish withholding tax rate applicable to fees under or pursuant to such loans is reduced to one per cent.

Article 30.7 of the Corporation Tax Law provides for all payments to corporations established or operating in "Tax Havens" to be subject to withholding tax at a rate of 30 per cent. However, Article 30.7 also exempts payments made in relation to principal and interest amounts under loans obtained from foreign financial institutions from such withholding tax. Pursuant to Article 30.5.3 of the General Communiqué (Serial No:1) on Corporate Tax issued by Ministry of Finance on 3 April 2007, special purpose vehicles incorporated for the purpose of securitisations qualify as financial institutions.

If payments by Kuveyt Türk to the Issuer of Portfolio Profits or of the Exercise Price are subject to any withholding tax, Kuveyt Türk will, in certain circumstances specified in the Transaction Documents, become obliged to pay such additional amounts as may be necessary so that the net payments received by the Issuer will not be less than the amount the Issuer would have received in the absence of such withholding.

Periodic payments carried out by the Issuer to Certificateholders will not be subject to tax haven legislation in the Corporate Tax Law since the Issuer is not a resident in Turkey.

Certificateholders should also note the optional early redemption of the Certificates following a Tax Event as defined in Condition 6.3.

Other Taxes

According to current Turkish tax laws and regulations, the sale, transfer or other disposition of Certificates is not subject to transfer taxes or value added tax.

There are no Turkish inheritance or succession taxes applicable to the ownership, transfer or disposition of Certificates to or by non-Turkish resident Certificateholders. However, a gift and inheritance tax calculated based on progressive rates of up to 30 per cent. applies to the inheritance or donation inheritance or donation of Certificates by or to Turkish resident Certificateholders.

Cayman Islands Taxation

The Government of the Cayman Islands, will not, under existing legislation, impose any income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax upon the Issuer or the Certificateholders. The Cayman Islands are not party to any double taxation treaties.

The Issuer has applied for and can expect to receive an undertaking from the Governor in Cabinet of the Cayman Islands that, in accordance with section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, for a period of 20 years from the date of the undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Issuer or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on the shares, debentures or other obligations of the Issuer or (ii) by way of the withholding in whole or in part of a payment of dividend or other distribution of income or capital by the Issuer to its members or a payment of principal or interest or other sums due under a debenture or other obligation of the Issuer.

EU Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State has been required, since 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State. However, Austria, Belgium and Luxembourg are required instead to apply a withholding system for a transitional period in relation to such payments by deducting amounts on account of tax at rates rising over time to 35 per cent. This transitional period commenced on 1 July 2005 and terminates at the end of the first full fiscal year following agreement by certain non-EU countries and territories to the exchange of information relating to payments of interest. A number of non-EU countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date. Therefore, payments of Periodic Distribution Amounts on the Certificates which are made or collected through Belgium, Luxembourg, Austria or any other relevant country may be subject to withholding tax which would prevent Certificateholders from receiving Periodic Distribution Amounts on their Certificate in full. The terms and conditions of the Certificates provide that, to the extent that it is possible to do so, a paying agent will be maintained by the Issuer in a Member State that is not required to withhold tax pursuant to the directive.

On 13 November 2008, the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg currently in effect. The information in this section concerning such clearing systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, Kuveyt Türk nor the Joint Lead Managers takes any responsibility for the accuracy of this section. The Issuer and Kuveyt Türk only take responsibility for the correct extraction and reproduction of the information in this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer or Kuveyt Türk and any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, ownership interests in the Certificates held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such ownership interests.

Clearing Systems

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Registration and Form

Book-entry interests in the Certificates will be represented by the Global Certificate registered in the name of a common depositary or its nominee for Euroclear and Clearstream, Luxembourg. Ownership of book-entry interests in the Global Certificate will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the Global Certificate in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear or Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the owner of book-entry interests in the Global Certificate will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the Global Certificate. The Registrar will be responsible for maintaining a record of the aggregate holdings of the Global Certificate registered in the name of a common depositary or its nominee for Euroclear and Clearstream, Luxembourg and/or, if individual Certificates are issued in the limited circumstances described under "Global Certificate", holders of Certificates represented by those individual Certificates. The Principal Paying Agent will be responsible for ensuring that payments received by it from the Issuer for holders of book-entry interests in the Global Certificate holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer will not impose any fees in respect of holding the Global Certificate; however, holders of book-entry interests in the Global Certificate may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream, Luxembourg.

Clearance and Settlement Procedures

Initial Settlement

Upon their original issue, the Certificates will be in global form represented by the Global Certificate. Interests in the Global Certificate will be in uncertified book-entry form. Purchasers holding book entry interests in the Global Certificate through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Global Certificate will be credited to Euroclear and Clearstream, Luxembourg participants' securities clearance accounts on the Closing Date against payment (for value the Closing Date).

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Certificates where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between Euroclear and/or Clearstream, Luxembourg participants

Secondary market trading between Euroclear participants and/or Clearstream, Luxembourg participants will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

General

Neither of Euroclear and Clearstream, Luxembourg is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the Issuer, the Trustee, Kuveyt Türk or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited and Liquidity Management House for Investment Company K.S.C.C (the "**Joint Lead Managers**") have, pursuant to a subscription agreement dated 19 August 2010 (the "**Subscription Agreement**") made between the Issuer, Kuveyt Türk and the Joint Lead Managers, jointly and severally agreed, subject to the satisfaction of certain conditions set forth therein to procure subscribers for or, failing which, subscribe and pay for the Certificates at the issue price of 100 per cent. of the face amount of the Certificates.

Pursuant to the Subscription Agreement, Kuveyt Türk has agreed to pay certain management and underwriting commissions and expenses to the Joint Lead Managers in respect of their subscription of the Certificates and to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the issue of the Certificates.

United States

The Certificates have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Certificates are being offered and sold outside of the United States in reliance on Regulation S. In addition, until 40 days after commencement of the offering of the Certificates, an offer or sale of the Certificates within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each of the Joint Lead Managers has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement in connection with the Certificates to persons to whom such an invitation or inducement can lawfully be communicated or caused to be communicated under applicable United Kingdom law (including section 21 and section 238 of the FSMA); and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a "**Relevant Member State**"), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it has not made and will not make an offer of the Certificates to the public in that Relevant Member State, except that it may, with effect from and including the relevant implementation date, make an offer of Certificates to the public in that Relevant Member State:

(a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) at any time to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to article 3 of the Prospectus Directive.

For the purpose of this provision, the expression "offer of Certificates to the public" in relation to any Certificates in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe the Certificates, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Bahrain

Each of the Joint Lead Managers has represented and agreed that no marketing or sale of the Certificates may take place in the Kingdom of Bahrain ("**Bahrain**") except pursuant to the Central Bank of Bahrain and Financial

Institutions Law 2006 (Decree Law No.64/2006) and that it has not offered and will not offer, Certificates to the Public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001) of Bahrain) in Bahrain.

Cayman Islands

Each of the Joint Lead Managers has represented and agreed that no offer or invitation to subscribe for Certificates has been made or will be made to the public of the Cayman Islands.

Dubai International Financial Centre

Each of the Joint Lead Managers has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is (a) deemed to be an "Exempt Offer" in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "Rules"); and (b) made only to persons of a type specified in the Rules.

Hong Kong

Each of the Joint Lead Managers has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the Securities laws of Hong Kong) other than with respect to the Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Kuwait

Each of the Joint Lead Managers has represented and agreed that no marketing or sale of the Certificates may take place in Kuwait unless the same has been duly authorised by the Kuwait Ministry of Commerce and Industry pursuant to the provisions of Law No. 31/1990 and the various ministerial regulations issued thereunder.

Malaysia

Each of the Joint Lead Managers has represented and agreed to comply with the following restrictions:

(a) **Selling Restrictions At Issuance.** The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia directly or indirectly for the purpose of any sale of the Certificates in Malaysia other than to persons or in categories falling within Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b), and would fall within Schedule 8 or Section 257(3) of the CMSA.

(b) **Selling Restrictions After Issuance.** The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia directly or indirectly for the purpose of any sale of the Certificates in Malaysia other than to persons or in categories falling within Schedule 6 or Section 229(1)(b), and would fall within Schedule 8 or Section 257(3) of the CMSA.

Qatar

Each of the Joint Lead Managers has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in Qatar other than in accordance with all applicable laws and regulations of Qatar governing the issuer, offering and sale of securities.

Singapore

Each of the Joint Lead Managers has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Lead Managers has represented and agreed that it has not offered or sold any Certificates or caused such Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell any Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Certificates, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (b) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1)(A), and in accordance with the conditions specified in Section 275 of, the SFA, or (c) otherwise pursuant to, and in accordance with the conditions, of any other applicable provision of the SFA.

Turkey

Each of the Joint Lead Managers has represented and agreed that:

(a) the Certificates have not been and will not be registered with the Turkish Capital Markets Board (the "**CMB**") under the provisions of Capital Markets Law No. 2499 of the Republic of Turkey (the "**Capital Markets Law**"); and

(b) the Certificates (or beneficial interest therein) shall not be offered or sold in Turkey in any circumstances which would constitute an offer to the public within the meaning of the Capital Markets Law and no prospectus, and other offering material related to the offering may be utilised in connection with any general offering to the public within Turkey for the purpose of the offer or sale of Certificates (or beneficial interest therein) without prior approval of the CMB. Pursuant to Article 15(d)(ii) of Decree No. 32 regarding the protection of the value of the Turkish currency, residents of Turkey may purchase the Certificates, provided that (i) such Certificates are traded in the financial markets outside of Turkey; (ii) such purchase is made through banks and/or licensed brokerage institutions in Turkey; and (iii) the consideration of the purchase of such Certificates has been or will be transferred through banks operating in Turkey.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each of the Joint Lead Managers has represented and agreed that:

(a) the Certificates have not been and will not be publicly offered, sold or promoted or advertised by it in the United Arab Emirates ("**UAE**") other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities to the public; and

(b) the information contained in this Prospectus does not constitute a public offer of securities in the UAE in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Prospectus is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the UAE.

General

No action has been or will be taken in any jurisdiction by the Joint Lead Managers, the Issuer or Kuveyt Türk that would permit a public offering of the Certificates, or possession or distribution of this Prospectus or any other offering or publicity material relating to the Certificates, in any country or jurisdiction where action for that purpose is required. Each of the Joint Lead Managers has undertaken that it will comply, to the best of its knowledge and belief, with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Certificates or has in its possession or distributes this Prospectus or any such other material, in all cases at its own expense.

GENERAL INFORMATION

(1) Application has been made for the Certificates to be listed on the Official List of the UKLA and to be admitted to trading on the Regulated Market of the London Stock Exchange. Admission to listing and to trading is expected to be granted on or around 25 August 2010. However, there can be no assurance that the listing of the Certificates will take effect as of such date or at all.

(2) The issue of the Certificates has been duly authorised by a written resolution of the Board of Directors of the Issuer on 17 August 2010.

(3) Kuveyt Türk has obtained all necessary consents, approvals and authorisations in connection with the entry into of the Transaction Documents to which it is a party. The entry into by Kuveyt Türk of the Transaction Documents to which it is a party was duly authorised by a resolution of the board of directors of Kuveyt Türk on 15 June 2010.

(4) The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg which are entities in charge of keeping records. The ISIN for the Certificates is XS0536045361. The Common Code for the Certificates is 053604536.

(5) Since 31 March 2010, there has been no significant change in the financial or trading position of Kuveyt Türk and its subsidiaries (the "**Group**"), and since 31 December 2009, there has been no material adverse change in the financial position or prospects of the Group.

(6) Since the date of its incorporation, there has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer.

(7) 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) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.

(8) Neither Kuveyt Türk nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Kuveyt Türk is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of Kuveyt Türk or the Group.

(9) For so long as any of the Certificates remains outstanding, copies (and English translations where the documents in question are not in English) of the following documents will be available for inspection during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) from the registered office of the Issuer:

   (a) the constitutional documents of the Issuer;

   (b) the most recently publicly available audited consolidated annual financial statements and reviewed consolidated half-year financial statements, each prepared in accordance with IFRS, and the most recently available reviewed unconsolidated quarterly financial statements prepared in accordance with Turkish GAAP and the respective auditor's report thereon;

   (c) the Transaction Documents;

   (d) the pronouncement dated on or before the Closing Date and issued by the Sharia Supervisory Boards of each of the Joint Lead Managers; and

   (e) this Prospectus.

(10) The auditor of Kuveyt Türk is Güney Bağimsiz Denetim ve SMMM.A.S., Istanbul, Turkey, (a member firm of Ernst & Young Global Limited), independent auditors, who is certified by BRSA and have audited the consolidated financial statements of Kuveyt Türk for the years ended 31 December 2009 and 2008 as stated in the auditors reports set out in this Prospectus. The auditors of Kuveyt Türk have no material interest in Kuveyt Türk.

(11) The expenses relating to the admission to trading of the Sukuk are expected to amount to £2,750.

APPENDIX A—FINANCIAL INFORMATION

(Convenience translation of the independent auditor's limited review report and financial statements originally issued in Turkish—see section three Note XXIII)

Kuveyt Türk Katılım Bankası Anonim Şirketi

Unconsolidated financial statements including independent auditor's limited review report for the interim period ended March 31, 2010

Kuveyt Türk Katılım Bankası Anonim Şirketi
Independent auditors' limited review report
for the interim period ended March 31, 2010

To the Board of Directors of Kuveyt Türk Katılım Bankası A.Ş.:

We have reviewed the unconsolidated balance sheet of Kuveyt Türk Katılım Bankası A.Ş. (the Bank) as of March 31, 2010 and the related unconsolidated statements of income, income and expenses accounted under equity, cash flows and changes in shareholders' equity for the period then ended. These unconsolidated financial statements are the responsibility of the Bank's management. As independent auditors, our responsibility is to issue a report based on the review performed on these financial statements.

We conducted our review in accordance with the regulations on account and booking system and the accounting and independent audit principles set out as per the Banking Law No: 5411. Those principles require that we plan and perform the review to obtain limited assurance as to whether the financial statements are free of material misstatement. A review is principally limited to reviewing financial statements by applying analytical procedures, inquiring as to the integrity of the financial statements and making inquiries of management to obtain information; it is substantially less in scope than an audit and thus provides a less assurance than audit. We have not performed an audit and accordingly we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view of the financial position of Kuveyt Türk Katılım Bankası A.Ş. as of March 31, 2010 and the results of its operations and its cash flows for the period then ended in accordance with the prevailing accounting principles and standards set out by regulations in conformity with Article No: 37 of the Banking Law No: 5411, and other regulations, communiqués, interpretations and circulars published by Banking Regulation and Supervision Agency on Accounting and Financial Reporting Principles.

As explained in detail in Note XXIII of Section Three, the effects of differences between accounting principles and standards set out by regulations in conformity with article 37 of the Banking Law No. 5411, the accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards (IFRS) have not been quantified in the accompanying financial statements. Accordingly, the accompanying unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Fatma Ebru Yücel, SMMM
Partner

May 14, 2010
Istanbul, Turkey

Table of contents

Section five
Explanations and notes on the unconsolidated financial statements

Section six
Explanations on the independent limited review report

The unconsolidated financial report of Kuveyt Turk Katılım Bankası A.Ş. for the three months period ended March 31, 2010

Address of the Bank Headquarters	:	Büyükdere Cad. No: 129 34394 Mecidiyeköy / İSTANBUL
Bank's Phone Number	:	0212 354 11 11
Bank's Facsimile	:	0212 354 12 12
Bank's Website	:	www.kuveytturk.com.tr
Electronic Mail Contact Info	:	kuveytturk@kuveytturk.com.tr

The unconsolidated financial report designed in line with the Banking Regulation and Supervision Agency's official communication on "Financial Statements to be Publicly Announced and the Related Policies and Disclosures" consists of the sections listed below:

- GENERAL INFORMATION ABOUT THE BANK
- UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK
- EXPLANATIONS ON THE ACCOUNTING PRINCIPLES APPLIED IN THE RELATED PERIOD
- INFORMATION ON FINANCIAL STRUCTURE OF THE BANK
- EXPLANATORY DISCLOSURES AND FOOTNOTES ON UNCONSOLIDATED FINANCIAL STATEMENTS
- LIMITED REVIEW REPORT

The accompanying unconsolidated quarterly financial statements and related notes have been prepared based on the accounting books of the Bank in accordance with the Regulation on Accounting Applications for Banks and the Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and, related appendices and interpretations and unless otherwise indicated, have been prepared in thousands of Turkish Lira, are independently reviewed and presented hereby.

May 14, 2010

Mohammad S.A.I. Alomar	Azfar Hussain Qarni	Ufuk Uyan	Ahmet Karaca	Mehmet Keleş
Chairman of the Board of Directors and Member of the Audit Committee	Member of the Audit Committee	General Manager	Assistant General Manager In Charge of Financial Reporting	External Reporting Manager

Contact information of the personnel in charge for addressing questions about this financial report:

Name-Surname: Mehmet Keleş
Position: Budgeting and Reporting Manager
Telephone: 0212 354 12 69
Facsimile: 0212 354 12 12

(Currency—Thousand Turkish Lira)

Section one

General information

I. History of the Bank including its incorporation date, initial legal status and amendments to legal status:

Kuveyt Türk Katılım Bankası A.Ş. ("the Bank") was incorporated with the approval of the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989, with the name of Kuveyt Türk Evkaf Finans Kurumu A.Ş. To comply with the Banking Act 5411, the title of the Bank has been changed to Kuveyt Türk Katılım Bankası A.Ş. with a change in the Articles of Association which was approved in the annual general meeting dated April 26, 2006. Main field of operation is, in addition to the Bank's equity, to collect funds from domestic and foreign customers through "Current Accounts" and "Profit Loss Sharing Accounts" and allocate such funds to the economy, to perform all kinds of financing activities in accordance with the regulations, to encourage the investments of all individuals and legal entities operating in agricultural, industrial, trading and service industries, participating into the operations of these entities or individuals and to form joint business partnerships and to perform all these activities in a non-interest environment.

II. Shareholding Structure, Shareholders Jointly or Individually Having Direct or Indirect, Control over the Management and Supervision of the Bank and the Disclosures on Any Related Changes in the Current Year, if any and information about the Group that the Bank belongs to:

As of March 31, 2010 and December 31, 2009, 62.23% of the Bank's shares are owned by Kuwait Finance House located in Kuwait, 18.72% by Vakıflar Genel Müdürlüğü Mazbut Vakıfları, 9.00% by The Public Institution For Social Security in Kuwait and 9.00% by Islamic Development Bank whereas the remaining 1.05% of the shares are owned by other real persons and legal entities.

III. Explanations on the Chairman and Members of the Board of Directors, Members of the Audit Committee, General Managers and Assistant General Managers and Their Shareholdings in the Bank:

Name	Title	Date of the assignment	Educational degree	Ownership percentage %
Mohammad S.A.I. ALOMAR	Chairman of the Board of Directors and Member of Audit Committee	19/07/2000	Bachelor	—
Abdullah TİVNİKLİ	Vice Chairman of the BOD	16/05/2001	Master	%0.0836
Azfar Hussain QARNI	Member of BOD and Audit Committee	23/05/2003	Master	—
Dr. Adnan ERTEM	Member of BOD	18/10/2002	Doctorate	—
Kenan KARADENİZ	Member of BOD	26/05/2006	Bachelor	—
Khaled Nasser Abdulaziz AL FOUZAN	Member of BOD	02/08/2006	Bachelor	—
Fawaz KH E AL SALEH	Member of BOD	20/10/2006	Bachelor	%0.0133
Shaeen H.A. KH: SH. ALGHANEM	Member of BOD	18/12/2006	Bachelor	—
Ufuk UYAN	Member of BOD, General Manager	10/05/1999	Master	%0.0490
Ahmet KARACA	Assistant General Manager	12/07/2006	Master	%0.0156
Ahmet Süleyman KARAKAYA	Assistant General Manager	14/01/2003	Bachelor	—
Bilal SAYIN	Assistant General Manager	20/08/2003	Bachelor	%0.0043
İrfan YILMAZ	Assistant General Manager	27/10/2005	Bachelor	%0.0069
Dr. Ruşen Ahmet ALBAYRAK	Assistant General Manager	05/05/2005	Doctorate	%0.0061
Murat ÇETİNKAYA	Assistant General Manager	02/01/2008	Bachelor	—
Asım ÖZGÖZÜKARA	Auditor	22/11/1988	Bachelor	—
Güven OBALI	Auditor	11/12/2007	Bachelor	—
Ayhan BAYRAM	Auditor	11/02/2007	Bachelor	—

(Currency—Thousand Turkish Lira)

Chairman and members of the Board of Directors, members of auditing committee, general manager and assistant general managers own 0.18% of the Bank's share capital (December 31, 2009 – 0.18%).

IV. Information on qualified shareholders:

Name / Commercial Name	Share amount (Nominal)	Shareholding percentage	Paid shares (Nominal)	Unpaid shares
Kuwait Finance House	311,173	62.23%	311,173	—
Vakıflar Genel Müdürlüğü Mazbut Vakıfları	93,596	18.72%	93,596	—
P. Institution F. Social Security	45,000	9.00%	45,000	—
Islamic Development Bank	45,000	9.00%	45,000	—
Total	**494,769**	**%98.95**	**494,769**	**—**

V. Explanations of the Bank's services and field of operations:

The Bank's field of operations includes corporate banking, international banking services, and retail banking and credit card services. The Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and lending such funds to its customers. As of March 31, 2010, the Bank is operating with 2,552 employees (December 31, 2009—2,447). Summary of some of the Bank's operations described in the Articles of Association are as follows:

- To collect funds through “Current Accounts” and “Profit/Loss Sharing Accounts” and special fund pools in line with the regulations;
- To allocate funds to the economy and provide all kinds of cash, non-cash loans within the principles of non-interest banking;
- To offer financial and operational leasing;
- To handle all kinds of deposits and payments, including travelers' checks, credit cards and other payment instruments, provide member business services (POS), consulting, advisory, and safe deposit box services;
- To purchase financial instruments on money and capital markets in cash or installments, sell and mediate the sale and trade on the stock exchange in accordance with legislation and principles of non-interest banking;
- To purchase, acquire and construct any kind of real estate and if necessary lease or transfer ownership to other persons;
- To act as a representative, deputy or agent for corporations and enterprises (including insurance companies);
- To provide socially responsible aid for the benefit of the community in the light of the legislations.

The Bank's activities are not limited to the list above. If another transaction is decided to be beneficial to the Bank, the transaction must be recommended by the Board of Directors, approved by the General Committee and authorized by relevant legal authorities after which it also needs to be approved by the Ministry of Industry and Trade since it constitutes an amendment of the Article of Association. Decisions that have been approved through all these channels are included to the Article of Association.

Section two

The unconsolidated financial statements

I. Balance sheet (Statement of financial position)
II. Statement of off-balance sheet (Statement of financial position)
III. Statement of income
IV. Statement of income and expenses accounted under equity
(Other comprehensive income statement)
V. Statement of changes in shareholders’ equity
VI. Statement of cash flows

Kuveyt Türk Katılım Bankası Anonim Şirketi

UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)
as of March 31, 2010 and December 31, 2009
(Currency—Thousands of Turkish Lira)

Assets

		Note	Reviewed Current period (31.03.2010)			Audited Prior period (31.12.2009)		
		(5th section)	TL	FC	Total	TL	FC	Total
I.	**Cash and balances with the central bank**	(I-a)	**186,177**	**534,732**	**720,909**	**216,071**	**651,130**	**867,201**
II.	**Financial assets at fair value through profit and loss, net**	(I-b)	**10,145**	**2,583**	**12,728**	**8,515**	**1,410**	**9,925**
2.1	Trading financial assets		**10,145**	**2,583**	**12,728**	8,515	1,410	9,925
2.1.1	Public sector debt securities		—	—	—	—	—	—
2.1.2	Share certificates		—	—	—	—	—	—
2.1.3	Derivative financial assets held for trading		10,145	2,583	12,728	8,515	1,410	9,925
2.1.4	Other marketable securities		—	—	—	—	—	—
2.2	Financial assets at fair value through profit and loss		—	—	—	—	—	—
2.2.1	Public sector debt securities		—	—	—	—	—	—
2.2.2	Share certificates		—	—	—	—	—	—
2.2.3	Loans		—	—	—	—	—	—
2.2.4	Other marketable securities		—	—	—	—	—	—
III.	**Banks**	(I-c)	**11,060**	**479,872**	**490,932**	**20,963**	**510,432**	**531,395**
IV.	**Money market placements**		**—**	**—**	**—**	**—**	**—**	**—**
V.	**Financial assets-available for sale (net)**	(I-d)	**27**	**—**	**27**	**27**	**—**	**27**
5.1	Share certificates		27	—	27	27	—	27
5.2	Public sector debt securities		—	—	—	—	—	—
5.3	Other marketable securities		—	—	—	—	—	—
VI.	Loans and receivables	(I-e)	5,049,385	406,254	5,455,639	4,528,196	477,339	5,005,535
6.1	Loans and receivables		4,895,705	406,254	5,301,959	4,377,598	477,339	4,854,937
6.1.1	Loans to risk group of the bank		47,620	—	47,620	19,719	—	19,719
6.1.2	Public sector debt securities		—	—	—	—	—	—
6.1.3	Other		4,848,085	406,254	5,254,339	4,357,879	477,339	4,835,218
6.2	Non-performing loans		310,450	—	310,450	298,209	—	298,209
6.3	Specific provisions (-)		(156,770)	—	(156,770)	(147,611)	—	(147,611)
VII.	**Investments held to maturity (net)**	(I-f)	**—**	**—**	**—**	**—**	**7,529**	**7,529**
VIII.	**Investments in associates (net)**	(I-g)	**16,365**	**—**	**16,365**	**16,365**	**—**	**16,365**
8.1	Accounted for under equity method		—	—	—	—	—	—
8.2	Unconsolidated associates		16,365	—	16,365	16,365	—	16,365
8.2.1	Financial associates		3,806	—	3,806	3,806	—	3,806
8.2.2	Non-financial associates		12,559	—	12,559	12,559	—	12,559
IX.	**Subsidiaries (net)**	(I-h)	**32,997**	**—**	**32,997**	**32,997**	**—**	**32,997**
9.1	Unconsolidated financial subsidiaries		17,917	—	17,917	17,917	—	17,917
9.2	Unconsolidated non-financial subsidiaries		15,080	—	15,080	15,080	—	15,080
X.	**Joint ventures (net)**	(I-i)	**—**	**—**	**—**	**—**	**—**	
10.1	Accounted for under equity method		—	—	—	—	—	—
10.2	Unconsolidated		—	—	—	—	—	—
10.2.1	Financial subsidiaries		—	—	—	—	—	—
10.2.2	Non-financial subsidiaries		—	—	—	—	—	—
XI.	**Finance lease receivables (net)**	(I-j)	**41,736**	**—**	**41,736**	**49,995**	**—**	**49,995**
11.1	Finance lease receivables		46,282	—	46,282	55,412	—	55,412
11.2	Operating lease receivables		—	—	—	—	—	—
11.3	Other		—	—	—	—	—	—
11.4	Unearned income (-)		(4,546)	—	(4,546)	(5,417)	—	(5,417)
XII.	**Derivative financial assets for hedging purposes**	(I-k)	**—**	**—**	**—**	**—**	**—**	**—**
12.1	Fair value hedge		—	—	—	—	—	—
12.2	Cash flow hedge		—	—	—	—	—	—
12.3	Hedge of net investment risks in foreign operations		—	—	—	—	—	—
XIII.	**Tangible assets (net)**		**138,031**	**22**	**138,053**	**133,240**	**4**	**133,244**
XIV.	**Intangible assets (net)**		**8,804**	**—**	**8,804**	**8,187**	**—**	**8,187**
14.1	Goodwill		—	—	—	—	—	—
14.2	Other		8,804	—	8,804	8,187	—	8,187
XV.	**Investment property (net)**		**16,688**	**—**	**16,688**	**16,770**	**—**	**16,770**
XVI.	**Tax asset**	(I-l)	**5,444**	**—**	**5,444**	**7,719**	**—**	**7,719**
16.1	Current tax asset		—	—	—	—	—	—
16.2	Deferred tax asset		5,444	—	5,444	7,719	—	7,719
XVII.	**Assets held for sale and discontinued operations (net)**		**9,924**	**—**	**9,924**	**10,600**	**—**	**10,600**
17.1	Held for sale		9,924	—	9,924	10,600	—	10,600
17.2	Discontinued operations		—	—	—	—	—	—
XVIII.	**Other assets**	(I-m)	**105,627**	**44,583**	**150,210**	**97,052**	**109,985**	**207,037**
	Total assets		**5,632,410**	**1,468,046**	**7,100,456**	**5,146,697**	**1,757,829**	**6,904,526**

The accompanying explanations and notes are an integral part of these financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi

Unconsolidated balance sheet (Statement of financial position)
as of March 31, 2010 and December 31, 2009
(Currency—Thousands of Turkish Lira)

Liabilities and equity

		Note	Reviewed Current period (31.03.2010)			Audited Prior period (31.12.2009)		
		(5th Section)	TL	FC	Total	TL	FC	Total
I.	**Funds collected**	(II-a)	**3,277,960**	**2,251,405**	**5,529,365**	**2,987,415**	**2,370,842**	**5,358,257**
1.1	Funds from risk group of the bank		14,470	15,706	30,176	16,798	87,928	104,726
1.2	Other		3,263,490	2,235,699	5,499,189	2,970,617	2,282,914	5,253,531
II.	**Derivative financial liabilities held for trading**	(II-b)	**2,705**	**2,449**	**5,154**	**892**	**5,339**	**6,231**
III.	**Funds borrowed**	(II-c)	**—**	**432,703**	**432,703**	**—**	**383,681**	**383,681**
IV.	**Debts to money markets**		**—**	**—**	**—**	**—**	**—**	**—**
V.	**Marketable securities issued (net)**		**—**	**—**	**—**	**—**	**—**	**—**
VI.	**Miscellaneous payables**	(II-d)	**42,220**	**14,844**	**57,064**	**47,818**	**70,978**	**118,796**
VII.	**Other liabilities**	(II-d)	**102,519**	**10,814**	**113,333**	**102,330**	**10,183**	**112,513**
VIII.	**Finance lease payables (net)**	(II-e)	**—**	**2**	**2**	**—**	**3**	**3**
8.1	Finance lease payables		—	3	3	—	4	4
8.2	Operating lease payables		—	—	—	—	—	—
8.3	Other		—	—	—	—	—	—
8.4	Deferred finance lease expenses (-)		—	1	1	—	(1)	(1)
IX.	**Hedging derivative financial liabilities**	(II-f)	**—**	**—**	**—**	**—**	**—**	**—**
9.1	Fair value hedge		—	—	—	—	—	—
9.2	Cash flow hedge		—	—	—	—	—	—
9.3	Hedge of net investment in foreign operations		—	—	—	—	—	—
X.	**Provisions**	(II-g)	**64,936**	**7,791**	**72,727**	**73,290**	**9,541**	**82,831**
10.1	General loan loss provisions		47,964	7,604	55,568	41,776	9,390	51,166
10.2	Restructuring provisions		—	—	—	—	—	—
10.3	Reserve for employee benefits		10,024	187	10,211	23,735	151	23,886
10.4	Insurance technical reserves (net)		—	—	—	—	—	—
10.5	Other provisions		6,948	—	6,948	7,779	—	7,779
XI.	**Tax liability**	(II-h)	**44,010**	**—**	**44,010**	**34,902**	**—**	**34,902**
11.1	Current tax liability		44,010	—	44,010	34,902	—	34,902
11.2	Deferred tax liability		—	—	—	—	—	—
XII.	**Liabilities for the assets held for sale and discontinued operations (net)**		**—**	**—**	**—**	**—**	**—**	**—**
12.1	Held for sale		—	—	—	—	—	—
12.2	Discontinued operations		—	—	—	—	—	—
XIII.	**Subordinated loans**		**—**	**—**	**—**	**—**	**—**	**—**
XIV.	**Shareholders' equity**	(II-i)	**845,969**	**129**	**846,098**	**806,499**	**813**	**807,312**
14.1	Paid-in capital		500,000	—	500,000	500,000	—	500,000
14.2	Capital reserves		23,250	—	23,250	23,250	—	23,250
14.2.1	Share premium		23,250	—	23,250	23,250	—	23,250
14.2.2	Share cancellation profits		—	—	—	—	—	—
14.2.3	Marketable securities revaluation reserve		—	—	—	—	—	—
14.2.4	Tangible assets revaluation reserve		—	—	—	—	—	—
14.2.5	Intangible assets revaluation reserve		—	—	—	—	—	—
14.2.6	Investment property revaluation reserve		—	—	—	—	—	—
14.2.7	Bonus shares obtained from associates, subsidiaries and jointly controlled entities		—	—	—	—	—	—
14.2.8	Hedging funds (effective portion)		—	—	—	—	—	—
14.2.9	Value increase on assets held for resale		—	—	—	—	—	—
14.2.10	Other capital reserves		—	—	—	—	—	—
14.3	Profit reserves		156,929	—	156,929	156,929	—	156,929
14.3.1	Legal reserves		18,067	—	18,067	18,067	—	18,067
14.3.2	Status reserves		—	—	—	—	—	—
14.3.3	Extraordinary reserves		137,352	—	137,352	137,352	—	137,352
14.3.4	Other profit reserves		1,510	—	1,510	1,510	—	1,510
14.4	**Profit or loss**		**165,790**	**129**	**165,919**	**126,320**	**813**	**127,133**
14.4.1	Prior year income/(losses)		127,133	—	127,133	—	—	—
14.4.2	Current year income/(losses)		38,657	129	38,786	126,320	813	127,133
	Total liabilities and equity		**4,380,319**	**2,720,137**	**7,100,456**	**4,053,146**	**2,851,380**	**6,904,526**

The accompanying explanations and notes are an integral part of these financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi

UNCONSOLIDATED STATEMENT OF OFF-BALANCE SHEET
(Statement of financial position)
As of March 31, 2010 and December 31, 2009
(Currency—Thousands of Turkish Lira)

		Notes	Reviewed Current period (31.03.2010)			Audited Prior period (31.12.2009)		
		(5th Section)	TL	FC	Total	TL	FC	Total
A.	**Off balance sheet commitments and contingencies (I+II+III)**		**2,936,570**	**4,060,197**	**6,996,767**	**2,857,466**	**4,145,972**	**7,003,438**
I.	**Guarantees**	(III-a)	**1,570,316**	**1,643,067**	**3,213,383**	**1,511,827**	**1,818,804**	**3,330,631**
1.1.	Letters of guarantees		**1,570,316**	**1,222,485**	**2,792,801**	1,511,827	1,355,609	2,867,436
1.1.1.	Guarantees subject to state tender law		158,696	12,761	171,457	160,036	18,885	178,921
1.1.2.	Guarantees given for foreign trade operations		42,015	1,153	43,168	69,970	1,944	71,914
1.1.3.	Other letters of guarantee		1,369,605	1,208,571	2,578,176	1,281,821	1,334,780	2,616,601
1.2.	Bank loans		—	17,570	17,570	—	30,567	30,567
1.2.1.	Import letter of acceptances		—	17,570	17,570	—	30,567	30,567
1.2.2.	Other bank acceptances		—	—	—	—	—	—
1.3.	Letter of credits		—	397,636	397,636	—	426,991	426,991
1.3.1.	Documentary letter of credits		—	150,235	150,235	—	165,349	165,349
1.3.2.	Other letter of credits		—	247,401	247,401	—	261,642	261,642
1.4.	Prefinancing given as guarantee		—	—	—	—	—	—
1.5.	Endorsements		—	—	—	—	—	—
1.5.1.	Endorsements to the central bank of turkey		—	—	—	—	—	—
1.5.2.	Other endorsements		—	—	—	—	—	—
1.6.	Other guarantees		—	5,376	5,376	—	5,637	5,637
1.7.	Other collaterals		—	—	—	—	—	—
II.	**Commitments**	(III-a)	**509,056**	**560,428**	**1,069,484**	**659,395**	**1,265,074**	**1,924,469**
2.1.	Irrevocable commitments		509,056	560,428	1,069,484	659,395	1,265,074	1,924,469
2.1.1.	Forward asset purchase commitments		2,869	560,428	563,297	11,406	1,265,074	1,276,480
2.1.2.	Share capital commitment to associates and subsidiaries		23,334	—	23,334	23,334	—	23,334
2.1.3.	Loan granting commitments		2,177	—	2,177	1,938	—	1,938
2.1.4.	Securities underwriting commitments		—	—	—	—	—	—
2.1.5.	Commitments for reserve deposit requirements		—	—	—	146,723	—	146,723
2.1.6.	Payment commitment for checks		378,772	—	378,772	368,914	—	368,914
2.1.7.	Tax and fund liabilities from export commitments		106	—	106	106	—	106
2.1.8.	Commitments for credit card expenditure limits		101,798	—	101,798	101,974	—	101,974
2.1.9.	Commitments for promotions related with credit cards and banking activities		—	—	—	—	—	—
2.1.10.	Receivables from short sale commitments		—	—	—	—	—	—
2.1.11.	Payables for short sale commitments		—	—	—	—	—	—
2.1.12.	Other irrevocable commitments		—	—	—	5,000	—	5,000
2.2.	Revocable commitments		—	—	—	—	—	—
2.2.1.	Revocable loan granting commitments		—	—	—	—	—	—
2.2.2.	Other revocable commitments		—	—	—	—	—	—
III.	**Derivative financial instruments**		**857,198**	**1,856,702**	**2,713,900**	**686,244**	**1,062,094**	**1,748,338**
3.1.	Derivative financial instruments for hedging purposes		—	—	—	—	—	—
3.1.1.	Fair value hedge		—	—	—	—	—	—
3.1.2.	Cash flow hedge		—	—	—	—	—	—
3.1.3.	Hedge of net investment in foreign operations		—	—	—	—	—	—
3.2.	Held for trading transactions		857,198	1,856,702	2,713,900	686,244	1,062,094	1,748,338
3.2.1	Forward foreign currency buy/sell transactions		856,718	1,677,775	2,534,493	686,244	971,157	1,657,401
3.2.1.1	Forward foreign currency transactions-buy		704,794	619,559	1,324,353	679,247	172,093	851,340
3.2.1.2	Forward foreign currency transactions-sell		151,924	1,058,216	1,210,140	6,997	799,064	806,061
3.2.2.	Other forward buy/sell transactions		480	178,927	179,407	—	90,937	90,937
3.3.	Other		—	—	—	—	—	—
B.	**Custody and pledged items (IV+V+VI)**		**13,852,425**	**30,609,230**	**44,461,655**	**12,685,341**	**28,470,423**	**41,155,764**
IV.	**Items held in custody**		**1,018,905**	**218,993**	**1,237,898**	**896,970**	**267,061**	**1,164,031**
4.1.	Assets under management		1	—	1	1	—	1
4.2.	Investment securities held in custody		1,083	3	1,086	1,038	3	1,041
4.3.	Checks received for collection		859,635	165,658	1,025,293	758,433	207,323	965,756
4.4.	Commercial notes received for collection		158,186	53,277	211,463	137,498	59,735	197,233
4.5.	Other assets received for collection		—	—	—	—	—	—
4.6.	Assets received for public offering		—	—	—	—	—	—
4.7.	Other items under custody		—	—	—	—	—	—
4.8.	Custodians		—	55	55	—	—	—
V.	**Pledged items**		**12,833,520**	**30,375,022**	**43,208,542**	**11,788,371**	**28,188,305**	**39,976,676**
5.1.	Marketable securities		6,529	—	6,529	6,529	—	6,529
5.2.	Guarantee notes		111,844	828,334	940,178	112,371	828,298	940,669
5.3.	Commodity		1,100,733	33,305	1,134,038	1,030,480	37,027	1,067,507
5.4.	Warranty		—	—	—	—	—	—
5.5.	Properties		10,660,854	710,672	11,371,526	9,726,282	726,102	10,452,384
5.6.	Other pledged items		953,560	28,802,711	29,756,271	912,709	26,596,878	27,509,587
5.7.	Pledged items-depository		—	—	—	—	—	—
VI.	**Accepted independent guarantees and warranties**		**—**	**15,215**	**15,215**	**—**	**15,057**	**15,057**
	Total off balance sheet accounts (A+B)		**16,788,995**	**34,669,427**	**51,458,422**	**15,542,807**	**32,616,395**	**48,159,202**

The accompanying explanations and notes are an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF INCOME
for the interim periods ended March 31, 2010 and 2009
(Currency—Thousands of Turkish Lira)

	Statement of income	Note (5th section)	Reviewed current period 01.01.2010 – 31.03.2010 Total	Reviewed prior period 01.01.2009 – 31.03.2009 Total
I.	**Profit share income**	(IV-a)	**158,334**	**175,906**
1.1	Profit share on loans		152,172	166,010
1.2	Profit share on reserve deposits		—	—
1.3	Profit share on banks		1,890	3,384
1.4	Profit share on money market placements		—	—
1.5	Profit share on marketable securities portfolio		33	84
1.5.1	Held-for-trading financial assets		—	—
1.5.2	Financial assets at fair value through profit and loss		—	—
1.5.3	Available-for-sale financial assets		—	—
1.5.4	Investment-held for maturity		33	84
1.6	Finance lease income		1,157	2,377
1.7	Other profit share income		3,082	4,051
II.	**Profit share expense**	(IV-b)	**68,492**	**89,605**
2.1	Expense on profit sharing accounts		65,213	82,293
2.2	Profit share expense on funds borrowed		3,279	7,308
2.3	Profit share expense on money market borrowings		—	—
2.4	Expense on securities issued		—	—
2.5	Other profit share expense		—	4
III.	**Net profit share income (I – II)**		**89,842**	**86,301**
IV.	**Net fees and commissions income/expenses**		**14,308**	**14,239**
4.1	Fees and commissions received		20,096	21,121
4.1.1	Non-cash loans		11,028	10,113
4.1.2	Other	(IV-k)	9,068	11,008
4.2	Fees and commissions paid		5,788	6,882
4.2.1	Non-cash loans		12	5
4.2.2	Other	(IV-k)	5,776	6,877
V.	**Dividend income**		**—**	**—**
VI.	**Net trading income**	(IV-c)	**16,657**	**34,327**
6.1	Capital market transaction gains / (losses)		—	3
6.2.	Gains/ (losses) from derivative financial instruments		8,300	21,716
6.3	Foreign exchange gains / (losses)		8,357	12,608
VII.	**Other operating income**	(IV-d)	**25,093**	**17,504**
VIII.	**Net operating income (III+IV+V+VI+VII)**		**145,900**	**152,371**
IX.	**Provision for loan losses and other receivables (-)**	(IV-e)	**29,629**	**42,984**
X.	**Other operating expenses (-)**	(IV-f)	**66,102**	**53,456**
XI.	**Net operating income/(loss) (VIII-IX-X)**		**50,169**	**55,931**
XII.	**Amount in excess recorded as gain after merger**		**—**	**—**
XIII.	**Gain/(loss) on equity method**		**—**	**—**
XIV.	**Gain/(loss) on net monetary position**		**—**	**—**
XV.	**Profit/(loss) from continued operations before taxes (XI+…+XIV)**	(IV-g)	**50,169**	**55,931**
XVI.	**Tax provision for continued operations (±)**	(IV-h)	**(11,383)**	**(11,274)**
16.1	Provision for current income taxes		(9,108)	(7,315)
16.2	Provision for deferred taxes		(2,275)	(3,959)
XVII.	**Net profit/(loss) from continued operations (XV±XVI)**		**38,786**	**44,657**
XVIII.	**Income on discontinued operations**		**—**	**—**
18.1	Income on assets held for sale		—	—
18.2	Income on sale of associates, subsidiaries and jointly controlled entities (joint vent.)		—	—
18.3	Income on other discontinued operations		—	—
XIX.	**Loss from discontinued operations (-)**		**—**	**—**
19.1	Loss from assets held for sale		—	—
19.2	Loss on sale of associates, subsidiaries and jointly controlled entities (joint vent.)		—	—
19.3	Loss from other discontinued operations		—	—
XX.	**Income / (loss) on discontinued operations before taxes (XVIII-XIX)**		**—**	**—**
XXI.	**Tax provision for discontinued operations (±)**		**—**	**—**
21.1	Provision for current income taxes		—	—
21.2	Provision for deferred taxes		—	—
XXII.	**Net income/loss from discontinued operations (XX±XXI)**	(IV-i)	**—**	**—**
XXIII.	**Net income/loss (XVII+XXII)**	(IV-i)	**38,786**	**44,657**
	Earnings per share		0.078	0.089

The accompanying explanations and notes are an integral part of these financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi

UNCONSOLIDATED STATEMENT OF INCOME AND EXPENSES ACCOUNTED UNDER EQUITY
(Other comprehensive income statement)
for the interim periods ended March 31, 2010 and 2009
(Currency—Thousands of Turkish Lira)

	Statement of income and expenses accounted under equity	Reviewed Current period (31.03.2010)	Reviewed Prior period (31.03.2009)
I.	**Additions to marketable securities revaluation differences from available for sale financial assets**	—	—
II.	**Tangible assets revaluation differences**	—	—
III.	**Intangible assets revaluation differences**	—	—
IV.	**Currency translation differences for foreign currency transactions**	—	—
V.	**Profit/loss from derivative financial instruments for cash flow hedge purposes (effective portion of fair value differences)**	—	—
VI.	**Profit/loss from derivative financial instruments for hedge of net investment in foreign operations (effective portion of fair value differences)**	—	—
VII.	**The effect of corrections of errors and changes in accounting policies**	—	—
VIII.	**Other profit loss items accounted under equity as per Turkish accounting standards**	—	—
IX.	**Deferred tax on valuation differences**	—	—
X.	**Total net profit/loss accounted under equity (I+II+…+IX)**	—	—
XI.	**Profit/loss**	38,786	44,657
XI.1	Change in fair value of marketable securities (transfer to profit/loss)	—	—
XI.2	Reclassification of derivatives accounted for cash flow hedge purposes to income statement	—	—
XI.3	Reclassification of hedge of net investments in foreign operations to income statement	—	—
XI.4	Other	38,786	44,657
XII.	**Total profit/loss accounted for the period (X±XI)**	**38,786**	44,657

The accompanying explanations and notes are an integral part of these financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the interim periods ended March 31, 2010 and 2009
(Currency—Thousands of Turkish Lira)

		Note (5th section)	Paid-in capital	Effect of inflation accounting on paid-incapital and other capital reserves	Share premium	Share certificate cancellation profits	Legal reserves	Statutory reserves	Extraordinary reserve	Other reserve	Current period net income / (loss)	Prior period net income / (loss)	Marketable securities revaluation reserve	Tangible and intangible assets revaluation fund	Bonus shares from investments	Hedging reserves	Asset held for sale and disc.op. valuation fund	Total equity
	Current period (31.03.2010)																	
I.	**Beginning balance**		**500,000**	**—**	**23,250**	**—**	**18,067**	**—**	**137,352**	**1,510**	**127,133**	**—**	**—**	**—**	**—**	**—**	**—**	**807,312**
	Changes in period		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
II.	Increase/decrease related to merger		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
III.	Marketable securities revaluation differences		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IV.	Hedging funds (effective portion)		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4.1	Cash-flow hedge		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4.2	Hedge of net investment in foreign operations		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
V.	Tangible assets revaluation differences		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
VI.	Intangible assets revaluation differences		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
VII.	Bonus shares obtained from associates, subsidiaries and jointly controlled operations		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
VIII.	Foreign exchange differences		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IX.	Changes related to the disposal of assets		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
X.	Changes related to the reclassification of assets		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XI.	The effect of change in associate's equity		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XII.	Capital increase		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
12.1	Cash		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
12.2	Internal sources		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XIII.	Share issue premium		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XIV.	Share cancellation profits		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XV.	Inflation adjustment to paid-in capital		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XVI.	Other		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XVII.	Net income/(loss) for the period		—	—	—	—	—	—	—	—	**38,786**	—	—	—	—	—	—	**38,786**
XVIII.	Profit distribution		—	—	—	—	—	—	—	—	(127,133)	127,133	—	—	—	—	—	—
18.1	Dividends distributed		—	—	—	—	—	—	—	—			—	—	—	—	—	—
18.2	Transfers to reserves		—	—	—	—	—	—	—	—	(127,133)	127,133	—	—	—	—	—	—
18.3	Other		—	—	—	—	—	—	—	—			—	—	—	—	—	—
	Closing balance (I+II+III+…+XVI+XVII+XVIII)		**500,000**	**—**	**23,250**	**—**	**18,067**	**—**	**137,352**	**1,510**	**38,786**	**127,133**	**—**	**—**	**—**	**—**	**—**	**846,098**

The accompanying explanations and notes are an integral part of these financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
for the interim periods ended March 31, 2010 and 2009
(Currency—Thousands of Turkish Lira)

		Note (5th section)	Paid-in capital	Effect of inflation accounting on paid-in capital and other capital reserves	Share premium	Share certificate cancellation profits	Legal reserves	Statutory reserves	Extraordinary reserve	Other reserve	Current period net income (loss)	Prior period net income / (loss)	Marketable securities revaluation reserve	Tangible and intangible assets revaluation fund	Bonus shares from investments	Hedging reserves	Asset held for sale and disc.op. valuation fund	Total equity
	Prior period (31.03.2009)																	
I.	**Beginning balance**		500,000	—	23,250	—	12,313	—	45,299	728	104,086	3	—	—	—	—	—	**685,679**
	Changes in period																	
II.	Increase/decrease related to merger		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
III.	Marketable securities revaluation differences		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IV.	Hedging funds (effective portion)		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4.1	Cash-flow hedge		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4.2	Hedge of net investment in foreign operations		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
V.	Tangible assets revaluation differences		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
VI.	Intangible assets revaluation differences		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
VII.	Bonus shares obtained from associates, subsidiaries and jointly controlled operations		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
VIII.	Foreign exchange differences		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IX.	Changes related to the disposal of assets		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
X.	Changes related to the reclassification of assets		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XI.	The effect of change in associate's equity		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XII.	Capital increase		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
12.1	Cash		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
12.2	Internal sources		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XIII.	Share issue premium		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XIV.	Share cancellation profits		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XV.	Inflation adjustment to paid-in capital		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XVI.	Other		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
XVII.	Period net income/(loss)		—	—	—	—	—	—	—	—	**44,657**	—	—	—	—	—	—	**44,657**
XVIII.	Profit distribution		—	—	—	—	—	—	—	—	(104,086)	104,086	—	—	—	—	—	—
18.1	Dividends distributed		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
18.2	Transfers to reserves		—	—	—	—	—	—	—	—	(104,086)	104,086	—	—	—	—	—	—
18.3	Other		—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Closing balance (I+II+III+…+XVI+XVII+XVIII)		**500,000**	**—**	**23,250**	**—**	**12,313**	**—**	**45,299**	**728**	**44,657**	**104,089**	**—**	**—**	**—**	**—**	**—**	**730,336**

The accompanying explanations and notes are an integral part of these financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi

UNCONSOLIDATED STATEMENTS OF CASH FLOWS
for the interim periods ended March 31, 2010 and 2009
(Currency—Thousands of Turkish Lira)

	Statement of cash flows	Note (5th section)	Reviewed Current period 01.01.2010 – 31.03.2010	Reviewed Prior period 01.01.2009 – 31.03.2009
A.	**Cash flows from banking operations**			
1.1	**Operating profit (loss) before changes in operating assets and liabilities**		**122,102**	**(15,992)**
1.1.1	Profit share income received		193,728	177,657
1.1.2	Profit share expense paid		(70,622)	(103,688)
1.1.3	Dividend received		—	—
1.1.4	Fees and commissions received		14,309	14,239
1.1.5	Other income		25,093	17,504
1.1.6	Collections from previously written off loans		10,445	8,710
1.1.7	Payments to personnel and service suppliers		(34,565)	(29,021)
1.1.8	Taxes paid		(2,557)	(33,386)
1.1.9	Others		(13,729)	(68,007)
1.2	**Changes in operating assets and liabilities**		**(198,902)**	**277,542**
1.2.1	Net (increase) decrease trading financial assets		(2,803)	5
1.2.2	Net (increase) decrease in financial assets at fair value through profit or loss		—	—
1.2.3	Net (increase) decrease in due from banks and other financial institutions		114,499	15,021
1.2.4	Net (increase) decrease in loans		(482,751)	119,473
1.2.5	Net (increase) decrease in other assets		59,178	17,463
1.2.6	Net increase (decrease) in bank deposits		—	—
1.2.7	Net increase (decrease) in other deposits		171,818	545,257
1.2.8	Net increase (decrease) in funds borrowed		47,014	(407,670)
1.2.9	Net increase (decrease) in due payables		—	—
1.2.10	Net increase (decrease) in other liabilities		(105,857)	(12,007)
I.	**Net cash provided from (used in) banking operations**		**(76,800)**	**261,550**
B.	**Cash flows from investing activities**			
II.	**Net cash provided from (used in) investing activities**		**(2,382)**	**(10,480)**
2.1	Cash paid for purchase jointly controlled operations, associates and subsidiaries		—	(3,000)
2.2	Cash obtained from sale of jointly controlled operations, associates and subsidiaries		—	—
2.3	Fixed assets purchases		(9,911)	(6,605)
2.4	Fixed assets sales		—	—
2.5	Cash paid for purchase of financial assets available for sale		—	—
2.6	Cash obtained from sale of financial assets available for sale		—	—
2.7	Cash paid for purchase of investment securities		—	(875)
2.8	Cash obtained from sale of investment securities		7,529	—
2.9	Other		—	—
C.	**Cash flows from financing activities**			
III.	**Net cash provided from (used in) financing activities**		**(1)**	**(30)**
3.1	Cash obtained from funds borrowed and securities issued		—	—
3.2	Cash used for repayment of funds borrowed and securities issued		—	—
3.3	Capital increase		—	—
3.4	Dividends paid		—	—
3.5	Payments for finance leases		**(1)**	(30)
3.6	Other		—	—
IV.	**Effect of change in foreign exchange rate on cash and cash equivalents**		**4,586**	**(23,321)**
V.	**Net increase (decrease) in cash and cash equivalents (I + II + III + IV)**		**(74,597)**	**227,719**
VI.	**Cash and cash equivalents at the beginning of the period**	(V-a)	**770,323**	**991,226**
VII.	**Cash and cash equivalents at the end of the period**	(V-a)	**695,726**	**1,218,945**

The accompanying explanations and notes are an integral part of these financial statements.

Section three

Accounting principles

I. Explanations on basis of presentation

a. The preparation of the financial statements and related notes and explanations in accordance with the Turkish Accounting Standards and Regulation on Accounting Applications for Banks and Safeguarding of Documents':

The unconsolidated financial statements have been prepared in accordance with the 'Regulation on Accounting Applications for Banks and Safeguarding of Documents' numbered 5411 published in the Official Gazette No.26333 dated 1 November 2006, which refers to 'Turkish Accounting Standards' (TAS) and 'Turkish Financial Reporting Standards' (TFRS) issued by the 'Turkish Accounting Standards Board' (TASB) and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles (all 'Turkish Accounting Standards' or 'TAS') published by the Banking Regulation and Supervision Agency. The format and content of the publicly announced unconsolidated financial statements and notes to these statements have been prepared in accordance with the "Communiqué on Publicly Announced Financial Statements, Explanations and Notes to Those Financial Statements", published in Official Gazette No. 26430, dated 10 February 2007, and amendments to this Communiqué. The Bank maintains its books in Turkish Lira in accordance with the Banking Act, Turkish Commercial Code and Turkish tax legislation.

In accordance with the Article 37 of the Banking Act 5411, the Banks must apply the uniform chart of accounts in their accounting systems in accordance with the procedures and principles identified by the Banking Regulation and Supervision Agency (BRSA) by taking into account the international standards and opinions of the TASB and other associations of the banking sector into consideration; record all transactions in accordance with their underlying nature; prepare clear, reliable, comparable, suitable for audit, analysis and interpretation, timely and accurate financial reports in a form and content that meets the information requirements of users.

The unconsolidated financial statements have been prepared in TL, under the historical cost convention except for the financial assets and liabilities carried at fair value.

The preparation of unconsolidated financial statements in conformity with TAS requires the Bank management to make assumptions and estimates with respect to assets and liabilities on the balance sheet and contingent issues outstanding as of the balance sheet date. These estimates and assumptions are being reviewed regularly and, when necessary, appropriate corrections are made and the effects of these corrections are reflected to the income statement.

b. Accounting policies and valuation principles applied in the preparation of unconsolidated financial statements:

The accounting policies and valuation principles applied in the preparation of unconsolidated financial statements are determined and applied in accordance with TAS. These accounting policies and valuation principles are explained in Notes II and XXII below:

c. Preparation of the financial statements in the current purchasing power of money:

Until December 31, 2004, the financial statements of the Bank were subject to inflation adjustments in accordance with Turkish Accounting Standard No: 29 "Financial Reporting in Hyperinflationary Economies" ("TAS 29"). BRSA explained with its decision numbered 1623 and dated April 21, 2005 and its circular dated April 28, 2005 that the conditions for applying inflation accounting was no longer applicable and accordingly inflation accounting has not been applied beginning from January 1, 2005.

d. Reclassification changes on financial statements:

In accordance with the clarification declared by the BRSA related with 'Reserve Deposits' to the Association of the Participation Banks at January 3, 2008, some changes and reclassifications has been performed on the prior period's financial statements presented for comparison purposes. 'Profit share on reserve deposits' amounting to TL3,384 has been classified under 'Profit share on banks' account in statement of income for the interim period ended March 31, 2009 to be consistent with the presentation of the current financial statements.

II. Explanations on strategy of using financial instruments and foreign currency transactions

The Bank follows an asset-liability management strategy that mitigates risk and increases earnings by balancing the funds borrowed and the investments in various financial assets. The main objective of asset-liability management is to limit the Bank's exposure to liquidity risk, currency risk and credit risk while increasing profitability and strengthening the Bank's equity. The assets-liabilities committee (ALCO) manages the assets and liabilities within the trading limits on the level of exposure placed by the Executive Risk Committee.

Gains and losses arising from foreign currency transactions have been recorded in the period in which the transaction took place. Foreign currency denominated monetary assets and liabilities are valued with the period end exchange rates published by the Central Bank of Turkey converting them into Turkish Lira. Valuation differences of foreign currencies have been recognized in the income statement under the 'Net foreign exchange income/expense' account.

The Bank's portion of risk regarding loans originating from participation accounts followed in receivables to be written off, doubtful commission, fees and other receivables, uncollectible loans and other receivables, along with foreign currency (FC) and FC pegged loans and receivables originating from the Bank's equity and private current accounts are converted to Turkish Lira with the rates prevailing at the date of the transfer of such receivables to non-performing loan portfolio. The participation accounts' portion of the risk of the foreign currency loans, originating from participation accounts, is evaluated with the current foreign currency rates and the differences are recorded foreign currency gains/losses account in the income statement.

The foreign currency exchange differences resulting from the translation of debt securities issued and monetary financial instruments into Turkish Lira are included in the income statement.

There are no foreign currency differences capitalized by the Bank.

III. Explanations on forward transactions and option contracts and derivative instruments:

The Bank enters into forward agreements to decrease its currency risk and to manage its foreign currency liquidity. The Bank classifies its derivative instruments as "Held for Hedging" and "Held for Trading" in accordance with TAS 39. Even though some derivative transactions economically hedge risk, since all necessary conditions for hedge accounting are not met, they are accounted for as "held for trading" within the framework of TAS 39, and are reflected in the "Derivative Financial Assets/Liabilities Held for Trading" account in the balance sheet.

The payables and receivables arising from derivative transactions are recorded in off-balance sheet accounts at their notional amounts.

Fair values of foreign currency forward transactions are calculated by using the discounted cash flow model. Differences resulting from the changes in the fair values of derivatives held for trading are accounted under 'Trading Income/Loss' line in the income statement.

Embedded derivatives are separated from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid instrument is not measures at fair value with changes in fair value recognized in profit or loss.

IV. Explanations on profit share income and expense

Profit share income is recognized in the income statement on an accrual basis by using the method of internal rate of return and is accounted under profit share income account in the financial statements. In accordance with the related regulation, the profit share accruals of non-performing loans are cancelled and are not recorded until the profit share income is realized

The Bank calculates expense accrual in accordance with the unit value calculation method on profit/loss sharing accounts and reflects these amounts in "Funds Collected" account on the balance sheet.

V. Explanations on fees and commission income and expenses

Except for the fees and commission income and expenses obtained for some banking services which are recorded as income when collected, fees and commission income/expenses are reflected in the income statement over the period of the related transaction.

In accordance with the provisions of TAS the commission and fees collected in advance for loans granted are deferred and reflected to the income statement by using the internal rate of return method. Unearned portion of the commission and fees relating to the future periods are recorded to the Deferred Revenues account under Other Liabilities on the balance sheet.

VI. Explanations on financial assets

The Bank classifies and accounts for its financial assets as 'Fair value through profit/loss', 'Available for sale', 'Loans and receivables' or 'Held to maturity'. Sale and purchase transactions of the financial assets mentioned above are recognized at the 'Settlement dates'. The appropriate classification of financial assets of the Bank is determined at the time of purchase by the Bank management, taking into consideration the purpose of the investment.

a. Financial assets at fair value through profit or loss:

This category has two sub categories: "Trading financial assets" and "Financial assets designated at fair value through profit/loss at initial recognition".

Trading financial assets are financial assets which are either acquired for generating a profit from short-term fluctuations in prices or dealers' margin, or are financial assets included in a portfolio and derivative instruments in which a pattern of short-term profit making exists.

Trading financial assets are initially recognized at transaction prices, which are assumed to be the fair value, and subsequently measured at fair value. All gains and losses arising from these valuations are reflected in the income statement.

Other than trading financial assets the Bank has no financial assets at fair value through profit or loss.

b. Financial assets available for sale:

Assets available for sale consist of "mudharaba" transactions which are based on profit/loss sharing. Such transactions are reflected in the financial statements at cost and less provision for impairment if any, since their fair values could not be determined reliably. Profit obtained from related transactions is recorded in 'Profit share income received from available for sale financial assets' account.

c. Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market and are not classified as held for trading, financial assets at the fair value through profit or loss or as available for sale. Loans and receivables are initially recognized at cost, which is assumed to reflect their fair value and subsequently recognized at the amortized cost calculated using the internal rate of return method. The expenses incurred for the assets received as collateral are not considered as transaction costs and are recognized in the expense accounts.

d. Held to maturity financial assets:

Held to maturity financial assets are financial assets with fixed maturities and fixed or determinable payments where management has the intent and ability to hold the financial assets to maturity that are not classified under

'Loans and receivables'. Held to maturity financial assets are initially recognized at cost which is assumed to reflect their fair value, and subsequently carried at 'Amortized Cost' using the 'Internal Rate of Return'. Profit share income from held to maturity financial assets is reflected in the income statement.

VII. Explanations on impairment of financial assets:

At each balance sheet date an assessment is made as to whether there is objective evidence that a financial asset or group of financial assets is impaired. If such evidence exists, impairment is provided for financial asset categories as explained below.

i) Loans and receivables:

The Bank provides impairment reserve for loans collections of which may become doubtful in the future and records this as expense. Impairment provision for the non-performing loans is the amount calculated by the Bank management to cover the possible losses in the existing loan portfolio by evaluating the loan portfolio on the grounds of risk and quality and considering the related legislation, economic and other factors.

If there is objective evidence that the loans might not be collected, the Bank reclassifies such loans to III., IV. and V. groups and provides impairment reserve in accordance with the Communiqué of "Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves to be provided for these Loans" published on November 1, 2006 in the official Gazette numbered 26333 and "Communiqué for the amendment of the Communiqué of "Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves to be provided for these Loans" published on January 23, 2009 in the official Gazette numbered 27119. For the loans with poor financial position and/or payment capability, the Bank can provide a specific impairment reserve in excess of the amounts calculated using the minimum required rates for the related group. In case of collections from impaired loans, the principal amount is reimbursed first and then profit share receivables are collected.

Collections related to the provisions provided in the current period for such loans are deducted from 'Provisions for Loan losses and Other Receivables' account in the income statement. Subsequent recoveries of amounts previously written off or provisions made in prior periods are included in "other income" in the income statement.

The Bank provides general provision in accordance with the Communiqué of "Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves to be provided for these Loans" published on November 1, 2006 in the official Gazette numbered 26333 and Communiqué for the amendment of the Communiqué of "Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves to be provided for these Loans" published on January 23, 2009 in the official Gazette numbered 27119.

ii) Financial assets held to maturity:

If there is objective evidence indicating that the value of financial assets held to maturity is impaired, the amount of the loss is measured as the difference between the present value of future estimated cash flows discounted using the original profit share and the carrying value; provision is made for impairment and the provision is associated with expense accounts.

iii) Financial assets available for sale:

If there is objective evidence indicating that the fair value of an available for sale financial asset, for which decreases in the fair value has been accounted under the equity, has been impaired then the total loss which was accounted directly in the equity is transferred from equity to the income statement. Impairment losses recognized in the income statement related to the investments in equity instruments classified as available for sale financial assets cannot be reversed through the income statement. If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on equity instruments cannot be reversed.

VIII. Explanations on offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to offset the recognized amounts and there is an intention to collect/pay the related financial assets and liabilities on a net basis, or to realize the asset and settle the liability simultaneously.

IX. Explanations on sale and repurchase agreements and lending of securities

The Bank has no sale and repurchase agreements transactions and lending securities transactions.

X. Explanations on assets held for sale and discontinued operations and related liabilities

As mandated by the Banking Act 5411 article 57 "banks cannot participate in commercial real-estate and commodity trade with the exception of real-estate and commodity based agreements within the scope of Capital Markets Act No. 2499, and precious metal trade as seen appropriate by the board, and cannot participate in partnerships with firms whose main business activity is commercial real-estate, with the exception of real-estate investment partnerships and companies that finance mortgaged residential estates. The rules and procedures regarding the sales of real-estate and commodities that were acquired due to receivables and debtors' obligations to the bank are determined by the board."

The principles for valuation and accounting for disposal of assets acquired by banks in return for their nonperforming loans are determined by the official communication of "Principles and Procedures on Bank's Disposal of Precious Metals and Assets Held for Sale" No. 26333 published on November 1, 2006 in the Official Gazette.

Assets that meet the criteria for classification as assets held for sale are measured at the lower of the carrying amount of assets and fair value less any costs to be incurred for disposal. Assets held for sale are not amortized and presented in the financial statements separately. In order to classify an asset as held for sale, the sale should be highly probable and the asset (or disposal group) should be available for immediate sale in its present condition. Highly saleable condition requires a plan by the management regarding the sale of the asset (or the disposal group) together with an active program for the determination of buyers as well as for the completion of the plan. Also the asset (or the disposal group) should be actively in the market at a price consistent with its fair value. In addition, the sale is expected to be recognized as a completed sale within one year after the classification date and the necessary transactions and procedures to complete the plan should demonstrate the fact that there is remote possibility of making any significant changes in the plan or cancellation of the plan. Various events and conditions may extend the completion period of the disposal over one year. If such delay arises from any events and conditions beyond the control of the entity and there is sufficient evidence that the entity has an ongoing disposal plan for these assets, such assets (or disposal group) can remain to be classified as assets (or disposal group) held for sale. Extension of the period necessary to complete the sale, does not avoid the classification of the related asset (or disposal group) to be classified as asset held for sale.

Although the Bank has assets acquired due to receivables and debtors' obligations to the Bank, such assets are classified as fixed assets rather than assets held for sale and are amortized due to inability to dispose them or to produce a solid plan for disposal within a year within the provisions of banking legislation.

On the other hand properties acquired by the Bank due to receivables and debtors' obligations to the Bank are reflected as assets held for sale in the financial statements provided that there is a contracted term sale agreement.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale. Discontinued operations are presented separately in the income statement. The Bank has no discontinued operations.

(Currency—Thousands of Turkish Lira)

As of March 31, 2010, assets held for sale amounts to TL9,924 (December 31, 2009—TL10,600).

XI. Explanations on goodwill and other intangible assets

Intangible assets are stated at cost adjusted for inflation until December 31, 2004, less provision for impairment, if any, and accumulated amortization and amortized with straight-line method.

The other intangible assets of the Bank comprise mainly computer software. The useful lives of such assets acquired prior to 2004 has been determined as 5 years and for the year 2004 and forthcoming years, as 3 years.

As of March 31, 2010 there is no goodwill related to associates and subsidiaries.

XII. Explanations on tangible assets

Fixed assets are stated at cost adjusted for inflation until December 31, 2004, less accumulated depreciation and provision for impairment, if any.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The annual rates used for amortization are as follows:

Property	2%
Movables, Leased assets	6.67% – 20%

Depreciation is calculated on a pro-rata basis for the assets that have been placed in use for less than one year as of the balance sheet date. Leasehold improvements are depreciated over the term of the lease agreements by straight-line method.

If the recoverable amount (the higher of value in use and fair value) of a tangible asset is less than its carrying value, impairment loss is provided and the carrying value is written down to its recoverable amount.

Gains or losses resulting from disposals of the fixed assets are recorded in the income statement as the difference between the net proceeds and net book value of the asset.

Expenses for repairs are capitalized if the expenditure increases economic life of the asset; other repair costs are expensed.

Property held for long-term rental yields and/or capital appreciation is classified as investment property. Investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the properties.

XIII. Explanations on leasing transactions

Bank as a lessee

Assets acquired under finance lease contracts are recorded both as an asset and a liability at the beginning date of the lease. The basis for the determination of these amounts is the lower of fair value of the leased asset or the present value of the lease payments. The direct costs incurred during a finance lease transaction are capitalized as additions to the cost of the leased asset. Lease payments include the financing costs incurred due to the leasing transaction and the principal amount of the leased asset for the current period.

Depreciation is calculated on a straight-line basis over the estimated useful life of the leased assets and if a diminution in recoverable value of the leased asset is identified, a provision for impairment is recognized.

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Bank as a lessor

The Bank, as a participation bank, acts as a lessor in finance leasing transactions. The Bank presents finance leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

XIV. Explanations on provisions and contingent liabilities

Provisions and contingent liabilities are accounted for in accordance with "Turkish Accounting Standard for Provisions, Contingent Liabilities and Contingent Assets" (TAS 37).

Provisions are recognized when the Bank has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

XV. Explanations on liabilities relating to employee benefits

a) Defined benefit plans:

In accordance with existing social legislation, the Bank is required to make severance pay to each employee who has completed over one year of service with the Bank and who retires or whose employment is terminated due to reasons other than resignation or misconduct.

The retirement pay provision recognized in the accompanying financial statements, is calculated based on" Turkish Accounting Standard on Employee Benefits (TAS 19)", by using the "projection method" and based on upon factors derived using the past experience of the Bank with respect to completion of service period and eligibility to receive retirement pay and discounted by using the current market yield rate of government bonds at the balance sheet date.

The Bank's employees are not members of any pension fund, foundations, union or other similar entities.

b) Defined contribution plans:

The Bank pays defined contribution plans to publicly administered Social Security Funds for its employees as mandated by the Social Security Association. The Bank has no further payment obligations other than this contribution share. The contributions are recognized as employee benefit expense when they are due.

c) Short term benefits to employees:

In accordance with "TAS 19", vacation pay liabilities are defined as "Short Term Benefits to Employees" and accrued as earned and not discounted.

Bank management calculates bonus accrual if it foresees that the budgeted year-end figures approved by the Board of Directors are attainable.

XVI. Explanations on taxation

Current tax

In accordance with the Corporate Tax Law No 5520" published on June 21, 2006, the corporate tax rate has been decreased to 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax returns are required to be filed by the twenty fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month.

Effective April 24, 2003, new fixed asset investments over 10 TL, which have an economic life and are directly related with the production of services, provides a deduction from the annual taxable income amounting to 40% of the cost of the fixed asset. Investment allowances with incentive certificates obtained prior to April 24, 2003, would be subject to 19.8% withholding tax unless the companies choose to convert to the new application. Before the implementation of the new investment incentive application, effective January 1, 2006, all investment incentives could be carried forward indefinitely, however, as of January 1, 2006 the investment incentive application was terminated. Unused qualifying capital investment amounts from periods prior to December 31, 2005 could be deducted from the corporate income tax base until the end of December 31, 2008. However, in this case corporate tax rate would be 30%. Furthermore, qualifying capital investments to be made until the end of December 31, 2008 within the scope of the investment projects started before December 31, 2005 would be subject to investment incentives until the end of December 31, 2008. In 2008, the Bank decided not to utilize its investment incentive allowance and therefore corporate tax rate for the Bank was 20%. In 2009, corporate tax rate applicable to the Bank is 20%.

Constitutional Court abolished 2006, 2007, 2008 phrases included in the temporary article numbered 69 of the Income Tax Law related to investment allowances. Thereby, time limitation related to investment incentive is removed. Supreme Court concluded that reasoned decision of cancellation related to investment incentive becomes effective when it is published in the Official Gazette. The reasoned decision became effective on January 8, 2010 in accordance with the Supreme Court's Principal 2006/95, decision numbered 2009/144, Constitution's article numbered 153 which has been published in Trade Registry Gazette numbered 27456 dated January 8, 2010. In this context, an opportunity has arisen to use investment incentive amounting to TL61,108 which was not used until December 31, 2008 and transferred to 2009 with applicable withholding tax rate of 19.8%. However, the Bank's 2009 Corporate Tax Base is TL174,508 and this amount is greater than the investment incentive to be utilized. As the remaining part of Corporate Tax Base that exceeds the investment incentive is subject to 30% corporate tax rate, this would create a disadvantage in corporate tax. Therefore, the amount of transferred investment incentive was not used.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

In Turkey, there is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns to their tax offices until the end of 25th of the fourth month following the accounting period. The tax authorities have the right to inspect the tax returns and their underlying accounting records in a five years period and can revise the amount of taxes if any errors have been notified during the inspection.

Deferred tax

The Bank calculates and accounts for deferred income taxes for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "Turkish Accounting Standard for Income Taxes" ("TAS 12"). Deferred tax asset is calculated on all temporary differences other than general provisions to the extent that is probable that taxable profit will be available and deferred tax liability is calculated for all temporary differences. Deferred tax asset and liabilities are shown in the accompanying financial statements on a net basis.

XVII. Explanations on additional disclosures on borrowings

Borrowings other than funds collected are measured at amortized cost using the internal rate of return method after the initial recognition. The Bank does not apply hedging techniques on related borrowings.

There are no debt securities issued by the Bank.

The Bank has not issued convertible bonds.

XVIII. Explanations on share certificates issued

The Bank has no material costs for issuance of share certificates.

XIX. Explanations on acceptances and availed drafts

Acceptances and availed drafts are realized simultaneously with the payment dates of the customers and they are presented as commitments in off-balance sheet accounts.

XX. Explanations on government grants

There are no government grants received by the Bank.

XXI. Explanations on segment reporting

The Bank operates in three main segments; Corporate and Commercial Banking; Retail Banking; International Banking, Treasury and Investment Banking. Each segment operates with unique products, and the operational results are followed based on these segments.

Segment reporting is disclosed in Section 4, Note VI.

XXII. Explanations on other matters

There are no other matters to be disclosed by the Bank.

XXIII. Additional paragraph for convenience translation

The effects of differences between accounting principles and standards set out by regulations in conformity with article 37 of the Banking Act No. 5411, the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards (IFRS) have not been quantified in the accompanying unconsolidated financial statements. Accordingly, the accompanying unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

Section four

Information on financial structure

I. Explanations on capital adequacy standard ratio

Capital Adequacy Standard Ratio is calculated in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks", which was published on November 1, 2006 in the Official Gazette numbered 26333. The calculation of Capital Adequacy Ratio includes the methods used in determining the Capital Adequacy Ratio, determination of risk weighted assets and non-cash credits in line with the relevant banking regulation and measuring the market risk and operational risk ratio in line with the same regulation. Based on the "Measurement and Assessment of Capital Adequacy of Banks", the capital adequacy ratio of the Bank is 14.27% (December 31, 2009—14.56%).

(Currency—Thousands of Turkish Lira)

Information for capital adequacy standard ratio: Thousands of TL, %

	Risk weights				
	Bank				
	0%	20%	50%	100%	150%
Amount subject to credit risk	**829,636**	**836,886**	**2,171,829**	**2,180,753**	**2,257**
Balance sheet items (Net)	345,323	—	—	—	—
Cash and cash equivalents	—	—	—	—	—
Matured marketable securities	157,386	—	—	—	—
The Central Bank of the Republic of Turkey	—	487,483	—	3,449	—
Domestic Banks, Foreign Banks, Foreign Head Offices and Branches	—	—	—	—	—
Money market placements	—	—	—	—	—
Receivables from reverse repo transactions	174,576	—	—	—	—
Reserve deposits	105,844	341,604	2,109,665	1,717,607	2,257
Loans	—	—	—	123,304	—
Non-performing loans (Net)	222	—	13,997	20,039	—
Financial lease receivables	—	—	—	27	—
Available-for-sale financial assets	—	—	—	—	—
Held to maturity investments	—	—	—	2,688	—
Receivables from installment sales of assets	—	—	—	42,748	—
Miscellaneous receivables	4,307	7,799	48,167	39,216	—
Accrued profit share and income accruals	—	—	—	31,445	—
Investment in associates, subsidiaries and joint ventures (Business Partnerships) (net)	—	—	—	143,738	—
Tangible assets	41,978	—	—	56,492	—
Other assets	**97,450**	**13,156**	**269,343**	**1,384,628**	**—**
Off-balance sheet items	97,450	1,214	269,343	1,378,207	—
Guarantees and commitments	—	11,942	—	6,421	—
Derivative financial instruments	—	—	—	—	—
Total risk weighted assets	**927,086**	**850,042**	**2,441,172**	**3,565,381**	**2,257**

Summary of the capital adequacy standard ratio of the Bank:

	Current period	Prior period
Total Risk Weighted Assets (TRWA)	4,959,361	4,858,537
Amount Subject to Market Risk (ASMR)	44,938	23,575
Amount Subject to Operational Risk (ASOR)	795,684	583,487
Shareholders' Equity	827,535	795,749
Shareholders' Equity / (TRWA + ASMR + ASOR) *100	14.27	14.56

(Currency—Thousands of Turkish Lira)

Components of shareholders' equity:

	Current period	Prior period
Core capital		
Paid-in capital	**500,000**	**500,000**
Nominal capital	**500,000**	500,000
Capital commitments (-)	—	—
Inflation adjustment to Share Capital	—	—
Share premium	**23,250**	**23,250**
Share cancellations profits	—	—
Legal reserves	**18,067**	**18,067**
First legal reserve (Turkish Commercial Code 466/1)	**14,015**	14,015
Second legal reserve (Turkish Commercial Code 466/2)	**4,052**	4,052
Other legal reserve per special legislation	—	—
Status reserves	—	—
Extraordinary reserves	**138,862**	**138,862**
Reserves allocated by the General Assembly	**138,862**	138,862
Retained earnings	—	—
Accumulated losses	—	—
Foreign currency share capital exchange difference	—	—
Inflation Adjustments to Legal Reserve, status reserves and extraordinary reserves	—	—
Profit	**165,919**	**127,133**
Current year profit	38,786	127,133
Prior years' profits	127,133	—
Provision for possible losses up to 25% of the core capital	6,948	7,452
Gains on sale of associates and subsidiaries and properties to be added to capital	—	—
Primary subordinated loans up to 15% of the core capital	—	—
Losses that cannot be covered by reserves (-)	—	—
Net current period loss	—	—
Prior years' losses	—	—
Leasehold Improvements (-) (*)(**)	(17,492)	(17,416)
Prepaid Expenses (-) (**)	(11,564)	(3,797)
Intangible Assets (-) (**)	(8,804)	(8,187)
Deferred Tax Asset in excess of 10% of Core Capital (-) (**)		
Excess amount in the Article 56, Clause 3 of the Banking Law (-)	—	—
Total core capital	**815,186**	**785,364**
Supplementary capital		
General provisions	**33,701**	32,100
45% of the revaluation reserve for movable fixed assets	—	—
45% of the of revaluation reserve for properties	—	—
Bonus shares of investment in associates, subsidiaries and joint ventures	—	—
Primary subordinated loans excluded in the calculation of the core capital	—	—
Secondary subordinated loans	—	—
45 % of the marketable securities value increase fund	—	—
Associates and subsidiaries	—	—
Available for sale securities	—	—
Indexation differences for capital reserves, profit reserves and retained earnings (Except for indexation differences for legal reserves, statutory reserves and extraordinary reserves)	—	—
Total supplementary capital	**33,701**	**32,100**
TIER III capital	—	—
Capital	**848,887**	**817,464**
Deductions from the capital	**21,352**	**21,715**
Shareholdings of banks and financial institutions (Domestic, Foreign) in which the Bank has investments of ten percent or more	**17,917**	17,917
Shareholdings of banks and financial institutions (Domestic, Foreign) in which the Bank has investments less than ten percent total of which exceed ten percent of Bank's Core and Supplementary Capital	—	—
Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Secondary Subordinated Debts and Debt Instruments purchased from Such Parties qualified as Primary or Secondary Subordinated Debts	—	—
Loan granted to Customer against the Articles 50 and 51 of the Banking Law	—	—
The net book value of properties exceeding fifty percent of equity and properties held for sale and properties and commodity to be disposed, acquired in exchange of loans and receivables according to the Article 57 of the Banking Law and have not been disposed yet after 5 years from foreclosure	**3,435**	3,798
Other	—	—
Total shareholder's equity	**827,535**	**795,749**

(*) Leasehold Improvements amounting to TL17,492 as of March 31, 2010, have been classified under tangible assets in the accompanying financial statements and are presented as deductions from the capital due to declaration of BRSA numbered 5379 dated March 18, 2009 (As of December 31, 2009- TL, 17,416 TL).

(**) In accordance with the first provisional article of the regulation on the equity of the banks considered as a deduction from capital up to January 1, 2009. Since January 1, 2009, it is considered as a deduction from core capital.

(Currency—Thousands of Turkish Lira)

II. Explanations on market risk

The Bank has established market risk operations and has taken the necessary precautions in order to manage market risk within its financial risk management purposes under "Risk Management Systems" in accordance with BRSA Regulation on "Banks' Internal Systems" published in the Official Gazette No. 26333 dated November 1, 2006.

Organizational and functional internal applications of risk management systems have been determined by the Board of Directors in accordance with the regulation mentioned above. The Bank approved the regulation related to the "Risk Management Systems and Working Procedures and Principles of the Risk Management Presidency". With this internal regulation and Treasury Directorship's Marketing and Liquidity Risk Management Policy and Application Procedures which are also approved by the Board of Directors, the procedures with respect to management of market risk are determined. Additionally, the Board of Directors, without transfer of its responsibility, requires the consent of the risk management group and the top management of the Bank to take necessary actions in order to identify, measure, control and manage the risks that the Bank is exposed to.

Additionally, in accordance with the official communication on "Measurement and Assessment of Capital Adequacy of Banks", published in the same Official Gazette as mentioned above, and in the context of other related regulations, the Bank has started to calculate and report to BRSA the amount subject to market risk with the Standard Method and the amount thus calculated has been considered in the capital adequacy calculation of the Bank.

The capital which should be kept against general market risk and specifics risks, is calculated and monthly reported in accordance with the "Marketing risk measurement process with standard method" which is the third chapter of "Calculation of Marketing Risk Amount" of the "Communiqué on the "Measurement and Assessment of Capital Adequacy of Banks". As of March 31, 2010, the details of market risk calculated in accordance with the mentioned method are as follows:

a. Information related to market risk:

	Amount
(I) Capital Requirement to be Employed For General Market Risk—Standard Method	85
(II) Capital Requirement to be Employed For Specific Risk—Standard Method	—
III) Capital Requirement to be Employed For Currency Risk—Standard Method	2,686
(IV) Capital Requirement to be Employed For Commodity Risk—Standard Method	824
(V) Capital Requirement to be Employed For Settlement Risk—Standard Method	—
(VI) Total Capital Requirement to be Employed For Market Risk Resulting From Options—Standard	—
(VII) Total Capital Requirement to be Employed For Market Risk in Banks Using Risk Measurement	—
(VIII) Total Capital Requirement to be Employed For Market Risk (I+II+III+IV+V+VI)	3,595
(IX) Amount Subject to Market Risk (12.5 x VIII)	44,938

b. Average market risk table calculated at the end of each month in the current period:

This section has not been prepared in accordance with the article 25 of the Communiqué on Bank's Publicly Disclosed Financial Statements and Relevant Explanations and Footnotes.

III. Explanations on operational risk

The "Basic Indicator Method" is used in the calculation of Bank's operational risk. The base amount of operational risk is calculated using the gross income of the Bank as of the end of years 2009, 2008, and 2007 in accordance with Part IV the "Calculation of the Operational Risk "of the "Regulation Regarding Measurement and Evaluation of the Bank's Capital Sufficiency Ratio" published in the Official Gazette No. 26333 dated November 1, 2006, which came into effect on June 1, 2007. Not all of the TL795,684 used in the calculation of operational risk in the scope of "Capital Adequacy Standard Ratio" stated in Note 1 of this section, but only the TL63,655 corresponding to the 8%, represents the operational risk the Bank is exposed to. TL63,655 also represents the minimum capital amount required to compensate for the related risk.

(Currency—Thousands of Turkish Lira)

IV. Explanations on currency risk

Foreign currency risk represents the Bank's exposure to loss due to the changes in foreign currency exchange rates. All foreign currency assets, liabilities and foreign currency forward transactions are considered in calculation of capital to be employed for foreign currency risk according to Standard Method.

The Bank monitors daily the designated limits set by the Board of Directors and additionally observes the possible value changes in foreign currency positions. The limits are determined and followed both for the net foreign currency position and for the cross exchange rate risk within the position. As a tool of foreign currency risk management, foreign currency forward transactions are used when necessary to mitigate the risk.

As of March 31, 2010, the Bank carries a net foreign currency long position of TL31,165 (December 31, 2009—TL—5,680 long position) comprising TL564,512 (December 31, 2009—TL657,432 long position) long balance sheet position and TL533,347 off balance sheet short position (December 31, 2009—TL651,662 short position).

The announced current foreign exchange buying rates of the Bank as of March 31, 2010 and the previous five working days are as follows:

	24/03/2010	25/03/2010	26/03/2010	29/03/2010	30/03/2010	Balance sheet evaluation rate
USD	1.5186	1.5070	1.5052	1.5065	1.5026	1.5215
CHF	1.4480	1.4530	1.4508	1.4528	1.4557	1.4305
GBP	2.4207	2.4097	2.4018	2.4068	2.4067	2.2924
JPY	1.6520	1.6470	1.6470	1.6430	1.6360	1.6410
EUR	2.1654	2.1680	2.1702	2.1686	2.168	2.0523

The simple arithmetic averages of the major current foreign exchange buying rates of the Bank for the thirty days preceding the balance sheet date are as follows (full TL):

	Monthly average FC purchase rate
USD	1.5285
CHF	1.4295
GBP	2.3014
JPY	1.6880
EUR	2.0760

Currency risk of the Bank:

	EURO	USD	Yen	Other FC	Total
Current period					
Assets					
Cash (cash in vault, effectives, money in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	6,547	229,262	—	298,923	534,732
Banks	9,688	461,223	23	8,938	479,872
Financial assets at fair value through profit and loss	526	1,150	1	—	1,677
Money market placements	—	—	—	—	—
Available-for-sale financial assets	—	—	—	—	—
Loans and finance lease receivables (*)	612,467	1,580,293	—	4,585	2,197,345
Subsidiaries, associates and joint ventures (**)	—	18,631	—	—	18,631
Held-to-maturity investments	—	—	—	—	—
Derivative financial assets for hedging purposes	—	—	—	—	—
Tangible assets	—	22	—	—	22
Intangible assets	—	—	—	—	—
Other assets	1,717	42,617	—	26	44,360
Total assets	**630,945**	**2,333,198**	**24**	**312,472**	**3,276,639**

(Currency—Thousands of Turkish Lira)

	EURO	USD	Yen	Other FC	Total
Liabilities					
Current account and funds collected from Banks via participation accounts	48,795	78,001	—	—	126,796
Current and profit sharing accounts FC	737,264	1,174,862	151	212,332	2,124,609
Money market borrowings	—	—	—	—	—
Funds provided from other financial institutions	14,388	418,315	—	—	432,703
Marketable securities issued	—	—	—	—	—
Miscellaneous payables	93	14,637	—	114	14,844
Derivative financial liabilities for hedging purposes	—	—	—	—	—
Other liabilities	1,824	10,883	—	468	13,175
Total liabilities	**802,364**	**1,696,698**	**151**	**212,914**	**2,712,127**
Net balance sheet position	(171,419)	636,500	(127)	99,558	564,512
Net off-balance sheet position	177,360	(615,394)	72	(95,385)	(533,347)
Financial derivative assets	377,633	382,303	72	181,883	941,891
Financial derivative liabilities	200,273	997,697	—	277,268	1,475,238
Non-cash loans (***)	485,226	1,093,216	900	63,725	1,643,067
Prior period					
Total assets	878,393	2,204,862	160	425,307	3,508,722
Total liabilities	849,239	1,818,285	142	183,714	2,851,380
Net balance sheet position	29,154	386,577	18	241,593	657,342
Net off-balance sheet position	(27,220)	(388,809)	—	(235,633)	(651,662)
Financial derivative assets	101,941	503,832	—	231,980	837,753
Financial derivative liabilities	129,161	892,641	—	467,613	1,489,415
Non-cash loans (***)	601,470	1,149,020	4,823	63,491	1,818,804

(*) Includes foreign currency indexed loans amounting to TL1,791,091 (December 31, 2009—TL1,732,262) followed as TL on the balance sheet.

(**) Includes TL714 (December 31, 2009—TL714) of foreign currency denominated investments in associates, which are followed as TL in TL16,365 of investments in associates on the balance sheet and TL17,917 (USD 12 million)) (December 31, 2009—TL17,917) of foreign currency denominated subsidiaries, which are followed as TL in TL32,997 of investments in subsidiaries on the balance sheet.

(***) Does not have any effect to the net off-balance sheet position.

Foreign currency sensitivity:

The Bank is mainly exposed to EUR and USD currency risks.

The following table details the Bank's sensitivity to a change of 10% in the USD and EURO exchange rates. A negative amount indicates a decrease in profit/loss and equity when the TL weakens with ratio of %10 against USD and EUR.

	Change in currency rate in %	Effect on profit or loss		Effect on equity	
		Current period	Prior period (*)	Current period	Prior period
USD	10%	2,142	734	—	—
EURO	10%	594	(682)	—	—

(*) represents the effect on the March 31, 2009 profit or loss

V. Explanations on liquidity risk

Liquidity risk represents risk of not having sufficient cash or cash inflows to completely meet the cash outflows on time as a result of imbalance in cash flows.

(Currency—Thousands of Turkish Lira)

Liquidity risk may also result from inability to penetrate to market or change positions quickly at suitable prices and amounts due to market disruptions or barriers. To mitigate liquidity risk, the Bank diversifies funding sources (customer funds and funds borrowed from abroad) and keeps a certain level of assets as cash and cash equivalents.

The Bank determines the liquidity position daily and the treasury department manages market transactions in accordance with the liquidity position of the Bank. Indicators of liquidity conditions are analyzed at the weekly Asset/Liability meetings with the participation of top management.

As required by the general strategy of the Bank, maturity structure of the assets, liabilities and profit share ratios are maintained in line with the Asset/Liability Management strategies. In addition, the Bank tries to have a positive difference between revenues and costs of TL and foreign currency assets and liabilities.

Presentation of assets and liabilities according to their remaining maturities:

	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unallocated (*)	Total
Current period								
Assets								
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	720,909	—	—	—	—	—	—	720,909
Banks	490,932	—	—	—	—	—	—	490,932
Financial assets at fair value through profit and loss	—	10,464	1,635	629	—	—	—	12,728
Money market placements	—	—	—	—	—	—	—	—
Available-for-sale financial assets	27	—	—	—	—	—	—	27
Loans	—	1,850,627	565,930	1,507,857	1,419,270	11		5,343,695
Held-to-maturity investments	—	—	—	—	—	—	—	—
Other assets (*)		87,159	35,778	26,332	8,245		374,651	532,165
Total assets	**1,211,868**	**1,948,250**	**603,343**	**1,534,818**	**1,427,515**	**11**	**374,651**	**7,100,456**
Liabilities								
Current account and funds collected from banks via participation accounts	14,893	114,728	—	—	—	—	—	129,621
Current and profit sharing accounts	1,139,817	983,312	2,519,851	341,729	415,035	—	—	5,399,744
Funds provided from other financial institutions	—	182,486	6,355	240,819	3,043	—	—	432,703
Money market borrowings	—	—	—	—	—	—	—	—
Marketable securities issued	—	—	—	—	—	—	—	—
Miscellaneous payables	45,658	11,406	—	—	—	—	—	57,064
Other liabilities (*)	—	115,718	44,538	11,348	—	—	909,720	1,081,324
Total liabilities	**1,200,368**	**1,407,650**	**2,570,744**	**593,896**	**418,078**	**—**	**909,720**	**7,100,456**
Net liquidity gap	11,500	540,600	(1,967,401)	940,922	1,009,437	11	(535,069)	—
Prior period								
Total assets	1,398,623	1,105,026	748,732	1,719,540	1,561,830	13	370,762	6,904,526
Total liabilities	1,254,796	314,044	3,167,788	806,186	471,569	—	890,143	6,904,526
Net liquidity gap	314,625	(1,713,536)	(215,920)	839,430	1,145,499	118,036	(488,134)	—

(*) Certain assets in the balance sheet that are necessary for the banking operations but cannot be readily convertible into cash in the near future, such as tangible assets, investments in associates and subsidiaries, stationary supplies, prepaid expenses and non-performing loans, are included under unallocated assets. The unallocated other liabilities column consists of equity and provisions balances.

(Currency—Thousands of Turkish Lira)

Breakdown of derivative instruments according to their remaining contractual maturities:

Current period— March 31, 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading						
Foreign exchange derivatives:						
Inflow	1,197,499	37,176	132,034	—	—	1,366,709
Outflow	1,186,925	35,717	124,069	—	—	1,346,711
Derivatives held for hedging						
Foreign exchange derivatives:						
Inflow	—	—	—	—	—	—
Outflow	—	—	—	—	—	—
Total cash inflow	**1,197,499**	**37,176**	**132,034**	**—**	**—**	**1,366,709**
Total cash outflow	**1,186,925**	**35,717**	**124,069**	**—**	**—**	**1,346,711**

Prior period— December 31, 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading						
Foreign exchange derivatives:						
Inflow	840,738	10,340	29,014	—	—	880,092
Outflow	836,577	10,400	21,269	—	—	868,246
Derivatives held for hedging						
Foreign exchange derivatives:						
Inflow	—	—	—	—	—	—
Outflow	—	—	—	—	—	—
Total cash inflow	**840,738**	**10,340**	**29,014**	**—**	**—**	**880,092**
Total cash outflow	**836,577**	**10,400**	**21,269**	**—**	**—**	**868,246**

VI. Explanations on business segments

The Bank operates in Corporate and Commercial Banking, Retail Banking, International Banking – Treasury and Investment Banking sectors.

Corporate and Commercial Banking: to meet the financial needs of the customers', unique cash flow and financial solutions are provided to customers through loans, non-cash loans, foreign trade financing services and similar customized products. Domestic and foreign business opportunities are supported by using different corporate banking instruments to serve the sustainability of the production of entities.

Retail Banking; there are four main activities: fund collection, consumer financing, credit cards and alternative distribution channels. The Bank serves in the range of products of profit share accounts creation, banking services, Trade Finance, Checks, POS services, Credit Cards, ATM services, Online Banking and Mobile Banking in these fields.

International Banking: In International Banking, the relationships with foreign correspondent banks and investment institutes are executed directly or via branches abroad, representative offices and agencies. The aim of international banking is to enable foreign trade financing and develop mutual long term financing agreements with foreign banks. The Matched Murabaha is offered to SME's and international investors to meet the financing needs of SME's with international funds. Besides supplying syndicated loans for the Bank, investment banking also supplies syndicated loans in corporate basis for the firms and groups in Turkey. The Treasury in addition to monitoring foreign currency position and liquidity of the Bank, also conducts spot and forward transactions in TL or foreign currencies, performs derivative transactions (Forward, SWAP) with banks and customers, trades of gold within the context of membership of Istanbul Gold Exchange, trades share certificates in Istanbul Stock Exchange and international markets and conducts Murabaha transactions with foreign banks.

(Currency—Thousands of Turkish Lira)

Specific balance sheet and income statement items according to segments:

March 31, 2010	Retail Banking	Corporate and Commercial Banking	Treasury, Investment Banking and International Banking	Unallocated	Bank's total operation
Operating income	82,055	114,799	17,540	—	214,394
Operating expenses	(62,291)	(35,376)	(3,279)	(63,279)	(164,225)
Transfers between segments	30,076	(34,976)	4,900	—	—
Net operating income(loss)(*)	**49,840**	**44,447**	**19,161**	**(63,279)**	**50,169**
Income from associates	—	—	—	—	—
Income (loss) before tax	**49,840**	**44,447**	**19,161**	**(63,279)**	**50,169**
Provision for taxation	—	—	—	(11,383)	(11,383)
Net income for the period	**49,840**	**44,447**	**19,161**	**(74,662)**	**38,786**
Segment assets	2,122,853	3,351,777	1,247,342	—	6,721,971
Associates, subsidiaries and joint ventures	—	—	—	49,362	49,362
Undistributed assets	—	—	—	329,122	329,122
Total assets	**2,122,853**	**3,351,777**	**1,247,342**	**378,484**	**7,100,456**
Segment liabilities	3,939,213	1,589,009	439,000	—	5,967,222
Undistributed liabilities	—	—	—	287,136	287,136
Shareholders' equity	—	—	—	846,098	846,098
Total liabilities	**3,939,213**	**1,589,009**	**439,000**	**1,133,234**	**7,100,456**
Other segment items					
Capital investment					—
Depreciation	—	—	—	5,243	5,243
Non- cash income- expense	—	—	—	32,586	32,586
Restructuring expenses	—	—	—	—	—

March 31, 2009	Retail Banking	Corporate and Commercial Banking	Treasury, Investment Banking and International Banking	Unallocated	Bank's total operation
Operating income	96,678	103,918	41,380	—	241,976
Operating expenses	(85,617)	(39,564)	(9,669)	(51,195)	(186,045)
Transfers between segments	34,183	(43,720)	9,537	—	—
Net operating income/loss	**45,244**	**20,634**	**41,248**	**(51,195)**	**55,931**
Income from associates	—	—	—	—	—
Income(loss) before tax	**45,244**	**20,634**	**41,248**	**(51,195)**	**55,931**
Provision for taxation	—	—	—	(11,274)	(11,274)
Net income for the period	**45,244**	**20,634**	**41,248**	**(62,469)**	**44,657**
Segment assets	2,012,731	2,938,608	1,520,268	—	6,471,607
Associates, subsidiaries and joint ventures	—	—	—	49,362	49,362
Undistributed assets	—	—	—	383,557	383,557
Total assets	**2,012,731**	**2,938,608**	**1,520,268**	**432,919**	**6,904,526**
Segment liabilities	3,762,842	1,595,415	389,912	—	5,748,169
Undistributed liabilities	—	—	—	349,045	349,045
Shareholders' equity	—	—	—	807,312	807,312
Total liabilities	**3,762,842**	**1,595,415**	**389,912**	**1,156,357**	**6,904,526**
Other segment items					
Capital investment				24,297	24,297
Depreciation	—	—	—	17,818	17,818
Non- cash income- expense	—	—	—	(130,124)	(130,124)
Restructuring expenses	—	—	—	—	—

(Currency—Thousands of Turkish Lira)

Section five

Explanations and notes on the unconsolidated financial statements

I. Explanations and notes related to assets:

a. Cash and balances with the CBRT:

1. Cash and balances with the CBRT:

	Current period		Prior period	
	TL	FC	TL	FC
Cash/foreign currency	26,990	18,704	34,264	23,614
The CBRT	158,043	217,543	181,687	217,931
Other (*)	1,144	298,485	120	409,585
Total	**186,177**	**534,732**	216,071	651,130

(*) As of March 31, 2010 precious metal depot account amounting to TL297,915 is reflected in this line (December 31, 2009—TL409,585).

2. Information on CBRT:

	Current period		Prior period	
	TL	FC	TL	FC
Unrestricted demand deposit	156,153	1,233	179,692	1,237
Unrestricted time deposit	—	—	—	—
Restricted time deposit	1,890	216,310	1,995	216,694
Total	**158,043**	**217,543**	181,687	217,931

In line with the "Communiqué on Obligatory Reserves" No. 2005/1 issued by the Central Bank of the Republic of Turkey, the banks operating in Turkey set aside obligatory reserves at the Central Bank of the Republic of Turkey at the rate of 5% in Turkish Lira for their Turkish currency obligations and at the rate of 9% in USD and/or Euro for their foreign currency obligations.

b. Information on financial assets at fair value through profit and loss:

1. As of March 31, 2010, there are no financial assets at fair value through profit and loss subject to repurchase transactions, given as a collateral or blocked (December 31, 2009—None).

2. Positive Differences Related to Derivative Financial Assets Held-for-Trading:

Derivative financial assets held-for-trading	Current period		Prior period	
	TL	FC	TL	FC
Forward transactions	896	2,406	910	515
Swap transactions	9,249	177	7,605	895
Futures transactions	—	—	—	—
Options	—	—	—	—
Other	—	—	—	—
Total	**10,145**	**2,583**	**8,515**	**1,410**

(Currency—Thousands of Turkish Lira)

c. Information on Banks:

1. Information on Banks:

	Current period		Prior period	
	TL	FC	TL	FC
Banks	**11,060**	**479,872**	20,963	510,432
Domestic	11,054	283,841	20,507	364,263
Foreign	6	196,031	456	146,169
Branches and head office abroad	—	—	—	—
Total	**11,060**	**479,872**	**20,963**	**510,432**

d. Information on financial assets available-for-sale:

1. There are no financial assets available for sale subject to repurchase transactions, given as a guarantee or blocked (December 31, 2009—None).

2. Information on Financial Assets Available-for-Sale:

	Current period	Prior period
Debt Securities	—	—
Quoted on stock exchange	—	—
Not quoted on stock exchange	—	—
Share certificates	27	27
Quoted on stock exchange	—	—
Not quoted on stock exchange	27	27
Impairment provision	—	—
Total	**27**	**27**

e. Information on loans and receivables:

1. All types of loans and advances given to shareholders and employees of the Bank:

	Current period		Prior period	
	Cash	Non-Cash	Cash	Non-Cash
Direct Loans Granted to Shareholders	58	4,783	61	111
Corporate Shareholders	1	4,783	—	111
Real Person Shareholders	57	—	61	—
Indirect Loans Granted to Shareholders	—	—	—	—
Loans Granted to Employees	2,175		2,398	—
Total	**2,233**	**4,783**	2,459	111

(Currency—Thousands of Turkish Lira)

2. Information on first and second category loans and other receivables including restructured or rescheduled loans:

	Standard loans and other receivables		Loans and other receivables under close monitoring	
Cash Loans	**Loans and other receivables**	**Restructured or rescheduled**	**Loans and other receivables**	**Restructured or rescheduled**
Loans	**4,754,236**	**—**	**193,144**	**354,015**
Financing of documents on goods	—	—	—	—
Export loans	14,282	—	614	3,835
Import loans	435,378	—	19,540	—
Business loans	2,386,159	—	106,266	336,291
Consumer loans	896,873	—	40,620	815
Credit cards	82,470	—	2,504	1,471
Investments on profit/loss partnership	—	—	—	—
Precious metals loans	—		—	
Loans given to financial sector	—	—	—	—
Loans given to abroad	489,382	—	—	3,016
Other	449,692	—	23,600	8,587
Other receivables	238		326	—
Total	**4,754,474**	**—**	**193,470**	**354,015**

(Currency—Thousands of Turkish Lira)

3. Information on consumer loans, retail credit cards, loans given to personnel and personnel credit cards:

	Short term	Medium and long term	Total
Consumer Loans-TL	**1,813**	**828,256**	**830,069**
Housing Loans	631	752,678	**753,309**
Vehicle Loans	816	66,771	**67,587**
Consumer Loans	113	2,904	**3,017**
Other	253	5,903	**6,156**
Consumer Loans-FC Indexed	**—**	**107,021**	**107,021**
Housing Loans	—	98,349	**98,349**
Vehicle Loans	—	4,180	**4,180**
Consumer Loans	—	663	**663**
Other	—	3,829	**3,829**
Consumer Loans-FC	**—**	**82**	**82**
Housing Loans	—	82	**82**
Vehicle Loans	—	—	**—**
Consumer Loans	—	—	**—**
Other	—	—	**—**
Retail Credit Cards-TL	**38,422**	**—**	**38,422**
With Installment	18,935	—	**18,935**
Without Installment	19,487	—	**19,487**
Retail Credit Cards-FC	**—**	**—**	**—**
With Installment	—	—	**—**
Without Installment	—	—	**—**
Personnel Loans-TL	**81**	**944**	**1,025**
Housing Loans	—	348	**348**
Vehicle Loans	69	395	**464**
Consumer Loans	9	201	**210**
Other	3	—	**3**
Personnel Loans-FC Indexed	**—**	**111**	**111**
Housing Loans	—	25	**25**
Vehicle Loans	—	53	**53**
Consumer Loans	—	33	**33**
Other	—	—	**—**
Personnel Loans-FC	**—**	**—**	**—**
Housing Loans	—	—	**—**
Vehicle Loans	—	—	**—**
Consumer Loans	—	—	**—**
Other	—	—	**—**
Personnel Credit Cards-TL	**1,039**	**—**	**1,039**
With Installment	305	—	**305**
Without Installment	734	—	**734**
Personnel Credit Cards-FC	**—**	**—**	**—**
Installment based	—	—	**—**
Without-installment	—	—	**—**
Overdraft Account-TL (Real Person)	**—**	**—**	**—**
Overdraft Account-FC (Real Person)	**—**	**—**	**—**
Total	**41,355**	**936,414**	**977,769**

(Currency—Thousands of Turkish Lira)

4. Information on commercial installment loans and corporate credit cards:

	Short term	Medium and long term	Total
Commercial Installment Loans-TL	**20,758**	**447,056**	**467,814**
Business Loans	520	115,056	**115,576**
Vehicle Loans	3,747	196,826	**200,573**
Consumer Loans	834	7,755	**8,589**
Other	15,657	127,419	**143,076**
Commercial Installment Loans-FC Indexed	**2,541**	**116,152**	**118,693**
Business Loans	174	43,453	**43,627**
Vehicle Loans	106	28,482	**28,588**
Consumer Loans	17	—	**17**
Other	2,244	44,217	**46,461**
Commercial Installment Loans-FC	**61**	**15,366**	**15,427**
Business Loans		2,041	**2,041**
Vehicle Loans		10,585	**10,585**
Consumer Loans		—	**—**
Other	61	2,740	**2,801**
Corporate Credit Cards-TL	**46,984**	**—**	**46,984**
With Installment	33,660	—	**33,660**
Without Installment	13,324	—	**13,324**
Corporate Credit Cards-FC	**—**	**—**	**—**
With Installment	—	—	**—**
Without Installment	—	—	**—**
Overdraft Account-TL (Legal Entity)	**—**	**—**	**—**
Overdraft Account-FC (Legal Entity)	**—**	**—**	**—**
Total	**70,344**	**578,574**	**648,918**

5. Breakdown of domestic and foreign loans:

	Current period	Prior period
Domestic loans	4,809,561	4,413,412
Foreign loans	492,398	441,525
Total	**5,301,959**	4,854,937

6. Loans granted to subsidiaries and associates:

The Bank has granted a loan to its subsidiary Kuwait Turkish Participation Bank Dubai Ltd. amounting to TL22,833 as of the balance sheet date (December 31, 2009—None).

7. Specific provisions for loans:

	Current period	Prior period
Specific provisions		
Loans and receivables with limited collectability	11,778	24,464
Loans and receivables with doubtful collectability	27,626	35,154
Uncollectible loans and receivables	117,366	87,993
Total	**156,770**	**147,611**

(Currency—Thousands of Turkish Lira)

8. Information on non-performing loans (net):

(i). Information on non-performing loans and other receivables restructured or rescheduled:

	Group III	Group IV	Group V
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period—March 31, 2010			
(Gross amounts before specific provision)			
Restructured loans and other receivables	33,958	15,009	14,400
Rescheduled loans and other receivables	—	—	—
Prior period—December 31, 2009			
(Gross amounts before specific provision)			
Restructured loans and other receivables	36,207	10,867	13,357
Rescheduled loans and other receivables	—	—	—

(ii). Information on the movement of total non-performing loans:

	Group III	Group IV	Group V
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Ending balance of prior period	**72,199**	**74,879**	**151,131**
Additions in the current period (+)	30,204	156	447
Transfers from other categories of non-performing loans (+)	—	31,752	32,827
Transfers to other categories of non-performing loans (-)	29,162	35,416	—
Collections in the current period (-)	3,368	3,350	3,728
Disposals in the current period (-)	4,053	2,446	1,622
Write offs (-)	—	—	—
Ending balance of the current period	65,820	65,575	179,055
Specific provisions (-)	11,778	27,625	117,367
Net balance at the balance sheet	**54,042**	**37,950**	**61,688**

(iii). Information on non performing loans granted as foreign currency: None (December 31, 2009—None).

(Currency—Thousands of Turkish Lira)

(iv). Gross and net amounts of non-performing loans with respect to user groups:

	Group III	Group IV	Group V
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period (Net)	**54,042**	**37,950**	**61,688**
Loans granted to real persons and legal entities (Gross)	65,820	65,575	179,055
Specific provision (-)	11,778	27,625	117,367
Loans to real persons and legal entities (Net)	**54,042**	**37,950**	**61,688**
Banks (Gross)	—	—	—
Specific provision (-)	—	—	—
Banks (Net)	**—**	**—**	**—**
Other loans and receivables (Gross)	—	—	—
Specific provision (-)	—	—	—
Other loans and receivables (Net)	**—**	**—**	**—**
Prior period (Net)	**47,735**	**39,725**	**63,138**
Loans to real persons and legal entities (Gross)	72,199	74,879	151,131
Specific provision (-)	24,464	35,154	87,993
Loans to real persons and legal entities (Net)	**47,735**	**39,725**	**63,138**
Banks (Gross)	—	—	—
Specific provision (-)	—	—	—
Banks (Net)	**—**	**—**	**—**
Other loans and receivables (Gross)	—	—	—
Specific provision (-)	—	—	—
Other loans and receivables (Net)	**—**	**—**	**—**

9. Main guidelines for liquidation process of uncollectible loans and other receivables:

Loans and other receivables, which were deemed uncollectible according to the “Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves to be provided for these Loans” published in the Official Gazette No. 26333 dated November 01, 2006 and for which a full impairment provision has been made, are written-off per the decision of the Bank top management. In 2010, no non-performing loans have been written-off (December 31, 2009—TL80,298).

10. Information on the write-off policy:

The Bank ‘s write-off policy is to write-off the loan receivables that have been already transferred to legal follow-up and fully provided for and for which there is no possibility of collection through legal process and for which there is no collateral. Such loans are written off as per the decision of top management.

f. Information on held-to-maturity investments (Net):

1. There are no held-to-maturity investments subject to repurchase transactions, given as a guarantee or blocked (December 31, 2009—None).
2. Information related to Government bonds classified as held to maturity investments: None (December 31, 2009—None).
3. Information on held-to-maturity investments:

	Current period	Prior period
Debt securities	—	7,529
Quoted to stock exchange	—	—
Not quoted to stock exchange	—	7,529
Impairment provision (-)	—	—
Total	**—**	**7,529**

(Currency—Thousands of Turkish Lira)

4. The movement of held to maturity investments during year:

	Current period	Prior period
Balance at the beginning of the period	7,529	7,583
Foreign currency differences on monetary assets	—	(54)
Purchases during the year	—	—
Disposal through sales and redemption	(7,529)	—
Impairment provision (-)	—	—
Ending balance	**—**	**7,529**

g. Information on investment in associates (Net):

1. The reason for not consolidating the associates: As the Bank does not have power of control on the management and shareholder's equity of the associates it has not been consolidated in the financial statements.

2. Information about investments in unconsolidated associates:

Title	Address (City/Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)
Islamic International Rating Agency (*)	Manama/Bahreyn	8.99	8.99
Neova Sigorta AŞ. (**)	İstanbul/Turkey	6.99	6.99
Körfez Gayrimenkul A.Ş. (***)	İstanbul/Turkey	49.0	49.0
Kredi Garanti Fonu A.Ş. (****)	Ankara/Turkey	1.67	1.67

Financial information on associates in the order given above:

Total assets	Equity	Total fixed assets	Dividend income or profit share income	Income from marketable securities	Current period income/loss	Prior period income/loss	Fair value
1,124(*)	1,039	26	—	—	(102)	(355)	—
33,102(*)	22,260	1,985	—	—	(2,073)	554	—
37,970	20,250	36,136	—	—	(463)	(189)	—
—	—	—	—	—	—	—	—

(*) Prepared in accordance with the local regulations of the country in which the related associate is incorporated as of March 31, 2010.

(**) The related affiliate's name was Haliç Sigorta A.Ş. and changed as Neova Sigorta A.Ş. on February 29, 2009 and published on Trade Registry Gazette on same date. The Bank has a capital commitment to Neova Sigorta A.Ş. amounting to TL994.

(***) The Bank signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 to sell 51% of its shares of Körfez Gayrimenkul A.Ş. which was owned 99.99% by the Bank in exchange for USD 10,613,000 and TL2,450. The remaining 49% of its shares have been classified under the associates in the financial statements. The Bank has a capital commitment to Körfez Gayrimenkul A.Ş. amounting to TL12,740.

(****) The Bank made capital commitment amounting to TL4,000 to Kredi Garanti Fonu A.Ş. in 2009 and paid the TL2,000 of the related commitment on October 15, 2009.

3. Information related to consolidated associates: None.

Information on subsidiaries (Net):

1. Although the Bank has control power over the management and capital of these subsidiaries, the new subsidiary "Kuwait Turkish Participation Bank Dubai Ltd" which was established on November 3, 2009

(Currency—Thousands of Turkish Lira)

with USD 12 million capital is excluded from consolidation according to article 5 clause 5 of Regulation related to the Preparation of Consolidated Financial Statements by Banks" published in the Official Gazette No. 26340 dated November 8, 2006 which allows nonconsolidation of subsidiaries total assets of which are less than one percent of the parent Bank's total assets . Therefore, the Bank has reflected its subsidiaries at restated cost as of December 31, 2004 less any provision for impairment in its financial statements.

2. Information on subsidiaries:

Title	Address (City/Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)
Kuwait Turkish Participation Bank Dubai Ltd.	Dubai/UAE	%99.9	%99.9
Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İşletmeciliği San. ve Tic. A.Ş.	İstanbul/Turkey	%99.9	%99.9

Information on subsidiaries in the order presented in the above table:

Total assets	Equity	Total fixed	Profit share income	Income from marketable securities	Current period income/loss	Prior period income/loss	Fair value
41,763(*)	17,883	39	52	—	(35)	—	—
14,642(**)	14,477	3,653	3	—	(196)	(201)	—

(*) Amounts disclosed as of March 31, 2010 are based on the financial statements that have been prepared according to the laws and legislations of the country in which the subsidiary operates.

(**) Amount presented in the statutory financial statements based on Turkish Commercial Law as of March 31, 2010.

Movement for subsidiaries:

	Current period	Prior period
Balance at the beginning of the year	32,997	36,894
Movements during the year		
Purchases (*)	—	21,297
Bonus Shares	—	—
Dividends from current year income	—	—
Sales (**)	—	(25,194)
Revaluation increase	—	—
Impairment provision	—	—
Balance at the end of the year	32,997	32,997
Capital commitments (***)	7,600	7,600
Share percentage at the end of the year (%)	—	—

(*) The Bank has made capital payments amounting to TL3,000 for Körfez Gayrimenkul, on January 14, 2009, and TL380 for Körfez Tatil Beldesi, on April 4, 2009. In addition the Bank has made a capital payment amounting to TL17,917 (USD 12,000,000) for the new subsidiary in Dubai named Kuwait Turkish Participation Bank Dubai Ltd. on November 3, 2009.

(**) Sales relating to subsidiaries amounting to USD 10,613,000 (TL15,729) and TL2,450 consist of the sale of 51% of Körfez Gayrimenkul A.Ş. which was owned 99.99% by the Bank to Hayat Investment Company (resident in Kuwait) on November 3, 2009. The remaining 49% of its shares have been classified under the associates in the financial statements. The impairment provision booked for Körfez Gayrimenkul in previous periods has also been classified under associates.

(***) The Bank has capital commitments of TL7,600 to its subsidiary Körfez Tatil Beldesi as of March 31, 2010.

(Currency—Thousands of Turkish Lira)

3. Information related to consolidated subsidiaries: None.

h. Information on joint ventures (business partnerships) (Net): None (December 31, 2009—None).

i. Information on finance lease receivables (Net):

1. Presentation of remaining maturities of net finance leases:

	Current period		Prior period	
	Gross	Net	Gross	Net
Less than 1 year	26,657	24,915	32,424	29,976
1 to 4 years	19,341	16,566	22,486	19,560
More than 4 years	284	255	502	459
Total	**46,282**	**41,736**	**55,412**	**49,995**

2. Net investments in finance leases:

	Current period	Prior period
Gross receivable from finance leases	46,282	55,412
Unearned finance lease income (-)	(4,546)	(5,417)
Cancelled amounts (-)	—	—
Net receivable from finance leases	41,736	49,995

3. Information on finance lease contracts:

The Bank determines the settlements of the financial lease agreements in accordance with related legislations. Payment terms and amounts may be rearranged with additional agreements upon customers' requests. On the agreements, the Bank gives the customer the option to buy the related property. According to the Financial Lease Law, if a customer does not fulfill its obligations, the Bank sends a notice to the customer and informs them that if the obligations are not fulfilled within 60 days the financial lease agreement will be terminated. If the customer does not fulfill its obligations in 60 days, the Bank takes legal action against the customer. Non performing finance lease receivables amounting to TL16,084 (December 31, 2009—TL16,365) are included in the non-performing loans. Impairment provision amounting to TL7,561 (December 31, 2009—TL7,057) for financial lease receivables are included under the specific provision account under loans in the balance sheet.

k. Information on derivative financial assets for hedging purposes: None (December 31, 2009—None).

l. Information on deferred tax asset:

In accordance with the related regulations deferred tax asset calculated as of March 31, 2010 is TL9,800 (December 31, 2009—TL11,308) and deferred tax liability is TL4,356 (December 31, 2009—TL3,589).

	Current period	Prior period
Financial lease adjustments	446	449
Personnel bonus accrual and vacation pay liability	989	3,825
Retirement pay liability	1,053	952
Deferred income on loans	6,989	5,745
Impairment provision for subsidiaries, fixed assets and assets held for sale	323	337
Deferred tax asset	**9,800**	**11,308**
Financial lease adjustments	(984)	(992)
Difference between carrying value and tax base of tangible assets	(2,086)	(2,162)
Accruals of derivative financial instruments held for trading(net)	(1,286)	(435)
Deferred tax liability	**(4,356)**	**(3,589)**
Deferred tax, net	**5,444**	**7,719**

(Currency—Thousands of Turkish Lira)

m. Information on other assets:

As of balance sheet date, the Bank's other assets amount to TL150,210 (December 31, 2009—TL207,037). Other assets balance does not exceed 10% of the total assets on the balance sheet excluding off balance sheet commitments.

II. Explanations and notes related to liabilities

a. Information on funds collected:

1. Information on maturity structure of funds collected:

   i. Current period:

	Demand	Up to 1 month	Up to 3 months	Up to 6 months	Up to 9 months	Up to 1 year	1 year and over	Accumulated profit sharing accounts	Total
I. Real persons current accounts—TL	**273,182**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**273,182**
II. Real persons profit sharing accounts—TL	**—**	**1,412,116**	**433,852**	**42,667**	**—**	**31,875**	**377,877**	**—**	**2,298,387**
III. Other current accounts—TL	**374,672**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**374,672**
Public sector	17,695	—	—	—	—	—	—	—	17,695
Commercial sector	350,046	—	—	—	—	—	—	—	350,046
Other institutions	4,107	—	—	—	—	—	—	—	4,107
Commercial and other institutions	—	—	—	—	—	—	—	—	—
Banks and participation banks	**2,824**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,824**
Central Bank of Republic of Turkey	—	—	—	—	—	—	—	—	—
Domestic banks	—	—	—	—	—	—	—	—	—
Foreign banks	2,632	—	—	—	—	—	—	—	2,632
Participation banks	192	—	—	—	—	—	—	—	192
Others	—	—	—	—	—	—	—	—	—
IV. Profit sharing accounts—TL	**—**	**164,574**	**82,633**	**46,985**	**—**	**2,844**	**34,684**	**—**	**331,720**
Public sector	—	2	1,289	—	—	—	250	—	1,541
Commercial sector	—	159,993	78,564	46,830	—	2,799	34,033	—	322,219
Other institutions	—	4,579	2,779	155	—	45	401	—	7,959
Commercial and other institutions	—	—	—	—	—	—	—	—	—
Banks and participation banks	—	—	1	—	—	—	—	—	1
V. Real persons current accounts—FC	**194,934**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**194,934**
VI. Real persons profit sharing accounts—FC	**—**	**784,582**	**260,078**	**28,694**	**—**	**50,181**	**121,876**	**—**	**1,245,411**
VII. Other current accounts—FC	**248,105**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**248,105**
Commercial residents in Turkey	220,645	—	—	—	—	—	—	—	**220,645**
Commercial residents in Abroad	15,391	—	—	—	—	—	—	—	**15,391**
Banks and participation banks	**12,069**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**12,069**
Central Bank of Republic of Turkey	—	—	—	—	—	—	—	—	—
Domestic banks	—	—	—	—	—	—	—	—	—
Foreign banks	475	—	—	—	—	—	—	—	**475**
Participation banks	11,594	—	—	—	—	—	—	—	**11,594**
Others	—	—	—	—	—	—	—	—	—
VIII. Profit sharing accounts—FC	**—**	**172,109**	**47,816**	**41,573**	**—**	**8,788**	**86,206**	**—**	**356,492**
Public sector	—	276	—	—	—	—	—	—	**276**
Commercial sector	—	154,776	46,643	4,962	—	1,586	12,293	—	**220,260**
Other institutions	—	14,318	1,173	54	—	11	1,413	—	**16,969**
Commercial and other institutions	—	2,739	—	1,522	—	—	—	—	**4,261**
Banks and participation banks	—	—	—	35,035	—	7,191	72,500	—	**114,726**
IX. Precious metal funds	**63,818**	**—**	**133,689**	**4,060**	**—**	**4,587**	**—**	**—**	**206,154**
X. Profit sharing accounts special funds—TL	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Residents in Turkey	—	—	—	—	—	—	—	—	—
Residents Abroad	—	—	—	—	—	—	—	—	—
XI. Profit sharing accounts special funds—FC	**—**	**—**	**—**	**—**	**—**	**—**	**308**	**—**	**308**
Residents in Turkey	—	—	—	—	—	—	308	—	**308**
Residents Abroad	—	—	—	—	—	—	—	—	—
Total	**1,154,711**	**2,533,381**	**958,068**	**163,979**	**—**	**98,275**	**620,951**	**—**	**5,529,365**

(Currency—Thousands of Turkish Lira)

There are no 7 day notification and accumulative deposit accounts.

ii. Prior period:

	Demand	Up to 1 month	Up to 3 months	Up to 6 months	Up to 9 months	Up to 1 year	1 year and over	Accumulated profit sharing accounts	Total
I. Real persons current accounts—TL	**266,308**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**266,308**
II. Real persons profit sharing accounts—TL	**—**	**1,255,670**	**391,420**	**37,609**	**—**	**28,093**	**332,720**	**—**	**2,045,512**
III. Other current accounts—TL	**409,991**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**409,991**
Public sector	12,279	—	—	—	—	—	—	—	12,279
Commercial sector	387,875	—	—	—	—	—	—	—	387,875
Other institutions	4,100	—	—	—	—	—	—	—	4,100
Commercial and other institutions	—	—	—	—	—	—	—	—	—
Banks and participation banks	5,737	—	—	—	—	—	—	—	5,737
Central Bank of Republic of Turkey	—	—	—	—	—	—	—	—	—
Domestic banks	1	—	—	—	—	—	—	—	1
Foreign banks	2,632	—	—	—	—	—	—	—	2,632
Participation banks	3,104	—	—	—	—	—	—	—	3,104
Others	—	—	—	—	—	—	—	—	—
IV. Profit sharing accounts—TL	**—**	**132,571**	**52,557**	**45,681**	**—**	**2,636**	**32,161**	**—**	**265,606**
Public sector	—	7	10	—	—	—	250	—	267
Commercial sector	—	127,961	49,702	45,641	—	2,612	31,433	—	257,349
Other institutions	—	4,603	2,845	40	—	24	478	—	7,990
Commercial and other institutions	—	—	—	—	—	—	—	—	—
Banks and participation banks	—	—	—	—	—	—	—	—	—
V. Real persons current accounts—FC	**206,132**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**206,132**
VI. Real persons profit sharing accounts—FC	**—**	**822,547**	**273,968**	**30,100**	**—**	**48,650**	**130,770**	**—**	**1,306,035**
VII. Other current accounts—FC	**278,016**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**278,016**
Commercial residents in Turkey	265,678	—	—	—	—	—	—	—	265,678
Commercial residents in Abroad	9,145	—	—	—	—	—	—	—	9,145
Banks and participation banks	3,193	—	—	—	—	—	—	—	**3,193**
Central Bank of Republic of Turkey	—	—	—	—	—	—	—	—	—
Domestic banks	89	—	—	—	—	—	—	—	89
Foreign banks	381	—	—	—	—	—	—	—	381
Participation banks	2,723	—	—	—	—	—	—	—	2,723
Others	—	—	—	—	—	—	—	—	—
VIII. Profit sharing accounts—FC	**—**	**211,001**	**55,672**	**20,700**	**—**	**91,358**	**23,809**	**—**	**402,540**
Public sector	—	—	—	—	—	—	269	—	269
Commercial sector	—	194,319	52,707	1,095	—	1,647	15,004	—	264,772
Other institutions	—	14,656	1,459	53	—	11	2,301	—	18,480
Commercial and other institutions	—	2,026	1,506	—	—	—	—	—	3,532
Banks and participation banks	—	—	—	19,552	—	89,700	6,235	—	115,487
IX. Precious metal funds	**58,208**	**—**	**113,300**	**3,439**	**—**	**2,577**	**—**	**—**	**177,524**
X. Profit sharing accounts special funds—TL	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Residents in Turkey	—	—	—	—	—	—	—	—	—
Residents Abroad	—	—	—	—	—	—	—	—	—
XI. Profit sharing accounts special funds—FC	**—**	**—**	**—**	**—**	**—**	**—**	**593**	**—**	**593**
Residents in Turkey	—	—	—	—	—	—	593	—	593
Residents Abroad	—	—	—	—	—	—	—	—	—
Total	**1,218,655**	**2,421,789**	**886,917**	**137,529**	**—**	**173,314**	**520,053**	**—**	**5,358,257**

(Currency—Thousands of Turkish Lira)

2. Information's on current and profit share accounts that are in the scope of Saving Deposit/Saving Deposit Insurance Fund:

i. Current and Participation Accounts Attributable to Real Entities/Persons under the Guarantee of Saving Deposit Insurance Fund Exceeding the Limit of the Deposit Insurance Fund:

	Under the guarantee of saving deposit insurance		Exceeding the limit of saving deposit	
	Current period	**Prior period**	**Current period**	**Prior period**
Real persons current and profit sharing accounts that are not subject to commercial activities				
TL accounts	1,274,266	1,199,070	1,284,379	1,100,355
FC accounts	603,878	591,478	1,034,492	1,089,439
Foreign branches' deposits under foreign authorities' insurance	—	—	—	—
Off-shore banking regions' under foreign authorities' insurance	—	—	—	—

Funds collected by Participation Banks (except for foreign branches) through current and profit share accounts which are opened by real persons and denominated in Turkish Lira or foreign currency with a limit of maximum of TL50 (including both capital and profit shares) for each person is under the guarantee of Saving Deposit Insurance Fund in accordance with the Banking Law No. 5411 published by the Official Gazette No. 25983, dated November 1, 2005.

ii. Current and Profit Share Accounts of the real persons who are not in the scope of Saving Deposits Insurance Fund:

The Bank has no current or profit sharing accounts which are not under the guarantee of the Saving Deposit Insurance Fund except for the current and profit sharing accounts of shareholders, member of Board of Directors, CEO, the Vice Presidents and their first degree relatives.

	Current period	**Prior period**
Foreign branches' profit sharing accounts and other accounts		—
Profit sharing accounts and other accounts of controlling shareholders and profit sharing accounts of their mother, father, spouse, children in care	—	—
Profit sharing account and other accounts of President and Members of Board of Directors, CEO and Vice Presidents and profit sharing accounts of their mother, father, spouse and children in care	1,050	806
Profit sharing account and other accounts in scope of the property holdings derived from crime defined in article 282 of Turkish Criminal Law No:5237 dated September 26, 2004	—	—
Profit sharing accounts in participation banks which are established in Turkey in order to engage in off-shore banking activities solely	—	—

b. Information on derivative financial liabilities held for trading:

Derivative financial liabilities held for trading:

	Current period		Prior period	
	TL	**FC**	**TL**	**FC**
Forward transactions	2,008	1,741	892	3,767
Swap transactions	697	708	—	1,572
Futures transactions	—	—	—	—
Options	—	—	—	—
Other	—	—	—	—
Total	**2,705**	**2,449**	**892**	**5,339**

(Currency—Thousands of Turkish Lira)

c. Information on funds borrowed:

1. Information on banks and other financial institutions:

	Current period		Prior period	
	TL	FC	TL	FC
Loans from The Central Bank of the Republic of Turkey	—	—	—	—
From Domestic Banks and Institutions	—	—	—	—
From Foreign Banks, Institutions and Funds	—	432,703	—	383,681
Total	**—**	**432,703**	**—**	**383,681**

2. Information on remaining maturity structure of borrowings:

	Current period		Prior period	
	TL	FC	TL	FC
Short-term	—	429,660	—	378,385
Medium and Long-Term	—	3,043	—	5,296
Total	**—**	**432,703**	**—**	**383,681**

d. Information on other liabilities and miscellaneous payables:

As of March 31, 2010, other liabilities amount to TL113,333 (December 31, 2009—TL112,513), miscellaneous payables amount to TL57,064 (December 31, 2009—TL118,796), both of them do not exceed 10% of the balance sheet total.

e. Information on finance lease payables (net):

The Bank bought some of the information technology equipments through financial lease and the liabilities originated from the agreements are paid in monthly installments to the leasing firms. These agreements do not raise any further liabilities other than already committed payments by the Bank.

i. Information on the changes in agreements and new obligations originating from these changes: None (December 31, 2009—None).

ii. Information on Financial Lease Obligations

	Current period		Prior period	
	Gross	Net	Gross	Net
Less than 1 year	2	1	2	2
Between 1-4 years	1	1	2	1
More than 4 years	—	—	—	—
Total	**3**	**2**	**4**	**3**

iii. Information on Operational Leases:

The leasing transactions, in which all risks and benefits of the leased asset are held by the lessor, are classified as operational leases. Such transactions consist of rent contracts of branches which may be cancelled by declaration.

There are no significant commitments regarding the changes at the operational lease agreements.

The payments related with operational leases are recognized as expense in the income statement during the period of the agreement in equal installments.

iv. Information on sale and leaseback transactions: None (December 31, 2009—None).

f. Information on hedging derivative financial liabilities: None (December 31, 2009—None).

(Currency—Thousands of Turkish Lira)

g. Information on provisions:

1. Information on general provisions:

	Current period	Prior period
General provisions	**55,568**	**51,166**
Provisions for first group loans and receivables	41,569	38,290
Profit sharing accounts' share	18,845	15,896
The Bank's share	22,724	22,394
Other	—	—
Provisions for second group loans and receivables	7,237	5,884
Profit sharing accounts' share	3,024	3,169
The Bank's share	4,213	2,715
Other	—	—
Provisions for non cash loans	6,762	6,992
Other	—	—

2. Information on provisions related with foreign currency evaluation difference of foreign currency indexed loans: As of March 31, 2010, effect of decrease in exchange rates on foreign currency indexed loans amounting to TL24,604 (December 31, 2009—TL21,734) is offset against loans and receivables.

3. Information on other provisions:

	Current period	Prior period
General provisions for possible risks	6,948	7,779
Provisions from equity/profit sharing accounts	—	—
Total	6,948	7,779

4. Information on provisions for employee benefits:

Provisions for employee benefits consist of reserve for employee termination benefits amounting to TL5,265 (December 31, 2009—TL4,759), vacation pay liability amounting to TL3,299 (December 31, 2009—TL127) and performance premium amounting to TL1,647 relating to 2009 which has not yet been paid.

Under the Turkish Labor Law, the Bank is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or retires or earns the right to retire.

The amount payable consists of one month's salary limited to a maximum of TL2.427 (December 31, 2009—TL2.365) for each year of service. The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of its employees. TAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	Current period	Prior period
Discount rate (%)	11	11
Estimated increase rate of salary ceiling (%)	4.8	4.8

Movements in the reserve for employment termination benefits during period are as follows:

	Current period	Prior period
Balance at the beginning of the period	4,759	3,721
Provisions recognized during the period	1,020	1,817
Paid during the period	(514)	(779)
Balances at the end of the period	**5,265**	**4,759**

(Currency—Thousands of Turkish Lira)

h. Explanations on tax liability:

1. Explanations on current tax liability:

   i. Information on tax provisions: Current tax liability amounting to TL44,010 includes the corporate tax provision for 2009 and 2010.

   ii. Information on taxes payable:

	Current period	Prior period
Corporate taxes payable	—	—
Taxation of marketable securities	3,318	3,261
Property tax	326	244
Banking Insurance Transaction Tax (BITT)	3,215	4,248
Foreign Exchange Transaction Tax	—	—
Value Added Tax Payable	156	445
Other	1,736	2,051
Total	**8,751**	**10,249**

   iii. Information on premiums:

	Current period	Prior period
Social Security Premiums-Employee	1,162	836
Social Security Premiums-Employer	1,214	865
Bank Social Aid Pension Fund Premium-Employee	—	—
Bank Social Aid Pension Fund Premium-Employer	—	—
Pension Fund Membership Fees and Provisions-Employee	—	—
Pension Fund Membership Fees and Provisions-Employer	—	—
Unemployment insurance-Employee	83	60
Unemployment insurance-Employer	196	148
Other	—	—
Total	**2,655**	**1,909**

   iv. Information on deferred tax liability: None (December 31, 2009—None).

i. Information on shareholders' equity:

1. Presentation of paid-in capital:

	Current period	Prior period
Common stock	500,000	500,000
Preferred stock	—	—

2. Amount of Paid-in Capital, Disclosure on whether the Bank Applies the Registered Share Capital System, and, if so, the Ceiling Amount of the Registered Share Capital:

   Registered capital system is not applied in the Bank.

3. Information on the share capital increases during the period and their sources; Other information on increased capital shares in the current period: None (December 31, 2009—None).

4. Information on share capital increases from capital reserves during the current period: None (December 31, 2009—None).

5. Information on capital commitments, the purpose and the sources until the end of the fiscal year and the subsequent interim period: There is no capital commitment.

(Currency—Thousands of Turkish Lira)

6. Possible effect of estimations made for the Bank's revenues, profitability and liquidity on equity considering prior period indicators and uncertainties:

   Based on the evaluation made considering the Bank's prior and current period indicators related to net profit share and commission income, it is observed that the Bank continues its operations profitably.

1. Summary of privileges given to shares representing the capital: None.

2. Information on marketable securities value increase fund: None (December 31, 2009—None).

III. Explanations and notes related to off-balance sheet commitments and contingencies

a. Explanations on off-balance sheet accounts:

1. Type and amount of irrevocable commitments: Commitment for credit card limits, as of March 31, 2010 is TL101,798 (December 31, 2009—TL101,974); payment commitments for cheque books are TL378,772 (December 31, 2008—TL368,914).

2. Type and amount of probable losses and obligations arising from off-balance sheet items:

   i. Non-cash loans including guarantees, bank acceptances, collaterals and others that are accepted as financial commitments and other letter of credits:

      As of March 31, 2010, the Bank has guarantees and suretyships constituting of TL2,792,801 (December 31, 2009—TL2,867,436) letters of guarantee; TL17,570 (December 31, 2009—TL30,567) acceptances and TL397,636 (December 31, 2009—TL426,991) letters of credit.

   ii. Revocable, irrevocable guarantees and other similar commitments and contingencies : There are no other than those explained in 2.i)

3. (i). Total amount of non-cash loans:

	Current period	Prior period
Non-cash loans given against cash loans	763	804
With original maturity of 1 year or less	763	804
With original maturity of more than 1 year	—	—
Other non-cash loans	3,212,620	3,329,827
Total	**3,213,383**	**3,330,631**

(ii). Information on the non-cash loans classified in Group I and Group II:

	Group I		Group II	
	TL	FC	TL	FC
Non-cash loans	**1,496,567**	**1,559,010**	**73,749**	**84,057**
Letters of guarantee	1,496,567	1,143,982	73,749	78,503
Bank acceptances	—	16,711	—	859
Letters of credit	—	392,941	—	4,695
Endorsements	—	—	—	—
Underwriting commitments	—	—	—	—
Factoring guarantees	—	—	—	—
Other commitment and contingencies		5,376		

b. Explanations on contingent assets and liabilities:

None.

(Currency—Thousands of Turkish Lira)

IV. Explanations and disclosures related to the statement of income

a. Information on profit share income:

1. Information on profit share received from loans:

	Current period		Prior period	
	TL	FC	TL	FC
Profit share on loans (*)	**147,672**	**4,500**	**160,016**	**5,994**
Short term loans	38,599	1,315	60,150	3,760
Medium and long term loans	104,479	3,185	96,115	2,234
Profit share on non-performing loans	4,594	—	3,751	—
Premiums received from resource utilization support fund	—	—	—	—

(*) Profit Share on Loans includes commission income on cash loans.

2. Information on profit share received from banks:

	Current period		Prior period	
	TL	FC	TL	FC
Central Bank of the Republic of Turkey	1,890	—	3,384	—
Domestic Banks	—	—	—	—
Foreign Banks	—	—	—	—
Branches and head office abroad	—	—	—	—
			—	—
Total	1,890	—	3,384	—

3. Information on profit share income received from associates and subsidiaries:

	Current period	Prior period
Profit share income received from associates and subsidiaries	11	5

b. Information on profit share expenses:

i. Information on profit share expense given to funds borrowed:

	Current period		Prior period	
	TL	FC	TL	FC
Banks				
The Central Bank of the Republic of Turkey	—	3,279	—	7,308
Domestic banks	—	—	—	—
Foreign banks	—	—	—	—
Branches and head office abroad	—	3,279	—	7,308
Other Institutions	—	—	—	—
	—	—	—	—
Total				

ii. Profit share expense given to associates and subsidiaries:

	Current period	Prior period
Profit share expenses given to associates and subsidiaries	147	361

(Currency—Thousands of Turkish Lira)

c. Information on trading income/loss (Net):

	Current period	Prior period
Income	**329,541**	**563,296**
Gain on capital market transactions	—	3
Gain on derivative financial instruments	11,779	24,103
Foreign exchange gains	317,762	539,190
Losses (-)	**312,884**	**528,969**
Losses on capital market transactions	—	—
Losses on derivative financial instruments	3,479	2,387
Foreign exchange losses	309,405	526,582

d. Information on other operating income:

The details of other operating income are presented below. There are no unusual items in the other operating income which materially affect the income of the Bank.

	Current period	Prior period
Reversal of prior period provisions	17,477	10,181
Expert fees provisions	1,704	1,355
Income from bounced check provisions	1,087	1,381
Gain on sales of assets	1,081	700
Income from checkbooks	744	723
Income from EFT and money transfers	722	553
Income from check provisions	490	437
Lease income	403	199
Other Income	1,385	1,975
Total	**25,093**	**17,504**

e. Provisions for loan losses and other receivables of the Bank:

	Current period	Prior period
Specific provisions for loans and other receivables	19,980	39,082
III. Group	355	17,681
IV. Group	2,908	1,898
V. Group	16,717	19,503
Doubtful commissions, fees and other receivables	—	—
General provision expenses	9,591	3,896
Provision expenses for possible losses	—	—
Impairment provision of marketable securities	—	6
Financial Assets at fair value through profit and loss	—	6
Investment securities available for sale	—	—
Impairment provision of associates, subsidiaries, joint ventures and held to maturity investments	—	—
Associates	—	—
Subsidiaries	—	—
Joint ventures	—	—
Held to maturity investments	—	—
Other	58	—
Total	**29,629**	**42,984**

(Currency—Thousands of Turkish Lira)

f. Information on other operating expenses:

	Current period	Prior period
Personnel expenses	37,737	31,544
Provision for retirement pay liability	504	519
Depreciation expenses of fixed assets	4,461	3,666
Amortization expenses of intangible assets	654	292
Depreciation expenses of assets held for sale	128	53
Other operating expenses	14,619	11,570
Rent expenses	5,525	4,469
Maintenance expenses	1,854	1,481
Advertisement expenses	337	452
Communication expenses	1,973	1,690
Heating, electricity and water expenses	1,076	890
Disallowable expenses	1,324	694
Cleaning expenses	1,219	852
Vehicle expenses	447	305
Stationery expenses	338	390
Other expenses	526	347
Losses on sales of assets	53	7
Deposit insurance fund expenses	2,823	2,262
Other	5,123	3,543
Total	**66,102**	**53,456**

g. Information on profit/loss from continued operations before taxes:

The Bank's income before tax has decreased by 10% compared to the prior period and is realized as TL50,169. Income before tax includes TL89,842 net profit share income and TL14,308 net fees and commission income. Total operating expense amount is TL66,102.

h. Information on tax provision for continued and discontinued operations:

As of March 31, 2010 deferred tax expense is TL2,275 and current tax expense is TL9,108.

i. Information on net income/loss from continued and discontinued operations:

There is no income or loss for discontinued operation in net operating income after tax.

j. Information on net income/loss:

i. The nature and amount of certain income and expense items from ordinary operations is disclosed if the disclosure for nature, amount and repetition rate of such items is required for a complete understanding of the Bank's performance for the period: As of March 31, 2010, net profit share income is TL89,842 (March 31, 2009—TL86,301), net fees and commission income is TL14,308 (March 31, 2009—TL14,239).

ii. Effect of changes in accounting estimates on income statement for the current and, if any for subsequent periods: None (March 31, 2009—None).

k. Details of sub accounts comprising at least 20% of other items in income statement, exceeding 10% of total income statement:

As of March 31, 2010 other fees and commissions received is TL9,068 (March 31, 2009—TL11,008), TL2,065 of this amount is related with Credit Card fees and commissions (March 31, 2009—TL3,828) and TL2,483 of this amount is related with commissions related with POS machines (March 31, 2009—TL4,059).

(Currency—Thousands of Turkish Lira)

As of March 31, 2010 other fees and commissions given is TL5,776 (March 31, 2009—TL6,877) TL2,192 of this amount is related with POS commissions and installation expenses (March 31, 2009—TL5,021).

V. Explanations and notes related to cash flow statement:

a. Information on cash and cash equivalents:

1. Components of cash and cash equivalents and accounting policy applied in their determination:

"Cash" is defined as cash in vault and foreign currency cash, cash in transit, checks purchased, unrestricted amount in the Central Bank and demand deposits in Banks. "Cash equivalents" is defined as money market placements, investments in securities and time deposits in banks with original maturity less than three months.

(i). Cash and cash equivalents at the beginning of the period:

	Current period	Prior period
Cash	770,323	991,226
Cash in TL/foreign currency, others	58,000	163,723
Demand deposits at banks	712,323	827,503
Cash equivalents	—	—
Interbank money markets	—	—
Time deposits at banks	—	—
Marketable securities	—	—
Total cash and cash equivalents	**770,323**	**991,226**

(ii). Cash and cash equivalents at the end of the period:

	Current period	Prior period
Cash	**695,726**	**1,218,945**
Cash in TL/foreign currency, others	47,408	472,447
Demand deposits at banks (less than 3 months)	648,318	746,498
Cash equivalents	**—**	**—**
Interbank money market	—	—
Time deposits at banks	—	—
Marketable securities	—	—
Total cash and cash equivalents	**695,726**	**1,218,945**

b. Cash and cash equivalent items which are restricted for the usage of the Bank by legal or other limitations: None.

VI. Explanations and notes related to risk group of the bank:

a. Information on the volume of transactions relating to the Bank's risk group, outstanding loans and funds collected and income and expenses for the period:

1. Current period:

Risk group of the Bank (*)	Investment in associates, subsidiaries and joint ventures (business partnerships)		Direct and indirect shareholders of the bank		Other real or legal persons included in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at beginning of period	—	76	61	111	19,657	10,362
Balance at end of period	22,833	66	58	4,783	24,787	9,399
Profit share and commission income	11	—	2	—	463	—

(*) Defined in the Subsection 2, Article 49 of the Banking Law No. 5411

(Currency—Thousands of Turkish Lira)

2. Prior period:

Risk group of the bank	Investment in associates, subsidiaries and joint ventures (business partnerships)		Direct and indirect shareholders of the bank		Other real or legal persons included in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at beginning of period	—	55	—	740	15,146	—
Balance at end of period	—	76	61	111	19,657	10,362
Profit share and commission income	—	—	—	—	5	—

(*) Defined in the Subsection 2, Article 49 of the Banking Law No. 5411.

3. (i). Information on current and profit sharing accounts of the Bank's risk group:

Risk group of the bank (*)	Investment in associates, subsidiaries and joint ventures (business partnerships)		Direct and indirect shareholders of the bank		Other real or legal persons included in the risk group	
\	Current period	Prior period	Current period	Prior period	Current period	Prior period
Current and profit sharing accounts						
Balance at the beginning of period	15,021	14,929	77,973	2,052	11,732	76,613
Balance at the end of period	14,783	15,021	5,534	77,973	9,857	11,732
Profit share expense	147	361	22	22	246	485

(*) Defined in the Subsection 2, Article 49 of the Banking Law No. 5411.

(ii) Forward and option agreements and other similar agreements with related parties: None (March 31 2009—None).

b. Information on remunerations provided to top management:

As of March 31, 2010, the Bank has paid TL3,191 to top management (March 31, 2009—TL3,130).

VII. Explanations and notes related to subsequent events

a) In the Ordinary General Meeting held on April 14, 2010, it has been decided to increase the Bank's capital from TL500,000 to TL550,000.

b) In the Ordinary General Meeting held on April 14, 2010, it has been decided to distribute dividend to shareholders and the Board of Directors amounting to TL9,623 and TL652 in cash, respectively.

c) In the Board of Directors Meeting held on April 20, 2010, it has been decided to accept the resignation of Kenan Karadeniz, transfer all shares and rights at a nominal value of TL1 to Yusuf Beyazıt and appoint him as a member instead.

d) In the Board of Directors Meeting held on April 20, 2010, it has been decided to establish a subsidiary with bank status and capital of USD 35,000,000 in Kazakhstan.

e) Obligatory reserve rate for foreign currency has been increased from 9% to 9.5% by the Central Bank of the Republic of Turkey starting April 30, 2010.

Section six

Limited review report

I- Explanations on the independent limited review report:

The unconsolidated interim financial statements as of and for the three months period then ended March 31, 2010 have been reviewed by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A Member Firm of Ernst & Young Global Limited) and the independent auditors' limited review report dated May 14, 2010 is presented preceding the financial statements.

II- Notes and disclosures prepared by independent auditors: None.

Kuveyt Türk Katılım Bankası Anonim Şirketi

Consolidated financial statements together with independent auditors' report December 31, 2009

Table of contents

Independent auditors' report to the board of directors of Kuveyt Türk Katılım Bankası Anonim Şirketi on the consolidated financial statements for the year ended December 31, 2009

We have audited the accompanying financial statements of Kuveyt Türk Katılım Bankası Anonim Şirketi and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kuveyt Türk Katılım Bankası Anonim Şirketi A.Ş. and its subsidiaries as of December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

April 16, 2010
Istanbul, Turkey

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2009
(Currency—In thousands of Turkish Lira–TL)

	Notes	2009	2008
Assets			
Cash and balances with the Central Bank	4	**239,090**	248,988
Balances with other banks and financial institutions	4, 29	**903,319**	938,608
Reserve deposits at the Central Bank	5	**218,689**	213,421
Financial assets—held for trading	6, 29	**27**	64
Financial assets—available-for-sale	6, 29	**4,520**	1,389
Financial assets—held to maturity	6, 29	**7,529**	7,583
Due from financing activities, net	8, 29	**4,586,786**	3,879,553
Minimum finance lease payments receivable, net	9, 29	**53,512**	113,475
Derivative financial instruments	20, 29	**9,925**	13,933
Other assets	10, 29	**590,221**	123,008
Construction projects, net	11	**3,025**	3,087
Investment in associate	7	**12,315**	—
Investment properties, net	12	**47,207**	67,586
Property and equipment, net	14	**108,180**	84,150
Intangible assets, net	15	**8,256**	2,847
Deferred tax assets	18	**12,749**	14,596
		6,805,350	5,712,288
Assets and a disposal group held for sale	13	**9,547**	6,410
Total assets		**6,814,897**	5,718,698
Liabilities and equity			
Due to other financial institutions and banks	16	**383,681**	820,954
Current and profit/loss sharing investors' accounts	17	**5,545,201**	4,119,460
Other liabilities	19	**49,422**	46,114
Provisions	19	**7,107**	6,319
Derivative financial instruments	20	**6,231**	25,664
Income taxes payable	18	**5,774**	11,487
		5,997,416	5,029,998
Liabilities directly associated with assets classified as held for sale	13	**—**	—
Total liabilities		**5,997,416**	5,029,998
Share capital	21	**500,000**	500,000
Share premium	21	**23,250**	23,250
Legal reserves and retained earnings		**294,231**	165,450
Total equity attributable to equity holders of the parent		**817,481**	688,700
Total liabilities and equity		**6,814,897**	5,718,698

The policies and explanatory notes on pages 6 through 59 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2009
(Currency—In thousands of Turkish Lira–TL)

	Notes	2009	2008
Income from financing activities:			
Profit on originated loans from profit/loss sharing accounts		**427,298**	343,087
Profit on originated loans from current accounts and equity		**150,245**	116,789
Profit on deposits with other banks and financial institutions		**35,878**	32,427
Profit on finance leases		**7,219**	15,803
Total income from financing activities		**620,640**	508,106
Profit shares distributed to participation accounts		**(349,348)**	(306,462)
Profit shares distributed to other banks and financial institutions		**(20,496)**	(30,234)
Net financing income		**250,796**	171,410
Provision for impairment of amounts due from financing activities and lease receivables	8, 9	**(64,821)**	(83,306)
Net financing income after provision for impairment in due from financing activities and lease receivables		**185,975**	88,104
Foreign exchange gain, net		**32,731**	35,154
Net financing income after net foreign exchange gain/(loss)		**218,706**	123,258
Fees and commission income	25	**157,436**	151,015
Income/(loss) from construction projects, net		**642**	159
Net trading income		**47,762**	49,719
Other income		**10,904**	13,644
Share of profit of an associate	7	**30**	—
Total other operating income		**216,774**	214,537
Fees and commission expense	25	**(28,552)**	(25,326)
Staff costs	26	**(134,297)**	(110,735)
Depreciation and amortization expense		**(18,216)**	(15,430)
Withholdings and other taxes		**(4,503)**	(4,143)
Rent expense		**(19,811)**	(14,326)
Other expenses	27	**(63,126)**	(48,463)
Total other operating expense		**(268,505)**	(218,423)
Income before taxation		**166,975**	119,372
Current tax charge	18	**(34,902)**	(32,215)
Deferred tax (charge)/credit	18	**(1,847)**	6,710
Net income for the year from continuing operations		**130,226**	93,867
Net income/(loss) after tax for the year from a discontinued operation	13	**4,055**	(2,599)
Net income for the year		**134,281**	91,268
Other comprehensive income for the year		**—**	—
Total comprehensive income for the year		**134,281**	91,268
Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)	23	**0.269**	0.218
Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share) from continuing operations	23	**0.260**	0.224

The policies and explanatory notes on pages 6 through 59 form an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2009
(Currency—In thousands of Turkish Lira–TL)

	Notes	Share capital	Share premium	Legal reserves	Retained earnings	Total
Balances at January 1, 2008		**260,000**	**23,250**	**7,906**	**113,266**	**404,422**
Share capital increase	21	240,000	—	—	(40,000)	200,000
Transfer from retained earnings to legal reserves		—	—	4,406	(4,406)	—
Dividends paid	22	—	—	—	(6,990)	(6,990)
Total comprehensive income for the year		—	—	—	91,268	91,268
Balances at December 31, 2008		**500,000**	**23,250**	**12,312**	**153,138**	**688,700**
Transfer from retained earnings to legal reserves		—	—	5,754	(5,754)	—
Dividends paid	22	—	—	—	(5,500)	(5,500)
Total comprehensive income for the year		—	—	—	134,281	134,281
Balances at December 31, 2009		**500,000**	**23,250**	**18,066**	**276,165**	**817,481**

The policies and explanatory notes on pages 6 through 59 form an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2009
(Currency—In thousands of Turkish Lira–TL)

	Notes	2009	2008
Cash flows from operating activities:			
Income from continuing operations before taxation		**166,975**	119,372
Income/(loss) from discontinued operations before taxation		**4,055**	(2,599)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12, 14, 15	**18,216**	15,430
Provision for employee termination benefits and personnel bonus accrual	19	**1,715**	3,627
Provision for impairment in due from financing activities and lease receivables	8, 9	**64,821**	83,306
Provision for impairment in intangible assets, property and equipment and investment properties	12	**1,259**	28
Income accrual of funds invested	8	**201,660**	(275,870)
Expense accrual of participation accounts	17	**13,285**	5,229
Income accrual from deposits at the Central Bank of Turkey		**1,608**	(1,339)
Income taxes paid		**(40,615)**	(28,202)
Expense accrual of funds borrowed		**(8,154)**	5,475
Net change in derivative financial instruments	20	**(15,425)**	9,062
Loss/(gain) on sale of property and equipment, intangible assets, investment properties and asset held for sale		**1,707**	1,771
Gain on sale of discontinued operation		**5,392**	(691)
Fair value movement of held for trading securities	6	**—**	69
Exchange gain of held to maturity investment	6	**54**	(1,731)
Operating income before changes in operating assets and liabilities		**416,553**	(67,063)
Net changes in :			
Reserve deposits at the Central Bank of Turkey		**(6,875)**	(20,271)
Due from financing activities	8	**(973,227)**	(939,343)
Minimum finance lease payments receivables		**59,475**	47,465
Other assets and construction projects		**(462,929)**	(129,244)
Current accounts and profit/loss sharing investors' accounts	17	**1,412,455**	1,144,561
Other liabilities		**820**	11,742
Payment for employee termination benefits	19	**(829)**	(534)
Net cash provided by operating activities		**445,443**	47,313
Cash flows from investing activities:			
Purchase of available-for-sale, held-to-maturity and held-for-trading securities	6	**(3,158)**	(812)
Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities	6	**64**	—
Purchase of property and equipment, intangible assets and investment properties	12, 14, 15	**(63,314)**	(42,861)
Proceeds from sale of property and equipment, intangible assets and investment properties		**6,239**	5,231
Additions to assets and liabilities held for sale	13	**(7,130)**	(5,229)
Proceeds from sale of asset and liabilities held for sale	13	**4,023**	1,765
Net cash used in investing activities		**(63,276)**	(41,906)
Cash flows from financing activities:			
Dividends paid	22	**(5,500)**	(6,990)
Increase in due to financial institutions and banks		**(429,119)**	382,161
Increase in share capital	21	**—**	200,000
Net cash provided by financing activities		**(434,619)**	575,171
Net increase in cash and cash equivalents		**(52,452)**	580,578
Net foreign exchange difference on cash and cash equivalents		**7,265**	29,913
Cash and cash equivalents at the beginning of the year	4	**1,187,596**	577,105
Cash and cash equivalents at the end of the year	4	**1,142,409**	1,187,596
Profit share received		**804,925**	232,236
Profit share paid		**384,060**	331,467

The policies and explanatory notes on pages 6 through 59 form an integral part of the consolidated financial statements.

1. Corporate information

General

Kuveyt Türk Katılım Bankası A.Ş., formerly Kuveyt Türk Evkaf Finans Kurumu A.Ş., (a Turkish joint-stock company—the Bank) was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983 relating to the establishment of Special Finance Houses in Turkey. The Bank obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. Currently, the Bank is continuing its operations under the purview of the Banking Regulation and Supervision Agency ("BRSA") and the Banking Law No. 5411, dated November 1, 2005. The Bank's head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House (KFH) incorporated in Kuwait. Effective from April 8, 2006, the Bank's commercial title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. to comply with the Banking Law No. 5411, dated November 1, 2005.

The consolidated financial statements were authorized for issue by the General Manager and Chief Financial Officer on behalf of the Board of Directors of the Bank on April 16, 2010. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of activities of the Bank and its subsidiaries

At December 31, 2009, the Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank's associate, Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank had a 100% shareholding was incorporated in June 1996 in Turkey. The Bank signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 for transferring 51% of its shares of Körfez Gayrimenkul A.Ş. (Körfez) in exchange for USD 10,613,000 and TL2,450. The remaining 49% of its shares have been classified under the investment in an associate in the accompanying financial statements. Körfez's registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez's main sources of revenue are from the sales of these projects and expert valuations carried out on behalf of third parties.

The Bank's subsidiary, Körfez Tatil Beldesi A.Ş. ("Körfez Tatil Beldesi"), in which the Bank has a 100% shareholding was incorporated in 2001 in Edremit, Turkey. Körfez Tatil Beldesi is engaged in Güre Project, which comprises the construction of 199 "time-sharing" houses in Edremit-Balıkesir.

The Bank's other subsidiary, Kuveyt Turkish Participation Bank Dubai Limited. ("Dubai Limited"), in which the Bank has a 100% shareholding was incorporated in 2009 in Dubai, UAE. Dubai Limited is engaged in interest-free banking as a participation bank.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial investments held for trading and precious metals that have been measured at fair value.

The Bank and its subsidiaries (collectively—the Group) maintain their books of account and prepare their statutory financial statements in accordance with regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, Turkish Commercial Code and Turkish Tax Legislation.

2.2 Changes in accounting policies

The accounting policies adopted in the preparation of the financial statements as of December 31, 2009 are consistent with the previous financial year, except for the adoption of new standards and IFRIC interpretations which are noted below.

New and amended standards and interpretations applicable to December 2009 year-end

The new standards which are effective as of January 1, 2009 and changes and interpretations of current standards are as follows:

- Amendments to IFRS 2 'Share Based Payment'—Vesting Conditions and Cancellations Amendments to IFRS 7 'Financial Instruments: Disclosures'
- IFRS 8 'Operating Segments' Amendments to IAS 1 'Presentation of Financial Statements' Amendment to IAS 23 'Borrowing Costs' Amendments to IAS 32 and IAS 1 'Puttable Financial Instruments and Obligations Arising on Liquidation' IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement—Embedded Derivatives (Amendments) IFRIC 13 'Customer Loyalty Programmes'
- IFRIC 15 'Agreements for the Construction of Real Estate' IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' IFRIC 18 'Transfer of Assets from Customers' (effective for transfers of assets received on or after July 1, 2009)

The above changes do not have any impact on financial position and performance of the Group other than the additional explanations made in the disclosures.

Improvements to IFRS (issued in May 2008)

In May 2008, International Accounting Standards Board (IASB) has issued amendments in order to eliminate the inconsistencies and clarify the explanations related to standards. Transitional provisions and application periods vary for each amendment which is 1 January 2009 for the earliest.

Standards amended by IASB in May 2008 are as follows:

IFRS 5 "Noncurrent assets held for sale and discontinued operations"
IAS 8 "Accounting policies, changes in accounting estimates and errors"
IAS 10 "Events after the reporting period"
IAS 16 "Property, plant and equipment"
IAS 18 "Revenue"
IAS 19 "Employee benefits"
IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance"
IAS 27 "Consolidated and separate financial statements" (amendment)
IAS 28 "Investments in associates"
IAS 29 "Financial reporting in Hyperinflationary economies"
IAS 31 "Interests in joint ventures"
IAS 36 "Impairment of assets"
IAS 38 "Intangible assets"
IAS 39 "Financial Instruments: Recognition and Measurement"
IAS 40 "Investment Property"
IAS 41 "Agriculture" (Amendment)
IFRIC 9 (Reassessment of Embedded Derivatives) and IAS 39 Financial Instruments: Recognition and Measurement
IAS 34 "Interim financial reporting"

Standards, interpretations and amendments to published standards that are not yet effective

The new standards which are issued as of the authorization date of the financial statements and effective as of January 1, 2010 and thereafter and not early adopted by the Company and changes and interpretations of current standards are as follows:

a) New and amended standards and interpretations applicable as of December 31, 2010 year-end

- Improvements to International Financial Reporting Standards (issued in 2009)
- Amendments to IFRS 2 'Group cash settled share based Payment Transactions'
- Amendments to IFRS 3 "Business Combinations" and IAS 27 "Amendments to Separate Financial Statements"
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"—"Eligible Hedged Items"
- IFRIC 17 "Distributions of Non-cash Assets to Owners"

The above changes are not expected to have any impact on financial position and performance of the Group

b) New and amended standards and interpretations issued that are effective subsequent to December 31, 2010 year-ends

- IFRS 9 "Financial Instruments" (Effective for periods beginning on or after 1 January 2013)
- Amendment to IAS 24 "Related Party Disclosure's (Effective for periods beginning on or after 1 January 2011)
- Amendment to IAS 32 Classification of Rights Issues (Effective for periods beginning on or after 1 February 2010)
- Amendment to IFRIC 14 "Prepayments of a Minimum Funding Requirement" (Effective for periods beginning on or after 1 January 2011, with earlier application permitted)
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (Effective for periods beginning on or after 1 July 2010, with earlier application permitted)

Except for IFRS 9 the above changes are not relevant to the Group and thus will not have any impact on financial position and performance of the Group. Phase I of IFRS 9, the new accounting standard that will eventually replace IAS 39, issued in November 2009, establishes a new classification and measurement framework for financial assets. The new standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The standard will be applied retrospectively with certain transition provisions. IFRS 9 is not expected to have a significant impact on the financial statements of the Group.

2.3.1 Significant accounting judgments and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that are reflected in the measurement of income and expense in the income statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to financial statements. Management exercises judgment and makes use of information available at the date of the preparation of the financial statements in making these assumptions and estimates. The uncertainty about these judgments and estimates could result in outcomes that may have a material effect on future financial statements.

The judgments and estimates that may have a significant effect on amounts in the financial statements relate to, impairment losses on due from financing activities and lease receivables and pensions which are discussed in the relevant sections of this note below:

The principal actuarial assumptions used in accounting for the employee benefits are disclosed in Note 19. There are judgments made by management during the estimation of the amount and timing of future cash flow when determining the level of provision for impairment of financial assets. Such estimations are disclosed in the relevant notes.

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in Note 30.

Functional and presentation currency

The functional currency of the Bank and its Subsidiaries located in Turkey is Turkish Lira (TL). The functional currency of Dubai Ltd is US Dollar. The presentation currency of the Group is TL.

Until December 31, 2005, the consolidated financial statements were restated for the changes in the general purchasing power of TL based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). Since the objective conditions for the restatement in hyperinflationary economies was no longer applicable at that time, Turkey came off hyperinflationary status effective from January 1, 2006. The financial statements were restated until December 31, 2005 in accordance with IAS 29. Therefore, the non-monetary assets and liabilities and components of shareholders' equity including share capital reported in the balance sheet as of December 31, 2009 and 2008 are derived by indexing the additions that occurred until December 31, 2005 to December 31, 2005 and carrying the additions after this date with their nominal amounts.

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Group could realize or settle the same values of assets and liabilities as indicated in the balance sheets. Similarly, it does not necessarily mean that the Group could return or settle the same values of equity to its shareholders.

Consolidation of subsidiaries

The consolidated financial statements comprise the balance sheet of the Bank and its subsidiaries, as at December 31, 2009 and 2008 and the statements of income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2009 and 2008, respectively. Subsidiaries are the entities over which the Bank has power to govern the financial and operating policies so as to benefit from their activities. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Bank and cease to be consolidated from the date on which control is transferred out of the Bank.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal is recognized in the consolidated income statement as net income/(loss) after tax for the yea from a discontinued operation.

Upon loss of control, the Bank accounts for the investment retained at its proportionate share of net asset value at the date the control is lost.

The financial statements of the Subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

All material balances and transactions between the Bank and Subsidiaries are eliminated in the consolidated financial statements.

Details of the subsidiaries and investment in associates subject to consolidation are stated below:

	Effective shareholding by the Bank (%)		
Name of subsidiary	**Country of incorporation**	**December 31, 2009**	**December 31, 2008**
"Körfez" (*)	Turkey	49%	100%
"Körfez Tatil Beldesi"	Turkey	100%	100%
"Dubai Limited"	Turkey	100%	—

(*) The Bank signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 for transferring 51% of its shares of Körfez Gayrimenkul A.Ş. (Körfez) which was owned 99.99% by the Bank in exchange for USD 10,613,000 and TL2,450. According to IAS 28 "Investments in Associates", the remaining 49% of its shares of Körfez have been classified under the investment in an associate in the accompanying financial statements.

Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement as foreign exchange gain/loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency translation rates used by the Bank as of respective year ends are as follows:

Dates	USD / TL	EUR / TL
December 31, 2007	1.16	1.71
December 31, 2008	1.51	2.14
December 31, 2009	1.51	2.16

Foreign Subsidiary

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiary are translated into the Bank's presentation currency at the rate of exchange at the balance sheet date, and its income statement is translated at the USD/TL1.5463 average exchange rate for the year. Exchange differences arising on translation are taken directly to a separate component of equity.

Property and equipment

Property and equipment are stated at cost (as adjusted for inflation to December 31, 2005), less accumulated depreciation and accumulated impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to income statement in the year that costs are incurred. Expenditure incurred that result in an increase in the future economic benefits expected from the use of property and equipment is capitalized as an additional cost of property and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	50 years
Furniture and office equipment	3 – 6.67 years
Motor vehicles	4 – 5 years
Leasehold improvements	Shorter of the lease or useful life

The property and equipment's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period/year the asset is derecognized.

Construction projects

The Group has classified its time sharing houses as construction projects.

These houses are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Investment property

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Group is classified as investment property.

Investment property comprises land and buildings. Investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation for the building is calculated on a straight-line basis over the estimated useful lives of 50 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged to the income statement in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Impairment of non-financial assets

The carrying values of property and equipment, investment properties, intangible assets and construction projects are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement. Impairment losses recognized during the period are included in “other expenses” in the income statement.

Financial assets

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

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

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

Available-for-sale financial assets

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

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

Financial assets at fair value through profit or loss

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

Held to maturity investments

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

Due from financing activities, net

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

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

Precious metal accounts

Gold transactions are accounted under "precious metal depot account" in other assets and valuation is performed with the current ounce of gold prices in the market.

Derivative financial instruments

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

Embedded derivatives

Embedded derivatives are separated from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Derecognition of financial instruments

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Impairment of financial assets

a) Assets carried at amortized cost

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

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in profit or principal payments by more than 90 days;

(c) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:

  (i) adverse changes in the payment status of borrowers; or

  (ii) national or local economic conditions that correlate with defaults on the assets of the Bank.

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

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

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

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

A write off is made when all or part of a credit is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a credit. Subsequent recoveries of amounts previously written off are included in "other income" in the income statement.

The Bank's accounting treatment for the allowance for credit losses depends on the source of the credit itself. Allowance for the losses in credit that are entirely financed by the Bank's equity or by current and saving accounts (self-financed credit) are reflected wholly in the income statement as a provision expense. The allowance for the credit in arrears that are funded by the corresponding profit or loss investment accounts (jointly financed credit) is reflected in the income statement as a provision expense to the extent the Bank has participated in the profit or loss which may arise from the fund utilized. The remaining portion of the allowance for such credit is reflected ultimately in the profit or loss sharing investor accounts as a loss.

b) Available for sale financial assets carried at cost

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

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

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

d) Renegotiated financing and leasing receivables

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

Current accounts and profit / loss sharing investors' accounts

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

Due to other financial institutions and banks

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

Employee benefits

The Group has both defined benefit and defined contribution plans as described below:

(a) Defined benefit plans:

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

(b) Defined contribution plans:

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Provisions

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

Leases

The group as lessee

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Finance lease

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalized at the inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant periodic rate of return on the remaining balance of the liability. Finance charges are reflected in the income statement.

The group as lessor

Finance lease

Under finance leases the Group transfers substantially all risks and benefits incidental to ownership of the leased item. The Group presents finance leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

Income and expense recognition

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

Effective January 1, 2009, the Bank deferred fees and commissions which are collected as an integral part of the profit share rate on loans granted after such date. As of December 31, 2009 such deferred fees and commissions amounted to TL24,934. Due to limitations on system capabilities it was impracticable to collect data to calculate the effect of deferral on fees and commissions for loans granted prior to January 1, 2009. Consequently, retrospective application could not have been performed.

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

Dividend income is recognized when the Group’s right to receive the payment is established.

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

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

Income tax

Tax expense/(income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiary and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiary and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Fiduciary assets

Assets held by the Bank in a fiduciary, agency or custodian capacity are not included in the balance sheet, since such items are not treated as assets of the Bank.

Related parties

Parties are considered related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

  (i) controls, is controlled by, or is under common control (this includes parents, subsidiary and fellow subsidiary);

  (ii) has an interest that gives it significant influence; or

  (iii) has joint control;

(b) the party is an associate;

(c) the party is a joint venture;

(d) the party is a member of the key management personnel;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees or of any entity that is a related party.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Subsequent events

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Segment information

For management purposes, the Bank is organized into three business segments:

Retail Banking—Principally handling individual customers' current, saving and investment accounts and providing consumer loans, credit cards facilities and funds transfer facilities.

Corporate and Commercial Banking—Principally handling loans and other credit facilities and current, saving and investment accounts for corporate and institutional customers.

International and Investment Banking and Treasury—Principally handling foreign relations with respect to receiving syndication loans, interest free investment instruments and carrying relations with correspondent banks.

The Bank's operating business is organized and managed in Turkey according to the nature of the products sold and services provided. More than 90% of the operations are performed in Turkey for each of the years presented. None of the other geographical divisions satisfy reportable segment conditions and therefore the financial statements do not include separate geographical segment information. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2009 or 2008.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Income taxes are managed on a group basis and are not allocated to operating segments.

Profit share income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

3. Segment reporting

The following table presents income and profit and certain asset and liability information regarding the Group's business segments as of and for the years ended December 31, 2009 and 2008, respectively.

For the year ended December 31, 2009	Retail Banking	Corporate and commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	64,921	354,652	52,176	—	**471,749**
Intersegment (*)	136,972	(133,841)	(3,131)	—	**—**
Total operating income	201,893	220,811	49,045	—	**471,749**
Credit loss expense	(30,443)	(34,378)	—	—	**(64,821)**
Impairment losses on financial investments	—	—	—	—	**—**
Net operating income	**171,450**	**186,433**	**49,045**	**—**	**406,928**
Results					
Net profit share income/(expense)	140,453	96,658	13,685	—	**250,796**
Net fees and commission income	58,069	90,484	(19,669)	—	**128,884**
Net trading income	—	—	47,762	—	**47,762**
Segment profit/(loss)	**194,843**	**213,472**	**45,218**	**(282,503)**	**171,030**
Income tax expense	—	—	—	(36,749)	**(36,749)**
Net profit for the year	**194,843**	**213,472**	**45,218**	**(319,252)**	**134,281**

Asset and liabilities as of December 31, 2009	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Assets					
Capital expenditures					
Property and equipment	—	—	—	44,063	**44,063**
Other intangible assets	—	—	—	6,577	**6,577**
Total assets	**2,004,585**	**2,901,781**	**1,520,268**	**388,263**	**6,814,897**
Total liabilities	**3,767,615**	**1,602,384**	**389,912**	**237,505**	**5,997,416**

(*) Major part of the Bank's deposit consists of retail banking customers, whereas majority of loans granted to corporate and commercial banking customers. Accordingly, in the segment reporting the Bank presented net profit share income/(expense) under related operating segment from which the loan sourced, in inter-segment line.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

For the year ended December 31, 2008	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Revenue					
Third party	70,289	272,688	52,798	—	**395,775**
Intersegment	141,231	(108,587)	(32,644)	—	**—**
Total operating income	211,520	164,101	20,154	—	**395,775**
Credit loss expense	(24,652)	(58,654)	—	—	**(83,306)**
Impairment losses on financial investments	—	—	—	—	**—**
Net operating income	**186,868**	**105,447**	**20,154**	**—**	**312,469**
Results					
Net profit share income/(expense)	129,447	51,773	(9,812)	—	**171,410**
Net fees and commission income	70,217	75,163	(19,691)	—	**125,689**
Net trading income	—	—	49,719	—	**49,719**
Segment profit/(loss)	**203,405**	**159,460**	**17,479**	**(263,572)**	**116,772**
Income tax expense	—	—	—	(25,505)	**(25,505)**
Net profit for the year	**203,405**	**159,460**	**17,479**	**(289,077)**	**91,267**

Asset and liabilities as of December 31, 2008	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
Assets					
Capital expenditures					
Property and equipment	—	—	—	34,165	**34,165**
Other intangible assets	—	—	—	2,331	**2,331**
Total assets	**1,145,331**	**2,878,590**	**1,521,982**	**172,795**	**5,718,698**
Total liabilities	**2,691,682**	**1,223,873**	**979,191**	**135,252**	**5,029,998**

4. Cash and balances with banks

	2009	2008
Cash on hand	**58,161**	63,976
Balances with the Central Bank	**180,929**	185,012
Cash and balances with the Central Bank	**239,090**	248,988
Balances with foreign banks	**512,128**	310,917
Balances with domestic banks	**384,770**	625,383
Current accounts in participation banks	**6,421**	2,308
Balances with other banks and financial institutions	**903,319**	938,608
Cash and cash equivalents	**1,142,409**	1,187,596

As of December 31, 2009 and 2008, "balances with other banks and financial institutions" are made up of demand and time deposits. The time deposits, all of which have original maturities less than three months, can be analyzed follows:

	2009				2008			
	Amount		Effective profit rate		Amount		Effective profit rate	
	TL	Foreign currency (TL equivalent)	TL	Foreign currency	TL	Foreign currency (TL equivalent)	TL	Foreign currency
Deposits with other banks and financial institutions	**104,000**	**249,515**	**6.84%**	**0.32%**	—	292,969	—	1.80%
Total	**104,000**	**249,515**				292,969		

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at December 31, 2009 and 2008:

	2009	2008
Cash and balances with the Central Bank	**239,090**	248,988
Balances with Banks and other financial institutions	**903,319**	938,608
Cash at banks and on hand attributable to discontinued operation	**—**	—
Total	**1,142,409**	1,187,596

5. Reserve deposits at the central bank of Turkey

	2009		2008	
	Foreign currency (full)	TL	Foreign currency (full)	TL
US$	**143,915,787**	**216,694**	138,522,788	209,488
EUR	**—**	**—**	—	—
TL	**—**	**1,995**	—	3,933
		218,689		213,421

As of December 31, 2009, the interest rate applied for Turkish Lira reserve deposits are 5.20% (December 31, 2008—12%) respectively.

According to the regulations of the Central Bank of Turkey, banks and participation banks are obliged to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank's day to day operations.

6. Financial assets

Available-for-sale

	2009	2008
At cost		
Unlisted shares (*)	**4,520**	1,389
Total available-for-sale financial assets	**4,520**	1,389

(*) The breakdown of unlisted shares is as follows:

		2009		2008	
	Nature of business	%	Amount	%	Amount
Islamic International Rating Agency (IRA)	Financial information	**8.99**	**714**	8.99	577
Neova Sigorta AŞ	Insurance	**6.99**	**1,806**	6.99	812
Kredi Garanti Fonu AŞ (KGF)	Financial institution	**1.67**	**2,000**	—	—
			4,520		1,389

The Bank made capital commitment amounting to TL4,000 to Kredi Garanti Fonu A.Ş. in 2009 and paid the TL2,000 of the related commitment on October 15, 2009.

The fair value of the above listed available-for-sale investments can not be reliably estimated. There is no market for these investments. The Group does not intend to dispose its shares in IRA, Neova Sigorta A.Ş. and KGF.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Held to maturity

Held to maturity assets include a Sukuk investment amounting to TL7,529 that is invested by the Bahrain branch of the Bank (December 31, 2008—TL7,583). Islamic bond products are represented by Sukuks. It has a maturity that is determined in advance and is backed by an asset which makes it possible for the investment to earn a return without payment of interest. Sukuks are structured in such a way that their holders run a credit risk and receive part of the profit in advance. The maturity of the Sukuk is 2010 with quarterly payments. The rate of the Sukuk is Libor+2%.

Held for trading

Financial assets held for trading includes share certificates listed in the Istanbul Stock Exchange (ISE) amounting to TL27 (December 31, 2008—TL64).

The movement in financial assets may be summarized as follows:

Financial investments	2009			2008		
	Available for sale	Held to maturity	Held for trading	Available for sale	Held to maturity	Held for trading
At the beginning of the year	**1,389**	**7,583**	**64**	577	5,852	133
Exchange differences	**—**	**(54)**	**—**	—	1,731	—
Additions	**3,131**	**—**	**27**	812	—	—
Disposals (sale and redemption)	**—**	**—**	**(64)**	—	—	—
Fair value movement	**—**	**—**	**—**	—	—	(69)
Impairment losses	**—**	**—**	**—**	—	—	—
Balance at the end of the year	**4,520**	**7,529**	**27**	1,389	7,583	64

Hierarchy of valuation techniques which establishes basis for fair value calculation of financial assets and liabilities

Level I: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level II: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level III: Inputs for the asset or liability that are not based on observable market data

Fair value hierarchy of the financial assets and liabilities of the Bank carried at fair value according to the foregoing principles as of December 31, 2009 and 2008 are given in the table below:

Current period	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	—	9,952	—	9,952
Forward transactions	—	1,425	—	1,425
Swap transactions	—	8,500	—	8,500
Futures transactions	—	—	—	—
Options	—	—	—	—
Other	—	27	—	27
Available for sale financial assets				
Share certificates	—	—	—	—
Government debt securities	—	—	—	—
Other marketable securities	—	—	—	—
Financial liabilities				
Financial liabilities held for trading	—	6,231	—	6,231
Forward transactions	—	4,659	—	4,659
Swap transactions	—	1,572	—	1,572
Futures transactions	—	—	—	—
Options	—	—	—	—
Other	—	—	—	—

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

7. Investment in associate

The Bank signed an agreement with Hayat Investment Company (resident in Kuwait) on November 23, 2009 for transferring 51% of its shares of Körfez Gayrimenkul A.Ş. (Körfez) which was owned 99.99% by the Bank in exchange for USD 10,613,000 and TL2,450. The remaining 49% of its shares have been classified under the investment in an associate in the accompanying financial statements.

	2009	2008
Share of the associate's statement of financial position:		
Current assets	**5,588**	—
Non-current assets	**18,322**	—
Current liabilities	**(1,624)**	
Non-current liabilities	**(9,971)**	
Equity	**12,315**	—

	2009	2008
Income	**544**	—
Expense	**(514)**	—
Net income/(expense)	**30**	—

(*) Körfez was a fully owned consolidated subsidiary in 2008.

8. Due from financing activities, net

	2009	2008
Performing		
Funds invested from profit/loss sharing accounts	**2,695,133**	1,878,013
Funds invested from current accounts and equity	**1,653,503**	1,587,408
Income accruals on due from financing activities (*)	**115,271**	316,931
	4,463,907	3,782,352
Funds in arrears		
Funds invested from profit/loss sharing accounts	**178,259**	144,140
Funds invested from current accounts and equity	**126,770**	110,729
	305,029	254,869
Total	**4,768,936**	4,037,221
Impairment allowance		
Funds invested from profit/loss sharing accounts	**(92,115)**	(80,853)
Funds invested from current accounts and equity	**(90,035)**	(76,815)
	(182,150)	(157,668)
Total due from financing activities	**4,586,786**	3,879,553

(*) Includes also foreign currency evaluation differences of foreign currency indexed loans.

As of December 31, 2009 the Bank took possession of collateral (lands and buildings) from customers amounting to TL19,804 (December 31, 2008—TL14,033), which are classified as investment properties in the balance sheet as it is held for either rental income or capital appreciation through selling of those properties.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

The movement in impairment allowance is as follows:

	2009	2008
Balance at the beginning of the year	**157,668**	82,109
Provisions—participation accounts	**51,613**	37,115
Provisions—bank	**64,164**	81,612
Recoveries of amounts previously provided for	**(14,279)**	(13,286)
Reserves written off in current year (*)	**(77,016)**	(29,882)
Balance at the end of the year	**182,150**	157,668

(*) In 2009, non-performing loans for which a 100% provision was made in prior periods amounting in total to TL77,114 were written off (2008—TL29,882).

The impairment allowance of TL182,150 (December 31, 2008—TL157,668) is made up of a specific and collective allowance. The movement in the collective allowance is analyzed below.

The movements in the collective reserve allowance for financing receivables are as follows:

	2009	2008
Balance at beginning of year	**19,469**	12,728
Provisions—bank	**3,636**	2,495
Provisions—participation accounts	**(2,186)**	4,246
Recoveries and write-offs	**—**	—
Allowance at the end of the year	**20,919**	19,469

9. Minimum finance lease payments receivable, net

Minimum finance lease payments receivable (net) is as follows:

	2009	2008
Gross investment in finance leases	**55,403**	113,802
Unearned finance income	**(5,417)**	(10,859)
Total impaired receivables	**4,809**	16,606
Impairment allowance	**(1,283)**	(6,074)
Minimum lease payments receivable, net	**53,512**	113,475

Movements in the impairment allowance for leasing receivables is as follows:

	2009	2008
Balance at 1 January	**6,074**	3,574
Provisions—participation accounts	**2,164**	3,598
Provisions—Bank	**657**	1,694
Recoveries of amounts previously provided for	**(4,428)**	(652)
Impairment allowance written off in current year	**(3,184)**	(2,140)
Balance at the end of the year	**1,283**	6,074

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Gross investment in finance leases as to their maturity:

	2009	2008
Not later than 1 year (*)	**37,224**	81,271
Later than 1 year and not later than 5 years	**22,973**	49,137
Later than 5 years	**15**	—
Minimum lease payments receivable, gross	**60,212**	130,408
Less : Unearned finance income	**(5,417)**	(10,859)
Net investment in finance leases	**54,795**	119,549
Less : Allowance for impairment	**(1,283)**	(6,074)
Minimum lease payments receivable, net	**53,512**	113,475

(*) includes total impaired receivables amounting to TL4,809 (December 31, 2008—TL16,606).

As of December 31, 2009 TL48,103 (December 31, 2008—TL98,706) gross lease receivables are denominated in foreign currency (US$ and EUR).

Net investment in finance leases as to their maturity:

	2009	2008
Not later than 1 year (*)	**34,775**	73,412
Later than 1 year and not later than 5 years	**20,007**	46,137
Later than 5 years	**13**	—
Net investment in finance leases	**54,795**	119,549

(*) includes total impaired receivables amounting to TL4,809 (December 31, 2008—TL16,606).

Material leasing arrangements of the Group includes several machinery and equipment with a contractual maturity of 4 to 5 years.

10. Other assets

Other assets comprise the following:

	2009	2008
Precious metals	**409,854**	99,762
Blockage for guarantees given (*)	**107,937**	—
Prepaid expenses	**2,862**	3,084
Receivable from assets sold	**1,827**	2,387
Value added tax (VAT) receivable	**904**	1,788
Other	**66,837**	15,987
	590,221	123,008

(*) Guarantees given for loan customers are recorded in this account as blockage.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

11. Construction projects, net

Construction projects mainly include the Güre Premises (time sharing houses) which belong to one of the subsidiary of the Bank, Körfez Tatil Beldesi.

	2009	2008
Completed construction projects (inventories) (*)	**13,139**	13,201
Receivables from construction projects	**218**	218
	13,357	13,419
(Less) Reserve for net realizable value	**(10,114)**	(10,114)
(Less) Reserve for doubtful receivables	**(218)**	(218)
Total construction projects, net	**3,025**	3,087

(*) In 2008, Körfez sold Güre premises to Körfez Tatil Beldesi.

12. Investment properties, net

	2009	2008
Balance at the beginning of the year	**67,586**	59,389
Additions	**12,674**	6,364
Disposal (*)	**(27,199)**	(873)
Depreciation charge	**(950)**	(733)
Impairment allowance (Note 27)	**(1,259)**	(28)
Transfer to assets held for sale (Note 13)	**(10,384)**	(125)
Transfer from assets held for sale (Note 13)	**6,739**	1,937
Transfer from property and equipment (Note 14)	**—**	1,655
Balance at the end of the year	**47,207**	67,586
Cost	**52,277**	70,447
Accumulated depreciation	**(3,667)**	(2,717)
Accumulated impairment	**(1,403)**	(144)
Net carrying amount	**47,207**	67,586

(*) In 2009 investment property of the Group amounting to 24,894 has been disposed due to sale of Körfez Gayrimenkul.

Fair value of the investment properties is TL60,843 (December 31, 2008—TL78,007) which is determined based on the valuations performed by independent qualified valuers on December 2009.

In the current economical conditions, some of the assets held for sale could not be sold during the year and were transferred to investment property. As the assets classified to investment property are lands, they are not subject to depreciation and such transfer does not have an effect on the current and prior year results.

13. Assets and a disposal group held for sale

At December 31, 2009, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL7,130 (December 31, 2008—TL7,669), which are expected to be sold in a time period less than 1 year as non-current assets held for sale. The assets and the determined sales prices have been announced to the public via website of the Bank.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Movement of non-current assets held for sale is as follows:

	2009	2008
Balance at the beginning of the year	**6,410**	6,673
Additions	**7,130**	7,669
Transfer from investment property (Note 12)	**10,384**	125
Transfer to investment property (Note 12)	**(6,739)**	(1,937)
Disposal	**(7,628)**	(1,955)
Disposal of subsidiary	**—**	(4,165)
Impairment	**(10)**	—
Balance at the end of the year	**9,547**	**6,410**

Gain on sale of assets held for sale amounting to TL1,786 is included in other income in the income statement (December 31, 2008—TL1,046).

The Bank has disposed 65% of its shares in Auto Land to Baytik Capital Holding B.S.C in return for TL1,147 and 35% of its shares to A'ayan Leasing and Investment Company in return for TL618 in accordance with the sale agreement dated February 28, 2008. Accordingly, in the consolidated financial statements as of December 31, 2008 Auto Land is included in the discontinued operations.

The results of Auto Land included in Group's financial statements until its disposal on February 28, 2008 are presented below:

	2009	2008
Foreign exchange gain/(loss), net	—	(36)
Other income	—	13
Staff costs	—	(98)
Depreciation and amortization expense	—	(151)
Other expense	—	(20)
Effects of consolidation	—	(108)
Loss for the period from discontinued operation	—	(400)
Gain on disposal of the discontinued operation	—	691
Attributable tax expense	—	—
Gain/(loss) after tax for the period from discontinued operation	—	291

Cash inflow on sale is as follows:

	2009	2008
Consideration received	—	1,765
Net cash disposal with the subsidiary	—	(77)
Net cash inflow	—	1,688

The net cash flows incurred by Auto Land are as follows:

	2009	2008
Operating	—	(131)
Net cash outflow	—	(131)

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

The partial disposal of Körfez Gayrimenkul has been finalized on November, 2009 and the Group signed a sales contract with Hayat Investment Company with respect to the sale of 51% shares of Körfez Gayrimenkul. Accordingly, in the consolidated financial statements as of December 31, 2009 profit/loss from Körfez until the date of the sale is included in the discontinued operations.

The results of Körfez Gayrimenkul included in Group's financial statements for the years are presented below:

	December 31, 2009	December 31, 2008
Financial income/(expense), net	**1,768**	(7,853)
Other income/(expense), net	**(1,949)**	7,637
General Administrative expenses	**(1,120)**	(2,778)
Revenue, net	**123**	478
Effects of consolidation	**(159)**	(83)
Gain on sale of shares	**5,392**	—
Net gain/(loss) for the year	**4,055**	(2,599)

14. Property and equipment, net

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At January 1, 2008, net of accumulated depreciation and impairment	40,658	16,845	11,779	404	56	69,742
Additions	46	22,232	11,796	91	—	34,165
Disposals	(1,583)	(840)	(1,709)	(91)	—	(4,223)
Depreciation charge for the year	(555)	(6,774)	(6,535)	(15)	—	(13,879)
Transfer from/(to) investment property	—	(1,655)	—	—	—	(1,655)
At December 31, 2008, net of accumulated depreciation and impairment	**38,566**	**29,808**	**15,331**	**389**	**56**	**84,150**
Additions	17,155	19,745	6,873	290	—	44,063
Disposals	—	(3,684)	(251)	—	—	(3,935)
Depreciation charge for the year	(1,060)	(6,709)	(8,210)	(119)	—	(16,098)
Transfer from/(to) investment property (Note 12)	—	—	—	—	—	—
At December 31, 2009, net of accumulated depreciation and impairment	**54,661**	**39,160**	**13,743**	**560**	**56**	**108,180**

(*) TL3,731 (net) and TL5,813 (net) of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2009 and 2008, respectively. There is no property and equipment that are pledged for borrowings.

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At December 31, 2008						
Cost	44,860	63,091	32,608	2,798	56	143,413
Accumulated depreciation	(5,631)	(33,283)	(17,277)	(2,409)	—	(58,600)
Accumulated impairment	(663)	—	—	—	—	(663)
Net carrying amount	38,566	29,808	15,331	389	56	84,150

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At December 31, 2009						
Cost	**62,015**	**79,152**	**39,230**	**3,088**	**56**	**183,541**
Accumulated depreciation	**(6,691)**	**(39,992)**	**(25,487)**	**(2,528)**	**—**	**(74,698)**
Accumulated impairment	**(663)**	**—**	**—**	**—**	**—**	**(663)**
Net carrying amount	**54,661**	**39,160**	**13,743**	**560**	**56**	**108,180**

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2009 and 2008 is as follows:

	2009	2008
Motor vehicles	**58**	59
Leasehold improvements	**6,729**	1,462
Furniture and office equipment	**3,876**	8,734
	10,663	10,255

15. Intangible assets, net

	Software
At January 1, 2008	**1,591**
Additions	2,331
Disposals	(10)
Amortization charge for the year	(1,065)
At December 31, 2008, net of accumulated amortization	**2,847**
Additions	6,577
Disposals	—
Amortization charge for the year	(1,168)
At December 31, 2009, net of accumulated amortization	**8,256**
At December 31, 2008	
Cost (gross carrying amount)	8,319
Accumulated amortization	(5,472)
Net carrying amount	**2,847**
At December 31, 2009	
Cost (gross carrying amount)	14,896
Accumulated amortization	(6,640)
Net carrying amount	**8,256**

16. Due to other financial institutions and banks

	Amount in TL	
Original foreign currency	2009	2008
US$	**383,681**	817,421
Euro	**—**	3,533
Total	**383,681**	820,954

As of December 31, 2009 borrowings remaining maturities of which is less than 12 months amount to TL378,385 (As of December 31, 2008 – TL795,548).

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

17. Current and profit/loss sharing investors' accounts

	2009	2008
Current accounts:		
Turkish lira	**748,450**	435,795
Foreign currency	**552,542**	436,794
	1,300,992	872,589
Profit/loss sharing investors' accounts:		
Turkish lira	**2,297,791**	1,674,442
Foreign currency	**1,820,352**	1,521,247
	4,118,143	3,195,689
Blocked accounts:		
Turkish lira	**23,404**	31,272
Foreign currency	**70,831**	1,364
	94,235	32,636
Total current accounts and profit/loss investors' accounts	**5,513,370**	4,100,914
Expense accrual on current accounts and profit/loss sharing investors' accounts	**31,831**	18,546
Total current accounts and profit/loss sharing investors' accounts	**5,545,201**	4,119,460

Blocked accounts include receivables of point of sales machine holding depositors which become current account within an average of one month period.

Current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analyzed according to their original maturities as follows:

	2009 (in TL)			2008 (in TL)		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Up to 1 month	**2,146,768**	**1,648,789**	**3,795,557**	1,441,409	1,210,931	2,652,340
From 1 month to 3 months	**443,977**	**442,940**	**886,917**	402,438	342,651	745,089
From 3 months to 1 year	**83,290**	**54,239**	**137,529**	28,750	146,037	174,787
Over one year	**395,610**	**297,757**	**693,367**	268,912	259,786	528,698
	3,069,645	**2,443,725**	**5,513,370**	2,141,509	1,959,405	4,100,914

At December 31, 2009 and 2008, foreign currency current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	2009		2008	
	Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Current and blocked accounts:				
US$	**294,667,107**	**443,680**	199,826,624	302,198
Euro	**80,301,458**	**173,476**	59,733,084	127,876
Other		**6,217**		8,084
		623,373		438,158

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

	2009		2008	
	Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Profit/loss sharing investors' accounts:				
US$	**764,048,934**	**1,150,428**	632,606,492	956,691
Euro	**310,106,481**	**669,924**	263,712,790	564,556
Other				—
		1,820,352		1,521,247
		2,443,725		1,959,405

The Bank mainly collects profit/loss sharing accounts from domestic companies and domestic individuals.

Profit/loss sharing accounts include the gain or loss resulting from the investment activities of the Bank and there is no predetermined return on these accounts when depositing money.

18. Income taxes

The Bank and its subsidiaries are subject to taxation in accordance with the tax rules and the legislation effective in the countries in which the Group companies operate.

In Turkey, the corporation tax rate for the fiscal years ending on December 31, 2009, and 2008 is 20%, Corporate tax returns are required to be filed by the twenty fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Investment allowances with incentive certificates incurred prior to April 24, 2003, can be subject to 19.8% deductable if the Companies choose to forego the new deductions. Before the implementation of the new investment incentive application, effective January 1, 2006, all investment incentives could be carried forward indefinitely, however, as of January 1, 2006 the investment incentive application has been terminated. Unused qualifying capital investment amounts from periods prior to December 31, 2005 could be deducted from the corporate income tax base until the end of December 31, 2008. However, in this case corporate tax rate would be 30%. Furthermore, qualifying capital investments to be made until the end of December 31, 2008 within the scope of the investment projects started before December 31, 2005 would be subject to investment incentives until the end of December 31, 2008. In 2008, the Bank decided to not utilize its investment incentive allowance. Therefore in 2008, corporate tax rate was 20%.

Constitutional Court abolished 2006, 2007, 2008 phrases included in the temporary article numbered 69 of the Income Tax Law related to investment allowances. Thereby, time limitation related to investment incentive removed. Supreme Court concluded that reasoned decision of cancellation related to investment incentive become effective when it is published in the Official Gazette. The reasoned decision became effective on January 8, 2010 in accordance with the Supreme Court's Principal 2006/95, decision numbered 2009/144 and Constitution's article numbered 153 which has been published in Trade Registry Gazette numbered 27456 on January 8, 2010. In this context, the right to use investment incentive amounting to TL61,108 which was not used in 2008 has been transferred to 2009 and 2010 with an applicable withholding tax rate of 19.8%. However, the Bank's 2009 Corporate Tax Base is TL174,508 and the budgeted net income before tax amount for 2010 is higher than the investment incentive amount. Due to the remaining part of Corporate Tax Base that exceeds the investment incentive is subject to 30% corporate tax rate, this case reveals disadvantage in Corporate Tax. Therefore, the amount of transferred investment incentive will not be used.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or classified under equity for five years in accordance with the New Corporate Tax Law.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. The Group has not recorded a provision for any additional taxes for the fiscal years that remain unaudited (2004 – 2008), as the amount, if any, cannot be estimated with any degree of certainty.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

	2009	2008
Current tax expense	**34,902**	32,215
Prepaid tax (-)	**29,128**	20,728
Income taxes payable	**5,774**	11,487

	2009	2008
Current tax expense	**(34,902)**	(32,215)
Deferred tax credit/(charge)	**(1,847)**	6,710
Total income tax (charge)/credit	**(36,749)**	(25,505)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the years December 31, 2009 and 2008 is as follows:

	2009	2008
Profit before income tax from continuing operations	**166,975**	119,372
Gain/(loss) before tax from a discontinued operation	**4,055**	(2,599)
Profit before income tax	**171,030**	116,773
At Turkish statutory income tax rate of 20%	**34,206**	23,355
Effect of change in tax rate	**—**	(1,931)
Effect of income not subject to tax	**(1,841)**	(2,813)
Effect of expenditure not allowable for income tax purposes	**4,521**	7,834
Effect of restatement pursuant to IAS 29 and other permanent differences	**(137)**	(940)
Income tax charge	**36,749**	25,505

Deferred income tax as of December 31, 2009 and 2008 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2009	2008
Due from financing activities	**10,642**	6,221
Derivative accrual	**—**	2,351
Reserve for employee termination benefits	**952**	744
Provision for impairment in subsidiary	**—**	3,476
Deferred income	**758**	1,973
Bonus accrual of personnel	**3,825**	2,750
Effect of other temporary differences	**377**	272
Deferred tax assets	**16,554**	17,787

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

	Deferred tax assets/(liabilities)	
	2009	**2008**
Restatement of property and equipment, intangible assets and other non-monetary items	**2,525**	2,474
Accounting for finance leases	**542**	717
Derivative accrual	**738**	—
Deferred tax liabilities	**3,805**	3,191
Deferred tax asset—net	**12,749**	14,596

Movement of net deferred tax asset is:

	2009	**2008**
Balance at the beginning of the year	**14,596**	7,886
Deferred tax (charge)/credit recognized in income statement	**(1,847)**	6,710
Balance at the end of the year	**12,749**	14,596

19. Other liabilities and provisions

	2009	**2008**
Personnel bonus accrual	**19,127**	13,750
Withholding tax and other tax payables	**12,168**	13,448
Payables to exporters and suppliers	**7,908**	3,522
Deferred revenue	**3,330**	10,310
Security premium for participation funds	**2,692**	2,093
Leasing payable	**1,025**	1,054
Deductions on resource utilization fund	**576**	621
Other (*)	**2,596**	1,316
Total other liabilities	**49,422**	46,114
Provisions		
Employee termination benefits	**4,780**	3,806
Other provisions	**2,327**	2,513
Total provisions	**7,107**	6,319
Total	**56,529**	52,433

(*) The Bank had a tax penalty, which is agreed with the Tax Administration and will be paid over a period of 18 months.

The movement in reserve for employee termination benefits is as follows:

	2009	**2008**
Balance at January 1	**3,806**	3,226
Utilized/paid	**(829)**	(534)
Arising during the year	**1,715**	1,067
Actuarial loss	**88**	47
Balance at the end of the year	**4,780**	3,806

Reserve for employee termination benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL2.3 and TL2.2 at December 31, 2009 and 2008, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2009 and 2008, the Group reflected a liability calculated using the Projected Unit Credit Method and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The following actuarial assumptions were used in the calculation of the total liability:

	2009	2008
Discount rate (%)	**11**	12
Expected salary/ceiling increase rate (%)	**4.8**	5.4

20. Derivative financial instruments

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows the fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. 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. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair values of forward transactions are determined by comparing the foreign currency rates prevailing on the date of the financial statements to the discounted value of the transaction's forward exchange rates to the date of these financial statements.

	December 31, 2009							
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Currency swap purchase	**9,925**	**—**	**880,092**	**840,738**	**10,340**	**29,014**	**—**	**—**
Currency swap sale	**—**	**6,231**	**868,246**	**836,577**	**10,400**	**21,269**	**—**	**—**
	9,925	**6,231**	**1,748,338**	**1,677,315**	**20,740**	**50,283**	**—**	**—**

	December 31, 2008							
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Currency swap purchase	13,933	—	848,870	782,813	61,996	4,061	—	—
Currency swap sale	—	25,664	856,582	790,558	63,533	2,491	—	—
	13,933	25,664	1,705,452	1,573,371	125,529	6,552	—	—

21. Share capital

	2009	2008
Number of ordinary shares, 1 TL, par value. Authorized, issued and outstanding.	**500.00 million**	500.00 million

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

The movement of the share capital of the Bank (in number and in historical TL) is as follows:

	2009		2008	
	Number	TL	Number	TL
At January 1	**500,000,000**	**500,000**	260,000,000	260,000
Shares issued in				
- bonus shares from retained earnings	**—**	**—**	40,000,000	40,000
- cash	**—**	**—**	200,000,000	200,000
At year end	**500,000,000**	**500,000**	500,000,000	500,000

The Bank has increased its share capital at May 30, 2008. The share capital increase was funded from the retained earnings amounting to TL40,000 and by cash payment of shareholders amounting to TL200,000.

The Bank does not have any classes of shares other than ordinary shares. There is no differentiation in the rights, preferences and restrictions of the ordinary shares.

As of December 31, 2009 and 2008, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2009		2008	
	Amount	%	Amount	%
Kuwait Finance House	**311,173**	**62.2**	311,173	62.2
Directorate of Vakıf Foundations, Turkey	**93,596**	**18.7**	93,596	18.7
The Public Institution for Social Security, Kuwait	**45,000**	**9.0**	45,000	9.0
Islamic Development Bank	**45,000**	**9.0**	45,000	9.0
Other	**5,231**	**1.1**	5,231	1.1
Total share capital	**500,000**		500,000	

22. Legal reserves, retained earnings, dividends paid and proposed

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

Dividends paid and proposed

During the current year, the Bank has paid a dividend of TL5,500 (2008—TL6,990).

	2009	2008
Ordinary shares		
Amount	**5,500**	6,990
TL (full) per share	**0.011**	0.029

23. Earnings per share

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are similarly treated. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares.

There is no dilution of shares as of December 31, 2009 and 2008.

The following reflects the income and per share data used in the basic earnings per share computations:

	2009	2008
Net profit attributable to continuing operations of the Bank for basic earnings per share	**130,226**	93,867
Net profit/(loss) attributable to discontinued operations for basic earnings per share	**4,055**	(2,599)
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	**134,281**	91,268
Weighted average number of ordinary shares for basic earnings per share (thousands)	**500,000**	417,808
Basic earnings per share (expressed in full TL per share)	**0.269**	0.218
Basic earnings per share from continuing operations	**0.260**	0.224

24. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2008—62.2%) of ordinary shares. Directorate of Vakıf Foundations, The Public Institution for Social Security and Islamic Development Bank are major shareholders owning 18.7% (December 31, 2008—18.7%), 9.0% (December 31, 2008—9.0%) and 9.0% (December 31, 2008—9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders of the Bank and parties under common control are referred to as related parties. The related parties also include individuals who are principal owners, key management and members of the Group's Board of Directors and their families.

The following significant balances exist as at December 31, 2009 and 2008 and transactions have been entered into with related parties during the years ended:

i) Due from financial institutions:

		2009		2008	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	Kuwaiti Dinar	**5,343**	**28**	748	4
	US$	**122,169**	**184**	10,272,815	15,531
	BHD	**19,271**	**77**	49,101	197
			289		15,732

ii) Due to other financial institutions:

		2009		2008	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House, Kuwait (1)	US$	—	—	43,804,833	65,811
Kuwait Finance House (*)	US$	—	—	13,452,282	20,345
			—		86,156

(*) The balance due to Kuwait Finance House is because of the purchase of investment property on behalf of Kuwait Finance House.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

iii) Profit/loss sharing investors' and current accounts:

		2009		2008	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	EUR	**—**	**—**	—	—
Kuwait Finance House (1)	US$	**26,210,417**	**39,465**	1,350,170	2,042
Kuwait Finance House (1)	TL	**—**	**2,632**	—	—
Kuwait Finance House (1)	BHD	**—**	**—**	—	—
Islamic Development Bank (1)	US$	**23,535,012**	**35,437**	5,146	8
Directorate of Vakıf Foundations, Turkey (1)	TL	**—**	**3**	—	2
Neova Sigorta AS (*)	US$	**7,663,881**	**11,538**	—	—
Other	TL	**—**	**12,171**	—	—
			101,246		2,052

(*) determined as related party as the Company is under the common control of the ultimate parent.

iv) Profit shares distributed:

		2009		2008	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US$	**45,054**	**68**	48,304	74
Kuwait Finance House (1)	EUR	**—**	**—**	—	—
Directorate of Vakıf Foundations, Turkey (1)	TL	**—**	**—**	—	—
Neova Sigorta AS (*)	US$	**535,299**	**806**		
Other	TL	**—**	**612**	—	—
			1,486		74

(*) determined as related party as the Company is under the common control of the ultimate parent.

v) Non cash credits issued:

		2009		2008	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US$	**74,719**	**111**	489,087	740
Other	TL	**—**	**10,438**		
			10,549		740

(1) Shareholders.

As of December 31, 2009 no provisions have been recognized in respect of loans given to related parties (December 31, 2008—nil).

Loans amounting to TL61 have been issued to directors during the year ended December 31, 2009 (December 31, 2008—TL84).

Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL5,678 during the year ended December 31, 2009 (December 31, 2008—TL5,257). As of December 31, 2009 the key management personnel did not receive any termination benefits (December 31, 2008—TL nil).

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

The key management personnel of the Bank are as follows;

Mohammad S.A.I. ALOMAR	B.O.D. Chairman and Audit Committee Member
Abdullah TIVNIKLI	B.O.D. Vice Chairman
Azfar Hussain QARNI	B.O.D. and Audit Committee Member
Khaled Nasser Abdulaziz AL FOUZAN	B.O.D. Member
Kenan KARADENİZ	B.O.D. Member
Shaheen H.A. AL GHANEM	B.O.D. Member
Adnan ERTEM	B.O.D. Member
Ufuk UYAN	B.O.D. Member—Chief Executive Officer
Fawaz KH E AL SALEH	B.O.D. Member

Key management includes 9 other officers together with the above B.O.D. members.

25. Fees and commission income and expense

	2009	2008
Fees and commission income		
Commissions on loans	**47,652**	54,052
Commission income from commitments	**45,120**	32,011
Communication expense charges	**20,102**	18,719
POS commission income	**13,399**	12,332
Credit card fees and commissions	**12,658**	19,793
Import letter of credit commissions	**5,543**	4,019
Commissions from checks and notes	**2,460**	2,689
Income from agency activities	**511**	3,055
Other	**9,991**	4,345
Total	**157,436**	151,015

	2009	2008
Fees and commission expense		
Credit card machine and fees paid for credit cards	**22,265**	23,469
Brokerage fees on borrowings	**3,611**	833
ATM charges	**25**	162
Other	**2,651**	862
Total	**28,552**	25,326

26. Salaries and employee benefits

	2009	2008
Staff costs		
Wages and salaries	**81,513**	66,291
Bonus	**19,000**	13,750
Other fringe benefits	**12,987**	10,690
Social security premiums	**12,273**	11,722
Health expenses	**4,053**	4,079
Provision for employee termination benefits	**886**	1,067
Other	**3,585**	3,136
Total	**134,297**	110,735

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

27. Other expenses

	2009	2008
Impairment on completed projects	**—**	—
Impairment on property and equipment	**—**	—
Impairment on investment property (Note 12)	**1,259**	28
Impairment on asset held for sale (Note 13)	**10**	—
Impairment charges	**1,269**	28
Insurance fund premium expense	**9,769**	7,654
Communication	**7,144**	6,388
Repair and maintenance expenses	**6,916**	4,995
Advertising expenses	**6,222**	5,154
Professional fees	**5,904**	4,302
Non taxable income	**4,049**	3,167
Cleaning expense	**3,753**	2,752
Loss from sale of assets	**3,707**	2,982
Energy expenses	**3,480**	2,566
Travel and representation expenses	**2,945**	2,655
Insurance and subscription expenses	**1,472**	1,395
Stationery and publishing expenses	**1,358**	1,173
Insurance expenses	**395**	1,811
Computer usage expenses	**299**	931
Other	**4,444**	510
Other expenses	**61,857**	48,435
Total	**63,126**	48,463

28. Commitments and contingencies

In the normal course of its banking activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. Such commitments include mainly letters of guarantee, letters of credit and acceptance credits.

The following is a brief summary of significant contingencies and commitments as of December 31, 2009 and 2008:

	2009	2008
Letters of guarantee issued by the Bank	**2,867,436**	2,799,023
Letters of credit	**426,991**	363,745
Commitments	**1,924,469**	655,231
Acceptance credits	**30,567**	25,757
Other guarantees	**5,637**	4,775
Total	**5,255,100**	3,848,531

Letters of Guarantee – are mainly issued on behalf of domestic customers who entered into commitments in the domestic and international markets.

Commitments – are mainly check payment commitments, credit cards and other guarantees and commitments.

Except for the Head-Office and three branch buildings, all branch premises of the Bank are leased under operational leases. The lease periods vary between 2-10 years and lease arrangements are cancellable. There are no restrictions placed upon the lessee by entering into these leases.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

The Bank has TL46,040, USD 5,781,286 (full), Euro 1,320,313 (full); total TL57,595 (converted with period-end foreign exchange rates) operational lease obligations due to rent agreements of branches as of December 31, 2009. The allocation of these obligations within lease periods as of December 31, 2009 and 2008 is as follows:

	2009	2008
Within one year	**17,368**	14,446
After one year but not more than five years	**35,933**	34,414
More than five years	**4,294**	328
	57,595	49,188

Fiduciary activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of TL1,042 and TL9,719 as of December 31, 2009 and 2008 respectively. As of December 31, 2009, the amounts of the checks and s are TL965,756 (December 31, 2008—TL858,409) and TL197,233 (December 31, 2008—TL147,863) respectively.

29. Financial risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Procedures and operations throughout the Group are designed towards effectively addressing risk. The Group is exposed to credit risk, liquidity risk, market risk and operational risk. Also, the Banks' capital adequacy ratio has to exceed the minimum requirements of the Banking Regulations and Supervision Agency (BRSA). BRSA is the regulatory body for banking industry in Turkey.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's Executive Management.

Organization of the risk management function

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The mission of the Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

The Group Risk Management reports to the Board of Directors through the Audit and Risk Committee Audit Committee is responsible for identifying, measuring, monitoring and reporting Market, Credit, Liquidity and Operational Risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board, the Audit and Risk Committee and the Audit Committee.

Internal systems and risk management policies

The Group's Risk Management Policies established by the Board of Directors via Audit and Risk Committee are implemented and executed by Risk Management and Treasury Middle Office Department. The primary objectives of the Risk Management and Treasury Middle Office Department are to coordinate the integration of the Risk Management Policies among various business departments and to assess and analyze the risks associated with new products, business processes and key performance indicators. This risk assessment is carried by the credit risk, operational risk, liquidity risk and market risk that are supported by the Treasury Middle Office, which is responsible for, among other things, monitoring treasury operations and analyzing the reasonableness of profit share rates as compared to market rates. The Risk Management and Treasury Middle Office Department is managed by the Head of Risk Management and Treasury Middle Office. Internal Systems, which comprise of Risk Management and Treasury Middle Office, Board of Inspectors and Internal Audit and Internal Control Departments, are overseen by the Chief Risk Officer who reports directly to the Audit and Risk Committee and coordinates communication, reporting and monitoring between the Audit and Risk Committee and the Risk Management and Treasury Middle Office Department.

Board of directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

The Audit and Risk Committee of Board of Directors, which consists of four non-executive directors, oversees, develops and monitors all of risk management and internal systems, policies and guidelines as well as the scope and structure of overall risk management organization and activities ("Internal Systems Regulations and Risk Management Policies"). The Internal System Regulations were initially prepared on year 2002 and they have been updated, published and approved by the Board of Directors at the beginning of year 2007. Current Risk Management Policies were initially approved by Board of Directors at the beginning of year 2007 and will be updated in case of necessities. The Audit and Risk Committee oversees the efficiency and adequacy of internal control and internal audit systems, the functioning of these systems and any related accounting, reporting or legal matters. In addition, the Audit and Risk Committee is responsible for coordinating the work of Internal Audit Department, preparing internal audit plans and providing information to the Board of Directors about any non-compliance with the relevant regulations and deficiencies in internal controls, including those highlighted by the BRSA or internal auditors.

Audit committee

The Audit Committee is in charge of and responsible for monitoring the effectiveness and efficiency of the internal systems of the Group, the operation of these systems as well as the accounting and reporting systems within the framework of the Banking Law and relevant regulations and the integrity of the information generated, making preliminary assessments as necessary for the Board of Directors' election of independent auditing firms as well as rating institutions, evaluation and support services firms, monitoring on a regular basis the activities of these establishments which are elected by the Board of Directors and with which contracts are concluded, ensuring the maintenance and coordination, on a consolidated basis, of the internal auditing activities of partnerships which are subject to consolidation pursuant to regulations which take effect as per the Banking Law.

Risk management and treasury middle office deportment

Risk Management Function was constituted in order to assess the main risks of the Group. In accordance with the Risk Policies, Risk Management Activities are composed of the following activities;

- Identification of risks that the Group exposes,
- Measurement of risks,
- Monitoring of risks,
- Control and reporting of risks.
- Business Continuity Plan, Process and Procedures

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Board of inspectors and internal audit

Risk management processes throughout the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Credit risk

Credit risk represents risk that the Group will incur a loss because a customer, client or counterparty fails to fulfill, either partially or totally, its contractual obligations.

A customer's credit limit is established taking into consideration the customer's financial performance and is then used to monitor the customer's credit risk.

The risks and limits generated from Treasury are followed up daily and the Board of Directors determines transaction limits for the derivative and other similar agreement positions held by the Group.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows an analysis of the Group's maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the collaterals. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Gross maximum exposure	2009	2008
Cash and balances with Central Bank (excluding cash on hand)	**401,613**	398,433
Deposit with banks and financial institutions	**903,319**	938,608
Due from financing activities	**4,586,786**	3,879,553
Minimum financial lease payments receivable	**53,512**	113,475
Financial assets-held to maturity	**7,529**	7,583
Other assets	**180,637**	23,246
Derivative financial instruments	**9,925**	13,933
Total	**6,143,321**	5,374,831
Contingent liabilities	**3,294,427**	3,162,768
Other guarantees	**36,204**	30,532
Commitments	**1,924,469**	655,231
Total	**5,255,100**	3,848,531
Total credit risk exposure	**11,398,421**	9,223,362

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty and by industry sector.

The maximum cash credit exposure to any counterparty other than the Central Bank as of December 31, 2009 was TL89,956 (December 31, 2008—TL93,514) and non cash credit exposure as of December 31, 2009 was TL144,788 (December 31, 2008—TL145,423) before taking account of collateral or other credit enhancements.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

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

	2009 Gross exposure	2008 Gross exposure
Construction and materials	**2,598,052**	2,000,939
Financial services	**3,302,596**	1,590,039
Manufacturing	**747,025**	1,176,063
General retailers	**836,214**	1,033,007
Mining operations	**535,504**	619,587
Electricity	**229,971**	224,542
Telecommunications	**215,597**	191,891
Health care and social services	**265,292**	198,183
Forestry	**70,614**	142,017
Food and beverages	**51,505**	52,814
Real estate	**28,455**	19,603
Other	**2,517,596**	1,974,677
Total	**11,398,421**	9,223,362

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

For commercial lending, charges over real estate properties, vehicles, cash blockages and trade receivables.

For retail lending, mortgages over residential properties.

Management monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses, and when necessary requests additional collateral in accordance with the underlying agreement.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for due from banks, central bank and reserve deposit balances, financing and leasing receivables, letters of credit, letters of guarantee and other guarantees, based on the Group's credit rating system. The Group classifies the Central Bank of Turkey as high grade. Banks and financial institutions located in Turkey, European Union, United States of America and other OECD countries are graded as standard. Banks, which are located in other countries, are graded as sub-standard by the Bank. Customers of financing and leasing receivables, letters of credit, letters of guarantee and other guarantees are graded in accordance with their transaction volume, payment performance and income generation of the Group from the customer.

2009	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Unrated (*)	Total
Due from banks, central bank and reserve deposits (excluding cash on hand)	401,614	885,242	18,077	—	—	**1,304,933**
Financing and leasing receivables	**—**	**—**	**427,187**	**286,967**	**3,926,144**	**4,640,298**
Corporate lending	—	—	427,187	141,111	1,911,101	**2,479,399**
Small business lending	—	—	—	58,996	427,311	**486,307**
Consumer lending	—	—	—	68,110	1,499,573	**1,567,683**
Credit cards	—	—	—	18,750	88,159	**106,909**
Contingent liabilities and other guarantees	—	33,105	839,736	—	2,457,790	**3,330,631**
Commitments	—	1,265,074	—	—	659,395	**1,924,469**
Total	**401,614**	**2,183,421**	**1,285,000**	**286,967**	**7,043,329**	**11,200,331**

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

2008	**High grade**	**Standard grade**	**Sub-standard grade**	**Past due or individually impaired**	**Unrated (*)**	**Total**
Due from banks, central bank and reserve deposits (excluding cash on hand)	398,433	881,383	57,225	—	—	1,337,041
Financing and leasing receivables	—	103,990	289,920	511,138	3,087,979	3,993,027
Corporate lending	—	103,990	289,920	298,690	1,801,102	2,493,702
Small business lending	—	—	—	25,252	450,754	476,006
Consumer lending	—	—	—	153,926	730,033	883,959
Credit cards	—	—	—	33,270	106,091	139,361
Contingent liabilities and other guarantees	—	466,007	393,585	—	2,333,708	3,193,300
Commitments	—	209,039	—	—	446,192	655,231
Total	398,433	1,660,419	740,730	511,138	5,867,879	9,178,599

(*) The Group's rating approach is applicable for financial assets with outstanding risk above TL3,000.

Aging analysis of past due but not impaired loans per class of financial assets:

2009	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Due from financing activities:					
Corporate lending	**4,823**	**60,698**	**4,009**	**—**	**69,530**
Consumer lending	**1,567**	**28,174**	**14,851**	**—**	**44,592**
Small business lending	**3,916**	**26,916**	**6,868**	**—**	**37,700**
Credit cards	**198**	**4,080**	**4,463**	**—**	**8,741**
Total	**10,504**	**119,868**	**30,191**	**—**	**160,563**

2008	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Due from financing activities:					
Corporate lending	137,554	11,711	38,338	—	187,603
Consumer lending	64,423	51,373	11,720	—	127,516
Small business lending	40,074	21,423	7,262	—	68,759
Credit cards	6,801	8,928	3,798	—	19,527
Total	248,852	93,435	61,118	—	403,405

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2009 and 2008 comprise of blocked accounts, property and machinery pledges.

The table below shows the carrying amount for renegotiated financial assets, by class:

	2009	**2008**
Due from financing activities:		
Corporate lending	**384,742**	2,768
Small business lending	**—**	—
Total renegotiated financial assets	**384,742**	2,768

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Analysis of financial liabilities by remaining contractual maturities on an undiscounted basis:

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at December 31, 2009						
Due to other financial institutions and banks	**—**	**79,952**	**303,216**	**5,654**	**—**	**388,822**
Derivative financial instruments(*)	**—**	**846,977**	**21,269**	**—**	**—**	**868,246**
Current accounts	**1,300,992**	**—**	**—**	**—**	**—**	**1,300,992**
Profit and loss sharing accounts	**—**	**3,340,726**	**437,210**	**466,273**	**—**	**4,244,209**
Other financial liabilities	**—**	**1**	**2**	**—**	**—**	**3**
Total undiscounted financial liabilities	**1,300,992**	**4,267,656**	**761,697**	**471,927**	**—**	**6,802,272**
As at December 31, 2008						
Due to other financial institutions and banks	—	501,980	310,105	25,406	—	837,491
Derivative financial instruments	—	854,091	2,491	—	—	856,582
Current accounts	877,146	—	—	—	—	877,146
Profit and loss sharing accounts	—	2,942,312	298,605	1,397	—	3,242,314
Other financial liabilities	—	—	—	4	—	4
Total undiscounted financial liabilities	877,146	4,298,383	611,201	26,807	—	5,813,537

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

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
December 31, 2009						
Contingent liabilities and other guarantees	**629,969**	**559,693**	**863,683**	**1,006,593**	**270,693**	**3,330,631**
Commitments	**1,924,469**	**—**	**—**	**—**	**—**	**1,924,469**
Total	**2,554,438**	**559,693**	**863,683**	**1,006,593**	**270,693**	**5,255,100**
December 31, 2008						
Contingent liabilities and other guarantees	1,880,747	309,575	292,087	335,802	375,089	3,193,300
Commitments	655,231	—	—	—	—	655,231
Total	2,535,978	309,575	292,087	335,802	375,089	3,848,531

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates, interest rates and equity prices.

The exchange rate risk of the financial positions taken by the Group related to balance sheet and off-balance sheet accounts are measured.

The Group has determined market risk management operations and has taken precautions in order to economically hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Systems of Banks".

The Board of Directors of the Group evaluates basic risks that it can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Group. Additionally, the Board of Directors oversees that the Risk Management Group and Senior Management have taken precautions to describe, evaluate, control and manage risks faced by the Group.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Market risk – Non-trading

The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading portfolio of the Group is not significant. Except for the concentration within foreign currency, the Group has no significant concentration of market risk. The Bank has precious metal transactions. Such transactions have also market risk. The analysis below calculates the effect of a reasonably possible movement of the gold price against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2009			December 31, 2008		
Precious metal	**Increase/ decrease in metal price in %**	**Effect on profit before tax**	**Effect on equity**	**Increase/ decrease in metal price in %**	**Effect on profit before tax**	**Effect on equity**
Gold	**+10**	**23,357**	**—**	+10	9,976	—
Gold	**-10**	**(23,35)**	**—**	-10	(9,976)	—

Interest risk

The Group operates in non-interest banking sector. The only interest risk sensitive financial asset of the Group is Sukuk, which is classified as held to maturity in the financial statements (Note 6). The Group assesses the interest risk arising from this asset as insignificant to the financial statements.

Currency risk

Exchange rate risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market. The Group does not enter into any derivative contracts to hedge its foreign exchange exposure. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The analysis below calculates the effect of a reasonably possible movement of the currency rate against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2009			December 31, 2008		
Currency	**Increase/ decrease in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	**Increase/ decrease in currency rate in %**	**Effect on profit before tax**	**Effect on equity**
USD and Other	**+10**	**(4,420)**	**—**	+10	(93)	—
USD and Other	**-10**	**4,420**	**—**	-10	93	—
EUR	**+10**	**1,141**	**—**	+10	5,921	—
EUR	**-10**	**(1,141)**	**—**	-10	(5,921)	—

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

The concentrations of assets, liabilities and off balance sheet items:

December 31, 2009

	EUR	USD	Other	TL	Total
Cash and balances with the Central bank	8,685	14,152	777	215,476	239,090
Deposits with other banks and financial institutions	374,739	371,209	15,096	142,274	903,318
Reserve deposits at the Central Bank	—	216,694	—	1,995	218,689
Financial assets—available-for-sale	—	714	—	3,806	4,520
Financial assets—held for trading	—	—	—	27	27
Financial assets—held to maturity	—	7,529	—	—	7,529
Investment in an associate	—	—	—	12,315	12,315
Due from financing activities, net	493,378	1,465,610	—	2,627,798	4,586,786
Minimum finance lease payments receivable, net	10,860	14,309	—	28,343	53,512
Derivative financial instruments	245	1,165	—	8,515	9,925
Other assets(*)	—	—	409,584	180,637	590,221
Construction projects, net	—	—	—	3,025	3,025
Investment properties, net	—	—	—	47,207	47,207
Assets held for sale and disposal of group, net	—	—	—	9,547	9,547
Property and equipment, net	—	4	—	108,176	108,180
Intangible assets, net	—	—	—	8,256	8,256
Deferred tax assets	—	—	—	12,750	12,750
Total assets	**887,907**	**2,091,386**	**425,457**	**3,410,147**	**6,814,897**
Due to other financial institutions and banks	—	383,681	—	—	383,681
Current and profit/loss sharing investors' accounts	844,982	1,342,250	183,610	3,174,359	5,545,201
Other liabilities	4,159	21,588	246	23,429	49,422
Provisions	—	—	—	7,107	7,107
Income taxes payable	—	—	—	5,774	5,774
Derivative financial instruments	134	5,225	—	872	6,231
Liabilities directly associated with assets classified as held for sale, net	—	—	—	—	—
Equity	—	—	—	817,481	817,481
Total liabilities and equity	**849,275**	**1,752,744**	**183,856**	**4,029,022**	**6,814,897**
Net Balance Sheet Position	**38,632**	**338,642**	**241,601**	**(618,875)**	**—**
Net Off-Balance Sheet Position	**(27,220)**	**(388,809)**	**(235,633)**	**651,662**	**—**

(*) Other column of "Other Assets" mainly consists of gold transactions.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

December 31, 2008

	EUR	USD	Other	TL	Total
Cash and balances with the Central bank	10,185	23,510	206	215,087	248,988
Deposits with other banks and financial institutions	263,911	637,794	9,870	27,033	938,608
Reserve deposits at the Central Bank	—	209,488	—	3,933	213,421
Financial assets—available-for-sale	—	577	—	812	1,389
Financial assets—held for trading	—	—	—	64	64
Financial assets—held to maturity	—	7,583	—	—	7,583
Due from financing activities, net	505,240	1,587,576	—	1,786,737	3,879,553
Minimum finance lease payments receivable, net	52,675	39,758	—	21,042	113,475
Derivative financial instruments	207	3,828	—	9,898	13,933
Other assets(*)	—	772	99,762	22,474	123,008
Construction projects, net	—	—	—	3,087	3,087
Investment properties, net	—	—	—	67,586	67,586
Assets held for sale and disposal of group, net	—	—	—	6,410	6,410
Property and equipment, net	—	12	—	84,138	84,150
Intangible assets, net	—	—	—	2,847	2,847
Deferred tax assets	—	—	—	14,596	14,596
Total assets	**832,218**	**2,510,898**	**109,838**	**2,265,744**	**5,718,698**
Due to other financial institutions and banks	3,533	817,421	—	—	820,954
Current and profit/loss sharing investors' accounts	694,329	1,284,705	10,024	2,130,402	4,119,460
Other liabilities	750	8,030	552	36,782	46,114
Provisions	—	—	—	6,319	6,319
Income taxes payable	—	—	—	11,487	11,487
Derivative financial instruments	—	2,651	—	23,013	25,664
Liabilities directly associated with assets classified as held for sale, net	—	—	—	—	—
Equity	—	—	—	688,700	688,700
Total liabilities and equity	**698,612**	**2,112,807**	**10,576**	**2,896,703**	**5,718,698**
Net Balance Sheet Position	**133,606**	**398,091**	**99,262**	**(630,958)**	**—**
Net Off-Balance Sheet Position	**(74,392)**	**(422,637)**	**(73,785)**	**571,947**	

Pricing risk

The Group utilizes funds with a pre-determined profit rate and receives deposits on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Group, rather than giving them a pre-determined rate of profit. In this aspect, there is no repricing structure for the financial assets and liabilities of the Group.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, it is managing the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Capital adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by the BRSA and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2009 and 2008, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders. No changes were made in the objectives, policies and processes from the previous years. Below table is in accordance with financial statements prepared in accordance with BRSA accounting principles.

Regulatory capital

	2009	2008
Tier 1 capital	**785,364**	686,902
Tier 2 capital	**32,100**	24,959
Deductions from capital	**(21,715)**	—
Total capital	**795,749**	711,861
Risk weighted assets amount subject to market and operational risk	**5,465,599**	4,555,841

	Actual	Required	Actual	Required
Tier 1 capital ratio	**14.37%**	**—**	15.08%	—
Total capital ratio	**14.56%**	**12%**	15.63%	12%

30. Fair value of financial instruments

Fair values

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31, 2009, the fair value of financing and leasing receivables has been estimated as TL4,646,986 (December 31, 2008—TL4,175,316) whereas their carrying amount is TL4,665,232 (December 31, 2008—TL3,993,028).

Fair value of borrowings at amortized cost is estimated as TL384,891 (December 31, 2008—TL821,732), whereas their carrying amount is TL383,681 (December 31, 2008—TL820,954). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term. Fair value of held to maturity investment (Sukuk Bond) is estimated as TL7,541 (December 31, 2008—TL6,994), whereas its carrying amount is TL7,529 (December 31, 2008—7,583).

For other short-term financial assets and liabilities, fair value is estimated to approximate carrying value due to their short term or non-interest bearing structures.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristic or by discounting the expected future cash flows at prevailing profit rates.

31. Subsequent events

a. The Board of Directors' meeting held on February 9, 2010, it has been decided to establish a new investment fund called Type B Gold Exchange Investment Fund and authorize Head Office for dealing with mandatory applications and other procedures.

b. At the Ordinary General meeting held on April 14, 2010, it has been decided to increase the Bank's capital from TL500,000 to TL550,000 and to propose to the shareholders for the transfer of TL50,000 from the current year profit to the capital without being distributed in cash in accordance with Turkish Commercial Code at the first ordinary general assembly.

c. At the Ordinary General Meeting dated April 14, 2010 it has been decided to distribute TL9,623 and TL652 as dividend to its shareholders and BOD members, respectively.

Kuveyt Türk Katılım Bankası Anonim Şirketi

Consolidated financial statements together with independent auditors' report December 31, 2008

Table of contents

Independent auditors' report to the board of directors of Kuveyt Türk Katılım Bankası Anonim Şirketi on the consolidated financial statements for the year ended December 31, 2008

We have audited the accompanying financial statements of Kuveyt Turk Katihm Bankasi Anonim Sirketi and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining Internal control relevant to the preparation and fair presentation of financial statements that are free material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kuveyt Türk Katılım Bankası Anonim Şirketi AŞ. and its subsidiaries as of December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

February 27, 2009
Istanbul, Turkey

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

CONSOLIDATED BALANCE SHEET
As at December 31, 2008
(Currency—In thousands of Turkish Lira–TL)

	Notes	2008	2007
Assets			
Cash and balances with the Central Bank	4	**248,988**	155,508
Deposits with other banks and financial institutions	4, 28	**938,608**	421,431
Reserve deposits at the Central Bank	5	**213,421**	191,811
Financial assets—available-for-sale	6, 28	**1,389**	577
Financial assets—held to maturity	6, 28	**7,583**	5,852
Financial assets—held for trading	6, 28	**64**	133
Due from financing activities, net	7, 28	**3,879,553**	2,747,645
Minimum finance lease payments receivable, net	8, 28	**113,475**	160,940
Derivative financial instruments	19, 28	**13,933**	3,978
Other assets	9, 28	**123,008**	23,719
Construction projects, net	10	**3,087**	3,140
Investment properties, net	11	**67,586**	59,389
Property and equipment, net	13	**84,150**	69,742
Intangible assets, net	14	**2,847**	1,591
Deferred tax assets	17	**14,596**	7,886
		5,712,288	3,853,342
Assets and a disposal group held for sale	12	**6,410**	6,673
Total assets		**5,718,698**	3,860,015
Liabilities and equity			
Due to other financial institutions and banks	15	**820,954**	433,318
Current and profit/loss sharing investors' accounts	16	**4,119,460**	2,969,670
Other liabilities	18	**46,114**	34,372
Provisions	18	**6,319**	3,226
Derivative financial instruments	19	**25,664**	6,647
Income taxes payable	17	**11,487**	7,816
		5,029,998	3,455,049
Liabilities directly associated with assets classified as held for sale	12	**—**	544
Total liabilities		**5,029,998**	3,455,593
Share capital	20	**500,000**	260,000
Share premium	20	**23,250**	23,250
Legal reserves and retained earnings	21	**165,450**	121,172
Total equity attributable to equity holders of the parent		**688,700**	404,422
Total liabilities and equity		**5,718,698**	3,860,015

The policies and explanatory notes on pages 6 through 60 form an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2008
(Currency—In thousands of Turkish Lira–TL)

	Notes	2008	2007
Income from financing activities:			
Profit on originated loans from profit/loss sharing accounts		**343,087**	193,582
Profit on originated loans from current accounts and equity		**116,789**	112,074
Profit on deposits with other banks and financial institutions		**32,427**	27,897
Profit on finance leases		**15,803**	20,455
Total income from financing activities		**508,106**	354,008
Profit shares distributed to participation accounts		**(306,462)**	(185,865)
Profit shares distributed to other banks and financial institutions		**(30,234)**	(30,284)
Net financing income		**171,410**	137,859
Provision for impairment of amounts due from financing activities and lease receivables	7, 8	**(83,306)**	(34,150)
Net financing income after provision for impairment in due from financing activities and lease receivables		**88,104**	103,709
Foreign exchange gain, net		**29,402**	14,114
Net financing income after net foreign exchange gain/(loss)		**117,506**	117,823
Fees and commission income	24	**151,015**	109,030
Income/(loss) from construction projects, net		**(28)**	473
Net trading income		**49,719**	7,851
Other income		**21,198**	13,977
Total other operating income		**221,904**	131,331
Fees and commission expense	24	**(25,326)**	(16,886)
Staff costs	25	**(111,555)**	(83,848)
Depreciation and amortization expense		**(15,677)**	(11,923)
Withholdings and other taxes		**(4,225)**	(4,018)
Rent expense		**(14,384)**	(10,109)
Other expenses	26	**(51,761)**	(34,977)
Total other operating expense		**(222,928)**	(161,761)
Income before taxation		**116,482**	87,393
Current tax charge	17	**(32,215)**	(7,816)
Deferred tax (charge)/credit	17	**6,710**	(11,023)
Net income for the year from continuing operations		**90,977**	68,554
Net income/(loss) after tax for the year from a discontinued operation	12	**291**	(1,476)
Net income for the year		**91,268**	67,078
Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)	22	**0.218**	0.276
Earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share) from continuing operations	22	**0.218**	0.282

The policies and explanatory notes on pages 6 through 60 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2008
(Currency—In thousands of Turkish Lira–TL)

	Notes	Share capital	Share premium	Legal reserves	Retained earnings	Total
Balances at January 1, 2007		**200,188**	**—**	**6,094**	**63,840**	**270,122**
Share capital increase		59,812	23,250	—	(13,312)	69,750
Transfer from retained earnings to legal reserves		—	—	1,812	(1,812)	—
Dividends paid		—	—	—	(2,528)	(2,528)
Net income for the year		—	—	—	67,078	67,078
Balances at December 31, 2007		**260,000**	**23,250**	**7,906**	**113,266**	**404,422**
Share capital increase	20	240,000	—	—	(40,000)	200,000
Transfer from retained earnings to legal reserves		—	—	4,406	(4,406)	—
Dividends paid	21	—	—	—	(6,990)	(6,990)
Net income for the year		—	—	—	91,268	91,268
Balances at December 31, 2008		**500,000**	**23,250**	**12,312**	**153,138**	**688,700**

The policies and explanatory notes on pages 6 through 60 form an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

CONSOLIDATED CASH FLOW STATEMENT
For the year ended December 31, 2008
(Currency—In thousands of Turkish Lira–TL)

	Notes	2008	2007
Cash flows from operating activities:			
Income from continuing operations before taxation		**116,482**	87,393
Income/(loss) from discontinued operations before taxation		**291**	(1,476)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11, 13, 14	**15,677**	11,923
Provision for employee termination benefits and personnel bonus accrual	18	**3,627**	12,272
Provision for impairment in due from financing activities and lease receivables	7,8	**83,306**	34,150
Provision for impairment in intangible assets, property and equipment and investment properties		**28**	579
Provision for net realizable value and other receivables in construction projects	10	**95**	1,090
Income accrual of funds invested	7	**(275,870)**	14,462
Expense accrual of participation accounts	16	**5,229**	8,648
Income accrual from deposits at the Central Bank of Turkey		**(1,339)**	(635)
Income taxes paid		**(28,544)**	—
Expense accrual of funds borrowed		**5,475**	5,022
Net change in derivative financial instruments	19	**9,062**	2,245
Loss/(gain) on sale of property and equipment, intangible assets, investment properties and asset held for sale		**1,771**	(1,279)
Gain on sale of available for sale financial assets	6	**—**	(3)
Gain on sale of discontinued operation		**(691)**	—
Fair value movement of held for trading securities	6	**69**	27
Exchange gain of held to maturity investment	6	**(1,731)**	—
Operating income before changes in operating assets and liabilities		**(67,063)**	174,418
Net changes in :			
Reserve deposits at the Central Bank of Turkey		**(20,271)**	(14,356)
Due from financing activities	7	**(939,343)**	(718,967)
Minimum finance lease payments receivables		**47,465**	2,285
Other assets and construction projects		**(99,331)**	(7,272)
Current accounts and profit/loss sharing investors' accounts	16	**1,144,561**	585,261
Other liabilities		**11,742**	(2,012)
Payment for employee termination benefits	18	**(534)**	(565)
Net cash provided by operating activities		**77,226**	18,792
Cash flows from investing activities:			
Purchase of available-for-sale, held-to-maturity and held-for-trading securities	6	**(812)**	(6,284)
Proceeds from sale of available-for-sale, held-to-maturity and held-for-trading securities	6	**—**	710
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	**(42,861)**	(45,799)
Proceeds from sale of property and equipment, intangible assets and investment properties		**5,231**	5,376
Additions to assets and liabilities held for sale		**(5,229)**	—
Proceeds from sale of asset and liabilities held for sale		**1,765**	786
Net cash used in investing activities		**(41,906)**	(45,211)
Cash flows from financing activities:			
Dividends paid	21	**(6,990)**	(2,528)
Increase in due to financial institutions and banks		**382,161**	151,153
Premium on issue of shares	20	**—**	23,250
Increase in share capital	20	**200,000**	46,500
Net cash provided by financing activities		**575,171**	218,375
Net increase in cash and cash equivalents		**610,491**	191,956
Cash and cash equivalents at the beginning of the year	4	**577,105**	385,149
Cash and cash equivalents at the end of the year	4	**1,187,596**	577,105
Profit share received		**232,236**	362,060
Profit share paid		**331,467**	207,501

The policies and explanatory notes on pages 6 through 60 form an integral part of the consolidated financial statements.

1. Corporate information

General

Kuveyt Türk Katılım Bankası A.Ş., formerly Kuveyt Türk Evkaf Finans Kurumu A.Ş., (a Turkish joint-stock company—the Bank) was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983 relating to the establishment of Special Finance Houses in Turkey. The Bank obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. Currently, the Bank is continuing its operations under the purview of the Banking Regulation and Supervision Agency ("BRSA") and the Banking Law No. 5411, dated November 1, 2005. The Bank's head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House (KFH) incorporated in Kuwait.

Effective from April 8, 2006, the Bank's commercial title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. to comply with the Banking Law No. 5411, dated November 1, 2005.

The consolidated financial statements were authorized for issue by the General Manager and Chief Financial Officer on behalf of the Board of Directors of the Bank on February 27, 2009. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of activities of the Bank and its subsidiaries

At December 31, 2008, the Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers.

The Bank's subsidiary, Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş. ("Körfez"), in which the Bank has a 100% shareholding was incorporated in June 1996 in Turkey. Körfez's registered address is Büyükdere Caddesi, No: 129, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez's main sources of revenue are from the sales of these projects and expert valuations carried out on behalf of third parties.

The Bank's other subsidiary, Körfez Tatil Beldesi A.Ş. ("Körfez Tatil Beldesi"), in which the Bank has a 100% shareholding was incorporated in 2001 in Edremit, Turkey. Körfez Tatil Beldesi is engaged in Güre Project, which comprises the construction of 199 "time-sharing" houses in Edremit-Balıkesir.

The Bank's 100% owned subsidiary was sold in 2008 is Auto Land Otomotiv San. ve Tic. A.Ş. ("Auto Land"). Auto Land's registered address is Basın Ekspres Yolu, B Blok, No:5 Halkalı/İstanbul. Auto Land is engaged in purchase, sale and lease transactions in the automotive industry.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments and financial investments held for trading that have been measured at fair value.

The Bank and its subsidiaries (collectively—the Group) maintain their books of account and prepare their statutory financial statements in accordance with regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, Turkish Commercial Code and Turkish Tax Legislation.

2.2 Changes in accounting policies

The accounting policies adopted in the preparation of the financial statements are consistent with those previous financial years except as follows:

The Bank has adopted the following new and amended IFRS and IFRIC interpretations during the period. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Bank. They did however give rise to additional disclosures.

- IFRIC 12 – Service Concession Arrangements
- IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: The amendment to IAS 39, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category to the available-for-sale or held-to-maturity category in particular circumstances. The amendment also permits an entity to transfer from the fair value through profit or loss, or available-for-sale categories, to the loans and receivables category a financial asset that meets the definition of loans and receivables, if the entity has the intention and ability to hold that financial asset for the foreseeable future. The amendment requires detailed disclosure relating to such reclassifications. The effective date of the amendment is July 1, 2008 and reclassifications before that date are not permitted. Adoption of these amendments did not have any effect on the financial performance or position of the Group.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after the balance sheet date or later periods but which the Group has not early adopted, as follows:

- ***IAS 1 Presentation of Financial Statements Revised*** *(effective for financial years beginning on or after January 1, 2009)*

IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. One of the main revisions are the requirement that the statement of the changes in equity includes only transactions with share holders; the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in income statement together with "other comprehensive income"; and the requirement to present restatements of financial statements or retrospective application of a new accounting policy as at the beginning of the earliest comparative period, i.e. a third column on the balance sheet. The Group will make necessary changes to the presentation of its financial statements in 2009.

- ***IFRS 8, Operating Segments*** *(effective for financial years beginning on or after January 1, 2009)*

IFRS 8 replaces IAS 14 *Segment Reporting* and adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. The Group is in the process of assessing the impact of this new standard will have on its financial statements.

- **IAS 39 Financial Instruments: Recognition and Measurement—Eligible Hedged Items** *(effective for financial years beginning on or after January 1, 2009)*

These amendments to IAS 39 were issued in August 2008 and will become effective for financial years beginning on or after July 1, 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

- **IFRIC 13, Customer Loyalty Programmes** *(effective for financial years beginning on or after July 1, 2008)*

This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

- **IFRIC 15—Agreements for the Construction of Real Estate** *(effective for annual periods beginning on or after January 1, 2009)*

This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 'Construction Contracts' or IAS 18 'Revenue' and, accordingly, when revenue from such construction should be recognized. The Group is in the process of assessing the impact of this new standard will have on its financial statement.

- **IFRIC 16—Hedges of a Net Investment in a Foreign Operation** *(effective for financial years beginning on or after October 1, 2008)*

This interpretation clarifies three main issues, namely:

1. A presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation.
2. Hedging instrument(s) may be held by any entity or entities within the group.
3. While IAS 39, 'Financial Instruments: Recognition and Measurement', must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, IAS 21 'The Effects of Changes in Foreign Exchange Rates' must be applied in respect of the hedged item.

This interpretation will have no impact on the Group's financial statements.

- ***Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements*** *(effective for financial years beginning on or after January 1, 2009).*

The amendments to IFRS 1 allows an entity to determine the "cost" of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statements. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statements and do not have an impact on the financial statements of the Group.

- ***Amendments to IFRS 2 'Share Based Payment'—Vesting Conditions and Cancellations*** *(effective for annual periods beginning on or after 1 January 2009)*

The amendment clarifies two issues: The definition of 'vesting condition', introducing the term 'non-vesting condition' for conditions other than service conditions and performance conditions. It also clarifies that the same accounting treatment applies to awards that are effectively cancelled by either the entity or the counterparty. The Group expects that this Interpretation will have no impact on its financial statements.

- ***Amendment to IAS 23—Borrowing Costs*** *(effective for financial years beginning on or after January 1, 2009)*

The benchmark treatment in the existing standard of expensing all borrowing costs to the income statement is eliminated in the case of qualifying assets. All borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset must be capitalized. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

- ***Revisions to IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements'*** *(effective for annual periods beginning on or after 1 July 2009)*

A revised version of IFRS 3 Business Combinations and an amended version of IAS 27 Consolidated and Separate Financial Statements were issued by IASB on January 10, 2008. IFRS 3R introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognizing subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill). IAS 27R requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

- ***Amendments to IAS 32 and IAS 1 Puttable Financial Instruments*** *(effective for annual periods beginning on or after 1 January 2009)*

The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

- ***IFRIC 17—"Distributions of Non-cash Assets to Owners":*** applies to all non-reciprocal distributions of non-cash assets, including those giving the shareholders a choice of receiving non-cash assets or cash. This interpretation is to be applied prospectively and is applicable for annual periods beginning on or after 1 July 2009. The Group is evaluating the effect of the Interpretation.

- ***IFRIC 18—"Transfer of Assets from Customers"*** specifies how the assets such as property, plant and equipment or cash for the construction or acquisition of such items received from the customers should be accounted for. This interpretation is to be applied prospectively to transfers of assets from customers received in periods beginning on or after 1 July 2009. The Group is evaluating the effect of the Interpretation.

- ***Amendments to IFRS 7 Financial Instruments: Disclosures***

The amended IFRS 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy:

- Quoted prices in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2)
- Inputs for the asset or liability that are not based on observable market data (Level 3).

The Group is evaluating the effect of the Interpretation.

Improvements to IFRSs

In May 2008, the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These are separate transitional provisions for each standard. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet.
- IAS 16 Property, Plant and Equipment: Replace the term "net selling price" with "fair value less costs to sell".
- IAS 23 Borrowing Costs: The definition of borrowing costs is revized to consolidate the two types of items that are considered components of "borrowing costs" into one—the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- IAS 28 Investment in Associates: If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

  An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.
- IAS 31 Interest in Joint ventures: If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- IAS 36 Impairment of Assets: When discounted cash flows are used to estimate "fair value less cost to sell additional disclosure is require about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use".
- IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortization method of intangible assets other than a straight-line method has been removed.
- IFRS 7 Financial Instruments: Disclosures: Removal of the reference to "total interest income" as a component of finance costs.
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors: Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- IAS 10 Events after the Reporting Period: Clarification that dividends declared after the end of the reporting period are not obligations.
- IAS 16 Property, Plant and Equipment: Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
- IAS 18 Revenue: Replacement of the term "direct costs" with "transaction costs" as defined in IAS 39.
- IAS 19 Employee Benefits: Revised the definition of "past service costs", return on plan assets" and "short term" and "other long-term" employee benefits. Amendments to plans that result in a reduction in benefits related to future service are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.

- IAS 27 Consolidated and Separate Financial Statements: When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- IAS 29 Financial Reporting in Hyperinflationary Economies: Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- IAS 34 Interim Financial Reporting: Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
- IAS 39 Financial Instruments: Recognition and Measurement: Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the "fair value through profit or loss" classification after initial recognition. Removed the reference in IAS 39 to a "segment" when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- IAS 40 Investment Property: Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.
- IAS 41 Agriculture: Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced of the term "point-of-sale costs" with "costs to sell".
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when the relevant criteria set out are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. An entity that is committed to a sale plan involving loss of control of a subsidiary shall disclose the information required when the subsidiary is a disposal group that meets the definition of a discontinued operation.

2.3.1 Significant accounting judgments and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that are reflected in the measurement of income and expense in the income statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to financial statements. Management exercises judgment and makes use of information available at the date of the preparation of the financial statements in making these assumptions and estimates. The uncertainty about these judgments and estimates could result in outcomes that may have a material effect on future financial statements.

The judgments and estimates that may have a significant effect on amounts in the financial statements relate to, impairment losses on due from financing activities and lease receivables and pensions which are discussed in the relevant sections of this note below:

The principal actuarial assumptions used in accounting for the employee benefits are disclosed in Note 18.

There are judgments made by management during the estimation of the amount and timing of future cash flow when determining the level of provision for impairment of financial assets required. Such estimations are disclosed in the relevant notes.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Functional and presentation currency

The functional and presentation currency of the Bank and its subsidiaries is Turkish Lira (TL). Effective from January 1, 2005 concurrent with the removal of six zero digits, the new currency unit of Turkey was introduced as New Turkish Lira (YTL). The Government resolved to remove the "New" reference in the local currency unit effective from January 1, 2009. Accordingly the Group's figures as of December 31, 2008 and comparative figures for previous periods are presented in TL using the conversion rate of TL1= YTL 1.

Until December 31, 2005, the consolidated financial statements were restated for the changes in the general purchasing power of YTL based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). Since the objective conditions for the restatement in hyperinflationary economies was no longer applicable at that time, Turkey came off hyperinflationary status effective from January 1, 2006. The financial statements were restated until December 31, 2005 in accordance with IAS 29. Therefore, the non-monetary assets and liabilities and components of shareholders' equity including share capital reported in the balance sheet as of December 31, 2008 and 2007 are derived by indexing the additions that occurred until December 31, 2005 to December 31, 2005 and carrying the additions after this date with their nominal amounts.

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Group could realize or settle the same values of assets and liabilities as indicated in the balance sheets. Similarly, it does not necessarily mean that the Group could return or settle the same values of equity to its shareholders.

Consolidation of subsidiaries

The consolidated financial statements comprise the balance sheet of the Bank and its subsidiaries, as at December 31, 2008 and 2007 and the statements of income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2008 and 2007, respectively. Subsidiaries are the entities over which the Bank has power to govern the financial and operating policies so as to benefit from their activities. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Bank and cease to be consolidated from the date on which control is transferred out of the Bank.

The financial statements of the Subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

All material balances and transactions between the Bank and Subsidiaries are eliminated in the consolidated financial statements.

Details of the subsidiaries subject to consolidation are stated below:

		Effective shareholding by the Bank (%)	
Name of subsidiary	**Country of incorporation**	**December 31, 2008**	**December 31, 2007**
"Körfez"	Turkey	**100%**	100%
" Körfez Tatil Beldesi"	Turkey	**100%**	100%
"Autoland"	Turkey	**—**	100%

Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date announced by the Central Bank of Turkey (CBT). All differences are taken to the income statement as foreign exchange gain/loss.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Foreign currency translation rates used by the Bank as of respective year ends are as follows:

Dates	USD / TL	EUR / TL
December 31, 2006	1.40	1.85
December 31, 2007	1.16	1.71
December 31, 2008	1.51	2.14

Property and equipment

Property and equipment are stated at cost (as adjusted for inflation to December 31, 2005), less accumulated depreciation and accumulated impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to income statement in the year that costs are incurred. Expenditure incurred that result in an increase in the future economic benefits expected from the use of property and equipment is capitalized as an additional cost of property and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	50 years
Furniture and office equipment	3 – 6.67 years
Motor vehicles	4 – 5 years
Leasehold improvements	Shorter of the lease or useful life

The property and equipment's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period/year the asset is derecognized.

Construction projects

The Group has classified its time sharing houses as construction projects.

These houses are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Investment property

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Group is classified as investment property.

Investment property comprises land and buildings. Investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation for the building is calculated on a straight-line basis over the estimated useful lives of 50 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged to the income statement in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Impairment of non-financial assets

The carrying values of property and equipment, investment properties, intangible assets and construction projects are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement. Impairment losses recognized during the period are included in "other expenses" in the income statement.

Financial assets

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

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

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

Available-for-sale financial assets

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

Unrealized gains and losses are recognized directly in equity. When the security is disposed of or determined to be impaired, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Financial assets at fair value through profit or loss

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

Held to maturity investments

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

Due from financing activities, net

Credits originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorized as "due from financing activities" and are carried at amortized cost. Direct third party expenses, such as legal fees, incurred in securing a credit are treated as part of the cost of the transaction and included in the effective yield of the instrument.

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

Derivative financial instruments

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

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Derecognition of financial instruments

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Impairment of financial assets

a) Assets carried at amortized cost

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

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in profit or principal payments by more than 90 days;

(c) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:

    (i) adverse changes in the payment status of borrowers; or

    (ii) national or local economic conditions that correlate with defaults on the assets of the Bank.

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

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

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

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

A write off is made when all or part of a credit is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a credit. Subsequent recoveries of amounts previously written off are included in "other income" in the income statement.

The Bank's accounting treatment for the allowance for credit losses depends on the source of the credit itself. Allowance for the losses in credit that are entirely financed by the Bank's equity or by current and saving accounts (self-financed credit) are reflected wholly in the income statement as a provision expense. The allowance for the credit in arrears that are funded by the corresponding profit or loss investment accounts (jointly financed credit) is reflected in the income statement as a provision expense to the extent the Bank has participated in the profit or loss which may arise from the fund utilized. The remaining portion of the allowance for such credit is reflected ultimately in the profit or loss sharing investor accounts as a loss.

b) Available for sale financial assets carried at cost

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

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

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

d) Renegotiated financing and leasing receivables

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

Current accounts and profit/loss sharing investors' accounts

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

Due to other financial institutions and banks

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

Employee benefits

The Group has both defined benefit and defined contribution plans as described below:

(a) Defined benefit plans:

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

(b) Defined contribution plans:

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Provisions

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

Leases

The group as lessee

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Finance lease

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalized at the inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant periodic rate of return on the remaining balance of the liability. Finance charges are reflected in the income statement.

The group as lessor

Finance lease

Under finance leases the Group transfers substantially all risks and benefits incidental to ownership of the leased item. The Group presents finance leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

Income and expense recognition

Credit card commissions are recognized on a straight-line basis when the service has been provided. Commission income and fees for various banking services (such as money transfers, granting short-term letters of guarantee and letters of credit) are recorded as income at the time when service is given.

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

Dividend income is recognized when the Group's right to receive the payment is established.

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

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

Income tax

Tax expense/(income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investment in subsidiary and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiary and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Fiduciary assets

Assets held by the Bank in a fiduciary, agency or custodian capacity are not included in the balance sheet, since such items are not treated as assets of the Bank.

Related parties

Parties are considered related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

  (i) controls, is controlled by, or is under common control (this includes parents, subsidiary and fellow subsidiary);

  (ii) has an interest that gives it significant influence; or

  (iii) has joint control;

(b) the party is an associate;

(c) the party is a joint venture;

(d) the party is a member of the key management personnel;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees or of any entity that is a related party.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Subsequent events

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Segment information

The primary segment reporting format is determined to be business segment as the Group's risks and rates of return are affected predominantly by differences in the products sold and services provided.

The Bank's operating business is organized and managed in Turkey according to the nature of the products sold and services provided. More than 90% of the operations are performed in Turkey for each of the years presented. None of the other geographical divisions satisfy reportable segment conditions and therefore the financial statements do not include separate geographical segment information.

For management purposes, the Bank is organized into three business segments:

Retail Banking—Principally handling individual customers' current, saving and investment accounts and providing consumer loans, credit cards facilities and funds transfer facilities.

Corporate and Commercial Banking—Principally handling loans and other credit facilities and current, saving and investment accounts for corporate and institutional customers.

International and Investment Banking and Treasury—Principally handling foreign relations with respect to receiving syndication loans, interest free investment instruments and carrying relations with correspondent banks.

Total assets, liabilities, off-balance sheet items and revenues generated by the subsidiary of the Bank do not satisfy reportable segment conditions and are therefore included in "other" column in segment disclosures.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

3. Segment information

The following table presents income and profit and certain asset and liability information regarding the Group's business segments as of and for the years ended December 31, 2008 and 2007, respectively.

For the year ended December 31, 2008	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Income from financing activities	204,263	271,416	32,427	—	—	**508,106**
Profit shares distributed	(200,838)	(102,118)	(33,740)	—	—	**(336,696)**
Net fees and commission income	46,731	78,166	342	450	—	**125,689**
Other income	12,752	22,573	52,112	1,210	11,644	**100,291**
Total operating income	**62,908**	**270,037**	**51,141**	**1,660**	**11,644**	**397,390**
Provision for impairment in due from financing activities and lease receivables	(30,282)	(53,024)	—	—	—	**(83,306)**
Net operating income	**32,626**	**217,013**	**51,141**	**1,660**	**11,644**	**314,084**
Operating expenses, net	(7,654)	—	—	(7,396)	(182,552)	**(197,602)**
Income before taxation	**24,972**	**217,013**	**51,141**	**(5,736)**	**(170,908)**	**116,482**
Tax charge	—	—	—	—	(25,505)	**(25,505)**
Net income for the year from continuing operations						**90,977**
Net income for the year from discontinued operations	**—**	**—**	**—**	**291**	**—**	**291**
Net income for the year						**91,268**

Asset and liabilities as of December 31, 2008	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Due from financing activities and financial lease payments receivable, net	1,156,104(*)	2,836,924	—	—	—	**3,993,028**
Financial assets—available for sale	—	—	1,389	—	—	**1,389**
Financial assets—held for trading	—	—	64	—	—	**64**
Financial assets—held to maturity	—	—	7,583	—	—	**7,583**
Other	—	54,914	1,401,644	52,550	207,526	**1,716,634**
Total assets	**1,156,104**	**2,891,838**	**1,410,680**	**52,550**	**207,526**	**5,718,698**
Due to other financial institutions and Banks	—	—	820,954	—	—	**820,954**
Current and profit/loss sharing investors' accounts	2,690,403	1,220,659	152,918	—	55,480	**4,119,460**
Other	—	907	25,664	21,096	41,919	**89,584**
Total liabilities	**2,690,403**	**1,221,566**	**999,536**	**21,096**	**97,399**	**5,029,998**
Capital expenditures	—	—	—	—	42,861	**42,861**
Depreciation and amortization	—	—	—	—	15,677	**15,677**

(*) Includes SME loans amounting TL419,118

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

For the year ended December 31, 2007	Retail Banking	Corporate and Commercial Banking	International and Investment Banking and Treasury	Other	Unallocated	Total
Income from financing activities	142,933	182,819	28,256	—	—	**354,008**
Profit share distributed	(134,260)	(48,791)	(33,001)	(97)	—	**(216,149)**
Net fees and commission income	31,131	62,619	(1,746)	140	—	**92,144**
Other income	6,336	8,345	7,851	1,370	12,513	**36,415**
Total operating income	**46,140**	**204,992**	**1,360**	**1,413**	**12,513**	**266,418**
Provision for impairment in due from financing activities and lease receivables	(10,812)	(23,338)	—	—	—	**(34,150)**
Net operating income	**35,328**	**181,654**	**1,360**	**1,413**	**12,513**	**232,268**
Operating expenses, net	(6,058)	—	—	(2,534)	(136,283)	**(144,875)**
Profit before tax	**29,270**	**181,654**	**1,360**	**(1,121)**	**(123,770)**	**87,393**
Tax benefit	—	—	—	—	(18,839)	**(18,839)**
Net income for the year from continuing operations						**68,554**
Net income for the year from discontinued operations	**—**	**—**	**—**	**(1,476)**	**—**	**(1,476)**
Net income for the year						**67,078**

Assets and Liabilities as of December 31, 2007	Retail Banking	Corporate and Commercial Banking	Internat ional and Investment Banking and Treasury	Other	Unallocated	Total
Assets and liabilities						
Due from financing activities and financial lease payments receivable, net	933,450(*)	1,975,135	—	—	—	**2,908,585**
Financial assets—available for sale	—	—	577	—	—	**577**
Financial assets—held for trading	—	—	133	—	—	**133**
Financial assets—held to maturity	—	—	5,852	—	—	**5,852**
Other	—	34,337	787,376	25,214	97,941	**944,868**
Total assets	**933,450**	**2,009,472**	**793,938**	**25,214**	**97,941**	**3,860,015**
Due to other financial institutions and Banks	—	—	433,318	—	—	**433,318**
Current and profit loss sharing investors' accounts	1,920,819	933,399	74,091	—	41,361	**2,969,670**
Other	—	702	6,647	13,689	31,567	**52,605**
Total liabilities	**1,920,819**	**934,101**	**514,056**	**13,689**	**72,928**	**3,455,593**
Capital Expenditures	—	—	—	—	45,961	**45,961**
Depreciation and Amortization	—	—	—	—	11,923	**11,923**

(*) Includes SME loans amounting TL220,232.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

4. Cash and balances with banks

	2008	2007
Cash on hand	**63,976**	52,942
Balances with the Central Bank	**185,012**	102,566
Cash and balances with the Central Bank	**248,988**	155,508
Balances with foreign banks	**310,917**	178,099
Balances with domestic banks	**625,383**	241,688
Current accounts in participation banks	**2,308**	1,644
Balances with banks and other financial institutions	**938,608**	421,431
Cash and cash equivalents	**1,187,596**	576,939

As of December 31, 2008 and 2007, within "balances with banks and other financial institutions" are made up of demand and time deposits. The time deposits, which have original maturities less than three months, can be analyzed follows:

	2008				2007			
	Amount		Effective profit rate		Amount		Effective profit rate	
	TL	Foreign currency (TL equivalent)	TL	Foreign currency	TL	Foreign currency (TL equivalent)	TL	Foreign currency
Deposits with other banks and financial institutions	**—**	**292,969**	**—**	**1.80%**	—	204,450	—	4.59%
Total		**292,969**				204,450		

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at December 31, 2008 and 2007:

	2008	2007
Cash and balances with the Central Bank	**248,988**	155,508
Balances with Banks and other financial institutions	**938,608**	421,431
Cash at banks and on hand attributable to discontinued operation	**—**	166
Total	**1,187,596**	577,105

5. Reserve deposits at the central bank of Turkey

	2008		2007	
	Foreign currency (full)	TL	Foreign currency (full)	TL
US$	**138,522,788**	**209,488**	445,399	519
EUR	**—**	**—**	110,529,733	189,029
TL	**—**	**3,933**	—	2,263
		213,421		191,811

As of December 31, 2008, the interest rate applied for Turkish Lira, US$ and Euro reserve deposits are 12%, 0.15% and 1.18% (December 31, 2007—11.81%, 1.95% and 1.80%), respectively.

According to the regulations of the Central Bank of Turkey, banks and participation banks are obliged to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank's day to day operations.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

6. Financial assets

Available-for-sale

	2008	2007
At cost		
Participation funds	—	—
Unlisted shares (*)	1,389	577
Total available-for-sale financial assets	1,389	577

(*) The breakdown of unlisted shares is as follows:

	Nature of business	2008 %	2008 Amount	2007 %	2007 Amount
Islamic International Rating Agency (IRA)	Financial information	8.99	577	12.43	577
Haliç Sigorta AŞ	Insurance	6.99	812	—	—
			1,389		577

The Bank has participated in establishment of Haliç Sigorta A.Ş. on October 2008 with 6.99% participation share, which is amounting to TL812. Parent Company of Haliç Sigorta is Turkapital Holding B.S.C.C..

The fair value of the above listed available-for-sale investments can not be reliably estimated. There is no market for these investments. The Group does not intend to dispose its shares in IRA or Haliç Sigorta A.Ş..

Held to maturity

Held to maturity assets include a Sukuk investment amounting to TL7,583 that is invested by the Bahrain branch of the Bank (December 31, 2007—TL5,852). Islamic bond products are represented by Sukuks. It has a maturity that is determined in advance and is backed by an asset which makes it possible for the investment to earn a return without payment of interest. Sukuks are structured in such a way that their holders run a credit risk and receive part of the profit and not a fixed interest payment in advance. The maturity of the Sukuk is 2010 with quarterly payments. The rate of the Sukuk is Libor+2%.

Held for trading

Financial assets held for trading includes share certificates listed in the Istanbul Stock Exchange (ISE) amounting to TL64 (December 31, 2007—TL133).

The movement in financial assets may be summarized as follows:

Financial investments	2008 Available for sale	2008 Held to maturity	2008 Held for trading	2007 Available for sale	2007 Held to maturity	2007 Held for trading
At the beginning of the year	577	5,852	133	1,012	—	—
Exchange differences	—	1,731	—	3	—	—
Additions	812	—	—	272	5,852	160
Disposals (sale and redemption)	—	—	—	(710)	—	—
Fair value movement	—	—	(69)	—	—	(27)
Impairment losses	—	—	—	—	—	—
Balance at the end of the year	1,389	7,583	64	577	5,852	133

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

7. Due from financing activities, net

	2008	2007
Performing		
Funds invested from profit/loss sharing accounts	**1,878,013**	1,381,741
Funds invested from current accounts and equity	**1,587,408**	1,285,189
Income accruals on due from financing activities (*)	**316,931**	41,061
	3,782,352	2,707,991
Funds in arrears		
Funds invested from profit / loss sharing accounts	**144,140**	54,194
Funds invested from current accounts and equity	**110,729**	67,569
	254,869	121,763
Total	**4,037,221**	2,829,754
Impairment allowance		
Funds invested from profit / loss sharing accounts	**(80,853)**	(47,732)
Funds invested from current accounts and equity	**(76,815)**	(34,377)
	(157,668)	(82,109)
Total due from financing activities	**3,879,553**	2,747,645

(*) Includes also foreign currency evaluation differences of foreign currency indexed loans.

As of December 31, 2008 the Bank took possession of collateral (lands and buildings) from customers amounting to TL14,033 (December 31, 2007—TL3,050), which are classified as investment properties in the balance sheet as it is held for either rental income or capital appreciation through selling of those properties.

The movement in impairment allowance is as follows:

	2008	2007
Balance at the beginning of the year	**82,109**	80,650
Provisions—participation accounts	**37,115**	5,479
Provisions—bank	**81,612**	33,828
Recoveries of amounts previously provided for	**(13,286)**	(7,254)
Reserves written off in current year (*)	**(29,882)**	(30,594)
Balance at the end of the year	**157,668**	82,109

(*) In 2008, non-performing loans for which a 100% provision was made in prior periods amounting in total to TL29,882 were written off (2007—TL30,594)

The Bank's share in total recoveries from allowances previously provided for due from financing activities and minimum finance lease payments receivable (Note 8) is TL5,422 (December 31, 2007—TL5,248) and this amount is included in other income.

The impairment allowance of TL157,668 (December 31, 2007—TL82,109) is made up of a specific and collective allowance. The movement in the collective allowance is analyzed below.

The movements in the collective reserve allowance for financing receivables are as follows:

	2008	2007
Balance at beginning of year	**12,728**	9,001
Provisions—bank	**2,495**	2,957
Provisions—participation accounts	**4,246**	770
Recoveries and write-offs	**—**	—
Allowance at the end of the year	**19,469**	12,728

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

8. Minimum finance lease payments receivable, net

Minimum finance lease payments receivable (net) is as follows:

	2008	2007
Gross investment in finance leases	**113,802**	172,934
Unearned finance income	**(10,859)**	(22,593)
Total impaired receivables	**16,606**	14,173
Impairment allowance	**(6,074)**	(3,574)
Minimum lease payments receivable, net	**113,475**	160,940

Movements in the impairment allowance for leasing receivables is as follows:

	2008	2007
Balance at 1 January	**3,574**	7,180
Provisions—participation accounts	**3,598**	626
Provisions—Bank	**1,694**	322
Recoveries of amounts previously provided for	**(652)**	(833)
Impairment allowance written off in current year	**(2,140)**	(3,721)
Balance at the end of the year	**6,074**	3,574

Gross investment in finance leases as to their maturity:

	2008	2007
Not later than 1 year (*)	**81,271**	109,440
Later than 1 year and not later than 5 years	**49,137**	77,434
Later than 5 years	**—**	233
Minimum lease payments receivable, gross	**130,408**	187,107
Less : Unearned finance income	**(10,859)**	(22,593)
Net investment in finance leases	**119,549**	164,514
Less : Allowance for impairment	**(6,074)**	(3,574)
Minimum lease payments receivable, net	**113,475**	160,940

(*) includes total impaired receivables amounting to TL16,606 (December 31, 2007—TL14,173).

As of December 31, 2008, TL98,706 (December 31, 2007—TL141,701) gross lease receivables are denominated in foreign currency (US$ and EUR).

Net investment in finance leases as to their maturity:

	2008	2007
Not later than 1 year (*)	**73,412**	95,439
Later than 1 year and not later than 5 years	**46,137**	68,924
Later than 5 years	**—**	151
Net investment in finance leases	**119,549**	164,514

(*) includes total impaired receivables amounting to TL16,606 (December 31, 2007—TL14,173).

Material leasing arrangements of the Group includes several machinery and equipment with a contractual maturity of 4 to 5 years.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

9. Other assets

Other assets comprise the following:

	2008	2007
Precious metals	**99,762**	10,088
Clearing account	**5,883**	2,055
Prepaid expenses	**3,084**	3,507
Receivable from assets sold	**2,387**	1,198
Value added tax (VAT) receivable	**1,788**	1,864
Other	**10,104**	5,007
	123,008	23,719

10. Construction projects, net

Construction projects mainly include the Güre Premises (time sharing houses) which belong to one of the subsidiary of the Bank, Körfez Tatil Beldesi.

	2008	2007
Completed construction projects (inventories) (*)	**13,201**	13,201
Receivables from construction projects	**218**	176
	13,419	13,377
(Less) Reserve for net realizable value	**(10,061)**	(10,061)
(Less) Reserve for doubtful receivables	**(271)**	(176)
Total construction projects, net	**3,087**	3,140

(*) In 2008, Körfez sold its premises to Körfez Tatil Beldesi.

11. Investment properties, net

	2008	2007
Balance at the beginning of the year	**59,389**	35,107
Additions	**6,364**	18,377
Disposal	**(873)**	(3,351)
Depreciation charge	**(733)**	(866)
Impairment allowance	**(28)**	—
Reversal of impairment due to disposal (*)	**—**	84
Transfer to assets held for sale (Note 12)	**(125)**	(3,236)
Transfer from assets held for sale (Note 12)	**1,937**	
Transfer from property and equipment (Note 13)	**1,655**	14,205
Transfer to fixed assets (Note 13)	**—**	(931)
Balance at the end of the year	**67,586**	59,389
Cost	**70,447**	61,489
Accumulated depreciation	**(2,717)**	(1,984)
Accumulated impairment	**(144)**	(116)
Net carrying amount	**67,586**	59,389

(*) In 2007, the Bank sold investment properties for which there was impairment allowance of TL84.

Out of TL67,586, an investment property (a building) amounting to TL18,308 (December 31, 2007—TL18,692), is fully financed by Kuwait Finance House and due to the agreement signed, the rental income from this property is directly transferred to Kuwait Finance House each quarter. The Group obtained TL2,449 rent income from this property during the year ended December 31, 2008 (December 31, 2007—TL2,267) and directly transferred to Kuwait Finance House.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Fair value of the investment properties is TL78,007 (December 31, 2007—TL72,837) which is determined based on the valuations performed by independent qualified valuers on December 2008.

In the current economical conditions, some of the assets held for sale could not be sold during the year and were transferred to investment property. As the assets classified to investment property are lands, they are not subject to depreciation and such transfer does not have an effect on the current and prior year results.

12. Assets and a disposal group held for sale

At December 31, 2008, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL7,669 (December 31, 2007—TL3,236), which are expected to be sold in a time period less than 1 year as non-current assets held for sale. The assets and the determined sales prices have been announced to the public via website of the Bank.

Movement of non-current assets held for sale is as follows:

	2008	2007
Balance at the beginning of the year	**6,673**	—
Additions	**7,669**	—
Classification of subsidiary as discontinued operations	**—**	4,165
Transfer from investment property	**125**	3,236
Transfer to investment property (Note 11)	**(1,937)**	—
Disposal	**(1,955)**	(728)
Disposal of subsidiary	**(4,165)**	—
Balance at the end of the year	**6,410**	6,673

Gain on sale of assets held for sale amounting to TL1,046 is included in other income in the income statement (December 31, 2007—TL511).

The Bank has disposed 65 % of its shares in Auto Land to Baytik Capital Holding B.S.C in return for TL1,147 and 35 % of its shares to A'ayan Leasing and Investment Company in return for TL618 in accordance with the sale agreement dated February 28, 2008. As at December 31, 2007, Auto Land was classified as a disposal group held for sale. Accordingly, in the consolidated financial statements as of December 31, 2008 Auto Land is included in the discontinued operations.

The results of Auto Land included in Group's financial statements until its disposal on February 28, 2008 are presented below:

	2008	2007
Foreign exchange gain/(loss), net	**(36)**	300
Other income	**13**	679
Staff costs	**(98)**	(746)
Depreciation and amortization expense	**(151)**	(864)
Other expense	**(20)**	(404)
Effects of consolidation	**(108)**	(441)
Loss for the period from discontinued operation	**(400)**	(1,476)
Gain on disposal of the discontinued operation	**691**	—
Attributable tax expense	**—**	—
Gain/(loss) after tax for the period from discontinued operation	**291**	(1,476)

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Cash inflow on sale is as follows:

	2008	2007
Consideration received	**1,765**	—
Net cash disposal with the subsidiary	**(77)**	—
Net cash inflow	**1,688**	—

The net cash flows incurred by Auto Land are as follows:

	2008	2007
Operating	**(131)**	(608)
Net cash outflow	**(131)**	(608)

13. Property and equipment, net

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At January 1, 2007, net of accumulated depreciation and impairment	40,626	14,080	11,717	2,364	3,183	71,970
Additions	639	8,115	3,958	1,685	11,078	25,475
Disposals	(4)	(265)	(225)	(252)	—	(746)
Depreciation charge for the year	(871)	(4,850)	(3,671)	(572)	—	(9,964)
Impairment charge	(663)	—	—	—	—	(663)
Disposal of discontinued operations	—	(235)	—	(2,821)	—	(3,056)
Transfer from/(to) investment property	931	—	—	—	(14,205)	(13,274)
At December 31, 2007, net of accumulated depreciation and impairment	**40,658**	**16,845**	**11,779**	**404**	**56**	**69,742**
Additions	46	22,232	11,796	91	—	34,165
Disposals	(1,583)	(840)	(1,709)	(91)	—	(4,223)
Depreciation charge for the year	(555)	(6,774)	(6,535)	(15)	—	(13,879)
Transfer from/(to) investment property (Note 11)	—	(1,655)	—	—	—	(1,655)
At December 31, 2008, net of accumulated depreciation and impairment	**38,566**	**29,808**	**15,331**	**389**	**56**	**84,150**

(*) TL5,813 (net) and TL7,929 (net) of furniture and office equipment consist of assets obtained through financial leasing as of December 31, 2008 and 2007, respectively. There is no property and equipment that are pledged for borrowings.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

	Land and buildings	Furniture and office equipment (*)	Leasehold improvements	Motor vehicles	Construction in progress	Total
At December 31, 2007						
Cost	46,397	46,224	22,521	2,828	56	**118,026**
Accumulated depreciation	(5,076)	(29,379)	(10,742)	(2,424)	—	**(47,621)**
Accumulated impairment	(663)	—	—	—	—	**(663)**
Net carrying amount	**40,658**	**16,845**	**11,779**	**404**	**56**	**69,742**
At December 31, 2008						
Cost	44,860	63,091	32,608	2,798	56	**143,413**
Accumulated depreciation	(5,631)	(33,283)	(17,277)	(2,409)	—	**(58,600)**
Accumulated impairment	(663)	—	—	—	—	**(663)**
Net carrying amount	**38,566**	**29,808**	**15,331**	**389**	**56**	**84,150**

The cost of property and equipment, which are fully depreciated but still in use as of December 31, 2008 and 2007 is as follows:

	2008	2007
Motor vehicles	**59**	148
Leasehold improvements	**1,462**	1,346
Furniture and office equipment	**8,734**	6,539
	10,255	8,033

14. Intangible assets, net

	Software
At January 1, 2007	**1,724**
Additions	1,016
Disposals	(56)
Amortization charge for the year	(1,093)
At December 31, 2007, net of accumulated amortization	**1,591**
Additions	2,331
Disposals	(10)
Amortization charge for the year	(1,065)
At December 31, 2008, net of accumulated amortization	**2,847**
At December 31, 2007	
Cost (gross carrying amount)	5,998
Accumulated amortization	(4,407)
Net carrying amount	**1,591**
At December 31, 2008	
Cost (gross carrying amount)	8,319
Accumulated amortization	(5,472)
Net carrying amount	**2,847**

The cost of intangible assets, which are fully amortized but still in use as of December 31, 2008 and 2007 is TL4,287 and TL2,263, respectively.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

15. Due to other financial institutions and banks

Original foreign currency	Amount in TL 2008	2007
US$	**817,421**	420,245
Euro	**3,533**	13,073
Total	**820,954**	433,318

As of December 31, 2008 borrowings of which remaining maturities is less than 12 months amount to TL795,548 (As of December 31, 2007—TL172,862).

16. Current and profit / loss sharing investors' accounts

	2008	2007
Current accounts:		
Turkish lira	**435,795**	346,929
Foreign currency	**436,794**	321,761
	872,589	668,690
Profit/loss sharing investors' accounts:		
Turkish lira	**1,674,442**	1,000,400
Foreign currency	**1,521,247**	1,265,568
	3,195,689	2,265,968
Blocked accounts:		
Turkish lira	**31,272**	20,044
Foreign currency	**1,364**	1,651
	32,636	21,695
Total current accounts and profit/loss investors' accounts	**4,100,914**	2,956,353
Expense accrual on current accounts and profit/loss sharing investors' accounts	**18,546**	13,317
Total current accounts and profit/loss sharing investors' accounts	**4,119,460**	2,969,670

Blocked accounts include receivables of point of sales machine holding depositors which become current account within an average of one month period.

Current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analyzed according to their original maturities as follows:

	2008 (in TL)			2007 (in TL)		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Up to 1 month	**1,441,409**	**1,210,931**	**2,652,340**	990,629	930,156	1,920,785
From 1 month to 3 months	**402,438**	**342,651**	**745,089**	263,386	419,976	683,362
From 3 months to 1 year	**28,750**	**146,037**	**174,787**	39,834	151,762	191,596
Over one year	**268,912**	**259,786**	**528,698**	73,524	87,086	160,610
	2,141,509	**1,959,405**	**4,100,914**	1,367,373	1,588,980	2,956,353

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

At December 31, 2008 and 2007, foreign currency current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	2008		2007	
	Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Current and blocked accounts:				
US$	**199,826,624**	**302,198**	180,752,078	210,522
Euro	**59,733,084**	**127,876**	57,115,836	97,680
Other		**8,084**		15,210
		438,158		323,412
Profit/loss sharing investors' accounts:				
US$	**632,606,492**	**956,691**	589,510,858	686,604
Euro	**263,712,790**	**564,556**	338,536,012	578,964
Other		**—**		—
		1,521,247		1,265,568
		1,959,405		1,588,980

The Bank mainly collects profit/loss sharing accounts from domestic companies and domestic individuals.

Profit/loss sharing accounts include the gain or loss resulting from the investment activities of the Bank and there is no predetermined return on these accounts when depositing money.

17. Income taxes

The Bank and its subsidiaries are subject to taxation in accordance with the tax rules and the legislation effective in the countries in which the Group companies operate.

In Turkey, the corporation tax rate for the fiscal year ending December 31, 2008, 2007 and 2006 is 20%, unless qualifying capital investments are made in which case the tax rate is 30% for 2007 and 2006. Corporate tax returns are required to be filed by the twenty fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

In addition, the Turkish government offers investment incentives to companies that make certain qualifying capital investments in Turkey. Prior to April 24, 2003, the total amount of qualifying capital investments was deducted from taxable income and the remainder of taxable income, if any, was taxed at the corporate rate. A withholding tax of 19.8% was applied to the total amount of qualifying capital investments. With effect from April 24, 2003, the investment incentives scheme was amended such that companies are no longer subject to a withholding tax, but rather directly deduct 40% of qualifying capital investments from their annual taxable income. In addition, corporations that had unused qualifying capital investment amounts from periods prior to April 24, 2003 were entitled to carry forward these and apply the 19.8% withholding tax to these amounts in the manner described above. With the new law enacted, effective from January 1, 2006, Turkish government ceased to offer investment incentives for capital investments. Companies having unused qualifying capital investment amounts from periods prior to December 31, 2005 will be able to deduct such amounts from corporate income tax base until the end of December 31, 2008; however, the corporate tax rate will be 30% for them. Furthermore, qualifying capital investments to be made until the end of December 31, 2008 within the scope of the investment projects started before December 31, 2005 will be subject to investment incentives until the end of December 31, 2008. In 2006 and 2007, the Bank utilized its investment incentive allowance; whereas for 2008 the Bank has decided not to utilize its investment incentive allowances, therefore in 2008 the corporate tax rate for the Bank is 20%.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or classified under equity for five years in accordance with the New Corporate Tax Law.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. The Group has not recorded a provision for any additional taxes for the fiscal years that remain unaudited (2004 – 2008), as the amount, if any, cannot be estimated with any degree of certainty.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

	2008	2007
Current tax expense	**32,215**	7,816
Prepaid tax (-)	**20,728**	—
Income taxes payable	**11,487**	7,816

	2008	2007
Current tax expense	**(32,215)**	(7,816)
Deferred tax credit/(charge)	**6,710**	(11,023)
Total income tax (charge)/credit	**(25,505)**	(18,839)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the years December 31, 2008 and 2007 is as follows:

	2008	2007
Profit before income tax from continuing operations	**116,482**	87,393
Loss before tax from a discontinued operation	**291**	(1,476)
Profit before income tax	**116,773**	85,917
At Turkish statutory income tax rate of 20% (2007—30%)	**23,355**	25,775
Effect of change in tax rate	**(1,931)**	(1,348)
Effect of income not subject to tax	**(2,813)**	(5,282)
Effect of expenditure not allowable for income tax purposes	**7,834**	6,422
Effect of restatement pursuant to IAS 29 and other permanent differences	**(940)**	(3,063)
Effect of investment incentive	**—**	(3,665)
Income tax charge	**25,505**	18,839

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Deferred income tax as of December 31, 2008 and 2007 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	2008	**2007**
Provision for impairment in due from financing activities	**6,221**	1,463
Accounting for finance leases	**—**	502
Derivative accrual	**2,351**	534
Reserve for employee termination benefits	**744**	638
Provision for impairment in subsidiary	**3,476**	3,028
Deferred income	**1,973**	1,425
Bonus accrual of personnel	**2,750**	2,204
Effect of other temporary differences	**272**	412
Deferred tax assets	**17,787**	10,206
Restatement of property and equipment, intangible assets and other non-monetary items	**2,474**	2,280
Accounting for finance leases	**717**	—
Effect of other temporary differences	**—**	40
Deferred tax liabilities	**3,191**	2,320
Deferred tax asset—net	**14,596**	7,886

Movement of net deferred tax asset is:

	2008	**2007**
Balance at the beginning of the year	**7,886**	18,909
Deferred tax (charge)/credit recognized in income statement	**6,710**	(11,023)
Balance at the end of the year	**14,596**	7,886

18. Other liabilities and provisions

	2008	**2007**
Personnel bonus accrual	**13,750**	11,018
Withholding tax and other tax payables	**13,448**	7,479
Deferred revenue	**10,310**	7,960
Payables to exporters and suppliers	**3,522**	1,219
Security premium for participation funds	**2,093**	1,626
Leasing payable	**1,054**	1,997
Deductions on resource utilization fund	**621**	616
Other	**1,316**	2,457
Total other liabilities	**46,114**	34,372
Provisions		
Employee termination benefits	**3,806**	3,226
Other provisions (*)	**2,513**	—
Total provisions	**6,319**	3,226
Total	**52,433**	37,598

(*) The Bank had a tax penalty, which is agreed with the Tax Administration and will be paid over a period of 18 months.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

The movement in reserve for employee termination benefits is as follows:

	2008	2007
Balance at January 1	**3,226**	2,537
Utilized/paid	**(534)**	(565)
Arising during the year	**1,067**	1,235
Actuarial loss	**47**	19
Balance at the end of the year	**3,806**	3,226

Reserve for employee termination benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL2.2 and TL2.0 at December 31, 2008 and 2007, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2008 and 2007, the Group reflected a liability calculated using the Projected Unit Credit Method and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The following actuarial assumptions were used in the calculation of the total liability:

	2008	2006
Discount rate (%)	**12**	11
Expected salary / ceiling increase rate (%)	**5.4**	5

19. Derivative financial instruments

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows the fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. 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. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair values of forward transactions are determined by comparing the foreign currency rates prevailing on the date of the financial statements to the discounted value of the transaction's forward exchange rates to the date of this financial statements.

	December 31, 2008							
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Currency swap purchase	**13,933**	**—**	**848,870**	**782,813**	**61,996**	**4,061**	**—**	**—**
Currency swap sale	**—**	**25,664**	**856,582**	**790,558**	**63,533**	**2,491**	**—**	**—**
	13,933	**25,664**	**1,705,452**	**1,573,371**	**125,529**	**6,552**	**—**	**—**

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

	December 31, 2007							
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading								
Currency swap purchase	3,978	—	507,548	340,112	164,101	3,335	—	—
Currency swap sale	—	6,647	497,876	328,783	166,497	2,596	—	—
	3,978	6,647	1,005,424	668,895	330,598	5,931	—	—

20. Share capital

	2008	2007
Number of ordinary shares, 1 TL, par value. Authorized, issued and outstanding.	**500.00 million**	260.00 million

The movement of the share capital of the Bank (in number and in historical TL) is as follows:

	2008		2007	
	Number	TL	Number	TL
At January 1	**260,000,000**	**260,000**	200,188,000	200,188
Shares issued in				
- bonus shares from retained earnings	**40,000,000**	**40,000**	13,312,000	13,312
- cash	**200,000,000**	**200,000**	46,500,000	46,500
At year end	**500,000,000**	**500,000**	**260,000,000**	**260,000**

In 2007, the Bank increased its share capital on May 16, 2007. As the shareholders paid TL1.5 per share instead of 1 TL per share, TL23,250 has been recorded as share premium in the financial statements.

The Bank has increased its share capital at May 30, 2008. The share capital increase was funded from the retained earnings amounting to TL40,000 and by cash payment of shareholders amounting to TL200,000.

The Bank does not have any classes of shares other than ordinary shares. There is no differentiation in the rights, preferences and restrictions of the ordinary shares.

As of December 31, 2008 and 2007, the composition of shareholders and their respective % of ownership can be summarized as follows:

	2008		2007	
	Amount	%	Amount	%
Kuwait Finance House	**311,173**	**62.2**	161,810	62.2
Directorate of Vakıf Foundations, Turkey	**93,596**	**18.7**	48,670	18.7
The Public Institution for Social Security, Kuwait	**45,000**	**9.0**	23,400	9.0
Islamic Development Bank	**45,000**	**9.0**	23,400	9.0
Other	**5,231**	**1.1**	2,720	1.1
Total share capital	**500,000**		**260,000**	

21. Legal reserves, retained earnings, dividends paid and proposed

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Dividends paid and proposed

During the current year, the Bank has paid a dividend of TL6,990 (2007—TL2,528).

	2008	2007
Ordinary shares		
Amount	**6,990**	2,528
TL (full) per share	**0.029**	0.012

22. Earnings per share

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank are similarly treated. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares.

There is no dilution of shares as of December 31, 2008 and 2007.

The following reflects the income and per share data used in the basic earnings per share computations:

	2008	2007
Net profit attributable to continuing operations of the Bank for basic earnings per share	**90,977**	68,554
Net profit/(loss) attributable to discontinued operations for basic earnings per share	**291**	(1,476)
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	**91,268**	67,078
Weighted average number of ordinary shares for basic earnings per share (thousands)	**417,808**	242,754
Basic earnings per share (expressed in full TL per share)	**0.218**	0.276

23. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2007—62.2%) of ordinary shares. Directorate of Vakıf Foundations, The Public Institution for Social Security and Islamic Development Bank are major shareholders owning 18.7% (December 31, 2007—18.7%), 9.0% (December 31, 2007—9.0%) and 9.0% (December 31, 2007—9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders and parties associated with them are referred to as related parties. The related parties also include individuals who are principal owners, key management and members of the Group's Board of Directors and their families.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

The following significant balances exist as at December 31, 2008 and 2007 and transactions have been entered into with related parties during the years ended:

i) Due from financial institutions:

		2008		2007	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	Kuwaiti Dinar	**748**	**4**	748	82
	US$	**10,272,815**	**15,531**	579,360	653
	BHD	**49,101**	**197**	44,411	137
			15,732		872

ii) Due to other financial institutions:

		2008		2007	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House, Kuwait (1)	US$	**43,804,833**	**65,811**	41,204,913	45,283
Kuwait Finance House (*)	US$	**13,452,282**	**20,345**	13,452,282	14,854
Kuwait Finance House, Bahrain	EUR	**—**	**—**	3,119,549	5,357
Other	US$	**—**	**—**	—	—
			86,156		65,494

(*) The balance due to Kuwait Finance House is because of the purchase of investment property on behalf of Kuwait Finance House.

iii) Profit/loss sharing investors' and current accounts:

		2008		2007	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	EUR	**—**	**—**	—	—
Kuwait Finance House (1)	US$	**1,350,170**	**2,042**	1,041,470	1,215
Kuwait Finance House (1)	TL	**—**	**—**	—	128
Kuwait Finance House (1)	BHD	**—**	**—**	—	—
Islamic Development Bank (1)	US$	**5,146**	**8**	21,465	26
Islamic Development Bank (1)	TL	**—**	**—**	—	—
Directorate of Vakıf Foundations, Turkey (1)	TL	**—**	**2**	—	2
			2,052		1,371

iv) Profit shares distributed:

		2008		2007	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US$	**48,304**	**74**	28,753	33
Kuwait Finance House (1)	EUR	**—**	**—**	76,198	131
Directorate of Vakıf Foundations, Turkey (1)	TL	**—**	**—**	—	205
Other	US$	**—**	**—**	—	—
			74		369

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

v) Non cash credits issued:

		2008		2007	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	US$	**489,087**	**740**	1,145,359	1,334
			740		1,334

(1) Shareholders.

As of December 31, 2008 no provisions have been recognized in respect of loans given to related parties (December 31, 2007—nil).

Loans amounting to TL84 have been issued to directors during the year ended December 31, 2008 (December 31, 2007—TL74).

Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL5,257 during the year ended December 31, 2008 (December 31, 2007—TL4,205). As of December 31, 2008 the key management personnel did not receive any termination benefits (December 31, 2007—TL263).

The key management personnel of the Bank are as follows;

Mohammad S.A.I. ALOMAR	B.O.D. Chairman and Audit Committee Member
Abdullah TIVNIKLI	B.O.D. Vice Chairman
Azfar Hussain QARNI	B.O.D. and Audit Committee Member
Khaled Nasser Abdulaziz AL FOUZAN	B.O.D. Member
Kenan KARADENİZ	B.O.D. Member
Shaheen H.A. AL GHANEM	B.O.D. Member
Adnan ERTEM	B.O.D. Member
Ufuk UYAN	B.O.D. Member - Chief Executive Officer
Fawaz KH E AL SALEH	B.O.D. Member

Key management includes 9 other officers together with the above B.O.D. members.

24. Fees and commission income and expense

	2008	2007
Fees and commission income		
Service commissions	**54,052**	45,205
Credit card fees and commissions	**19,793**	17,323
Commission income from commitments	**32,011**	20,472
Communication expense charges	**18,719**	10,585
POS commission income	**12,332**	6,150
Import letter of credit commissions	**4,019**	3,583
Income from agency activities	**3,055**	2,106
Commissions from checks and notes	**2,689**	2,371
Other	**4,345**	1,235
Total	**151,015**	109,030

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

	2008	2007
Fees and commission expense		
Credit card machine and fees paid for credit cards	**23,469**	12,824
Brokerage fees on borrowings	**833**	1,431
ATM charges	**162**	612
Other	**862**	2,019
Total	**25,326**	16,886

25. Salaries and employee benefits

	2008	2007
Staff costs		
Wages and salaries	**67,111**	49,179
Bonus	**13,750**	11,018
Social security premiums	**11,722**	9,102
Other fringe benefits	**10,690**	7,589
Health expenses	**4,079**	3,696
Provision for employee termination benefits	**1,067**	689
Other	**3,136**	2,575
Total	**111,555**	83,848

26. Other expenses

	2008	2007
Impairment on completed projects (Note 10)	**95**	1,326
Impairment on property and equipment (Note 13)	**28**	663
Impairment charges	**123**	1,989
Insurance fund premium expense	**7,654**	6,058
Communication	**6,388**	4,021
Advertising expenses	**5,154**	6,192
Repair and maintenance expenses	**4,995**	2,663
Professional fees	**4,302**	3,423
Non taxable income	**3,167**	2,068
Loss from sale of assets	**2,982**	123
Cleaning expense	**2,752**	1,904
Travel and representation expenses	**2,655**	2,419
Energy expenses	**2,566**	1,669
Security issuance expenses	**1,811**	20
Insurance and subscription expenses	**1,395**	363
Stationery and publishing expenses	**1,173**	929
Computer usage expenses	**931**	813
Other	**3,713**	323
Other expenses	**51,638**	32,988
Total	**51,761**	34,977

27. Commitments and contingencies

In the normal course of its banking activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. Such commitments include mainly letters of guarantee, letters of credit and acceptance credits.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

The following is a brief summary of significant contingencies and commitments as of December 31, 2008 and 2007:

	2008	2007
Letters of guarantee issued by the Bank	**2,799,023**	1,451,541
Letters of credit	**363,745**	305,154
Commitments	**655,231**	346,571
Acceptance credits	**25,757**	9,283
Other guarantees	**4,775**	3,805
Total	**3,848,531**	2,116,354

Letters of Guarantee—are mainly issued on behalf of domestic customers who entered into commitments in the domestic and international markets.

Commitments—are mainly check payment commitments, credit cards and other guarantees and commitments.

Except for the Head-Office and three branch buildings, all branch premises of the Bank are leased under operational leases. The lease periods vary between 2-10 years and lease arrangements are cancellable. There are no restrictions placed upon the lessee by entering into these leases.

The Bank has TL35,797, USD 7,114,636 (full), Euro 1,076,165 (full); total TL49,188, (converted with period-end foreign exchange rates) operational lease obligations due to rent agreements of branches as of December 31, 2008. The allocation of these obligations within lease periods as of December 31, 2008 and 2007 is as follows:

	2008	2007
Within one year	**14,446**	9,761
After one year but not more than five years	**34,414**	21,172
More than five years	**328**	51
	49,188	30,984

Fiduciary activities

Other than checks and notes received for collections in favor of the customers, and which are not included in the accompanying financial statements, the Group holds fiduciary assets of TL9,719 and TL7,132 as of December 31, 2008 and 2007 respectively. As of December 31, 2008, the amounts of the checks and notes are TL858,409 (December 31, 2007—TL680,124) and TL147,863 (December 31, 2007—TL137,567) respectively.

28. Financial risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Procedures and operations throughout the Group are designed towards effectively addressing risk. The Group is exposed to credit risk, liquidity risk, market risk and operational risk. Also, the Banks' capital adequacy ratio has to exceed the minimum requirements of the Banking Regulation and Supervision Agency (BRSA). BRSA is the regulatory body for banking industry in Turkey.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's Executive Management.

Organization of the risk management function

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The mission of the Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

The Group Risk Management reports to the Board of Directors through the Audit and Risk Committee. Audit Committee is responsible for identifying, measuring, monitoring and reporting market, credit, Liquidity and Operational Risk. These risks are continuously monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board, the Audit and Risk Committee and the Audit Committee.

Internal systems and risk management policies

The Group's Risk Management Policies established by the Board of Directors via Audit and Risk Committee are implemented and executed by Risk Management Department. The primary objectives of the Risk Management Department are to coordinate the integration of the Risk Management Policies among various business departments and to assess and analyze the risks associated with new products, business processes and key performance indicators. This risk assessment is carried by the credit risk, operational risk, liquidity risk and market risk that are supported by the Treasury Middle Office, which is responsible for, among other things, monitoring treasury operations and analyzing the reasonableness of profit share rates as compared to market rates. The Risk Management Department is managed by the Head of Risk Management and Treasury Middle Office. Internal Systems, which comprise of Risk Management and Treasury Middle Office, Board of Inspectors and Internal Audit and Internal Control Departments, are overseen by the Chief Risk Officer who reports directly to the Audit and Risk Committee and coordinates communication, reporting and monitoring between the Audit and Risk Committee and Internal Systems.

Board of directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

The Audit and Risk Committee of Board of Directors, which consists of four non-executive directors, oversees, develops and monitors all of risk management and internal systems, policies and guidelines as well as the scope and structure of overall risk management organization and activities ("Internal Systems Regulations and Risk Management Policies"). The Internal System Regulations were initially prepared in year 2002 and they have been updated, published and approved by the Board of Directors at the beginning of year 2007. Current Risk Management Policies were initially approved by Board of Directors at the beginning of year 2007 and will be updated in case of necessities. The Audit and Risk Committee oversees the efficiency and adequacy of internal control and internal audit systems, the functioning of these systems and any related accounting, reporting or legal matters. In addition, the Audit and Risk Committee is responsible for coordinating the work of Internal Audit Department, preparing internal audit plans and providing information to the Board of Directors about any non-compliance with the relevant regulations and deficiencies in internal controls, including those highlighted by the BRSA or internal auditors.

Audit committee

The Audit Committee is in charge of and responsible for monitoring the effectiveness and efficiency of the internal systems of the Group, the operation of these systems as well as the accounting and reporting systems within the framework of the Banking Law and relevant regulations and the integrity of the information generated, making preliminary assessments as necessary for the Board of Directors' election of independent auditing firms as well as rating institutions, evaluation and support services firms, monitoring on a regular basis the activities of these establishments which are elected by the Board of Directors and with which contracts are concluded, ensuring the maintenance and coordination, on a consolidated basis, of the internal auditing activities of partnerships which are subject to consolidation pursuant to regulations which take effect as per the Banking Law.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Risk management and treasury middle office department

Risk Management Function was constituted in order to assess the main risks of the Group. In accordance with the Risk Policies, Risk Management Activities are composed of the following activities;

- Identification of risks that the Group is exposed,
- Measurement of risks,
- Monitoring of risks,
- Control and reporting of risks.

Internal audit and internal control

Risk management processes throughout the Group are audited annually by the internal audit and internal control functions, which examines both the adequacy and effectiveness of the procedures and the Group's compliance with the procedures. Internal Audit and Internal Control discuss the results of all assessments with management, and reports their findings and recommendations to Senior Management and the Audit Committee.

Credit risk

Credit risk represents risk that the Group will incur a loss because a customer, client or counterparty fails to fulfill, either partially or totally, its contractual obligations.

A customer's credit limit is established taking into consideration the customer's financial performance and is then used to monitor the customer's credit risk.

The risks and limits generated from Treasury are followed up daily by Risk Management and Treasury Middle Office Department and the Board of Directors determines transaction limits for the derivative and other similar agreement positions held by the Group.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows an analysis of the Group's maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the collaterals.

Gross maximum exposure	2008	2007
Cash and balances with Central Bank (excluding cash on hand)	**398,433**	294,377
Deposit with banks and financial institutions	**938,608**	421,431
Due from financing activities	**3,879,553**	2,747,645
Minimum financial lease payments receivable	**113,475**	160,940
Financial assets-available for sale	**1,389**	577
Financial assets-held to maturity	**7,583**	5,852
Financial assets-held for trading	**64**	133
Other assets	**23,246**	13,631
Derivative financial instruments	**13,933**	3,978
Derivative assets' notional amounts	**848,870**	507,548
Total	**6,225,154**	4,156,112

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Gross maximum exposure	2008	2007
Contingent liabilities	**3,162,768**	1,756,695
Other guarantees	**30,532**	13,088
Commitments	**655,231**	346,571
Total	**3,848,531**	2,116,354
Total credit risk exposure	**10,073,685**	6,272,466

Riskconcentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty and by industry sector.

The maximum cash credit exposure to any counterparty other than the Central Bank as of December 31, 2008 was TL93,514 (December 31, 2007—TL61,797) and non cash credit exposure as of December 31, 2008 was TL145,423 (December 31, 2007—TL62,164) before taking account of collateral or other credit enhancements.

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

	2008	2007
	Gross exposure	Gross exposure
Construction and materials	**2,000,939**	1,172,961
Financial services	**2,438,909**	1,300,429
Manufacturing	**1,176,063**	282,777
General retailers	**1,033,007**	413,178
Mining operations	**619,587**	500,251
Electricity	**224,542**	217,898
Telecommunications	**191,891**	7,311
Health care and social services	**198,183**	178,326
Forestry	**142,017**	109,670
Food and beverages	**52,814**	87,117
Real estate	**19,603**	26,726
Other	**1,976,130**	1,975,822
Total	**10,073,685**	6,272,466

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

For commercial lending, charges over real estate properties, vehicles, cash blockages and trade receivables.

For retail lending, mortgages over residential properties.

Management monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses, and when necessary requests additional collateral in accordance with the underlying agreement.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for due from banks, central bank and reserve deposit balances, financing and leasing receivables, letters of credit, letters of guarantee and other guarantees, based on the Group's credit rating system. The Group classifies the Central Bank of Turkey as high grade. Banks and financial institutions located in Turkey, European Union, United States of America and other OECD countries are graded as standard. Banks, which are located in other countries, are graded as sub-standard by the Bank. Customers of financing and leasing receivables, letters of credit, letters of guarantee and other guarantees are graded in accordance with their transaction volume, payment performance and income generation of the Group from the customer.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

2008	High Grade	Standard grade	Sub-standard grade	Past due or individually impaired	Unrated (*)	Total
Due from banks, central bank and reserve deposits (excluding cash on hand)	398,433	881,383	57,225	—	—	**1,337,041**
Financing and leasing receivables	**—**	**103,990**	**289,920**	**511,138**	**3,087,979**	**3,993,027**
Corporate lending	—	103,990	289,920	298,690	1,801,102	**2,493,702**
Small business lending	—	—	—	25,252	450,754	**476,006**
Consumer lending	—	—	—	153,926	730,033	**883,959**
Credit cards	—	—	—	33,270	106,091	**139,361**
Contingent liabilities and other guarantees	—	466,007	393,585	—	2,333,708	**3,193,300**
Commitments	—	209,039	—	—	446,192	**655,231**
Total	**398,433**	**1,660,419**	**740,730**	**511,138**	**5,867,879**	**9,178,599**

2007	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Unrated (*)	Total
Due from banks, central bank and reserve deposits (excluding cash on hand)	294,377	283,842	137,589	—	—	**715,808**
Financing and leasing receivables	**—**	**242,866**	**63,051**	**231,524**	**2,371,144**	**2,908,585**
Corporate lending	—	242,866	63,051	98,579	1,355,191	**1,759,687**
Small business lending	—	—	—	25,043	772,466	**797,509**
Consumer lending	—	—	—	99,463	130,145	**229,608**
Credit cards	—	—	—	8,439	113,342	**121,781**
Contingent liabilities and other guarantees	—	216,210	161,887	—	1,391,686	**1,769,783**
Commitments	—	10,270	—	—	336,301	**346,571**
Total	**294,377**	**753,188**	**362,527**	**231,524**	**4,099,131**	**5,740,747**

(*) The Group's rating approach is applicable for financial assets with outstanding risk above TL3,000.

Aging analysis of past due but not impaired loans per class of financial assets:

2008	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	**137,554**	**11,711**	**38,338**	**—**	**187,603**
Consumer lending	**64,423**	**51,373**	**11,720**	**—**	**127,516**
Small business lending	**40,074**	**21,423**	**7,262**	**—**	**68,759**
Credit cards	**6,801**	**8,928**	**3,798**	**—**	**19,527**
Total	**248,852**	**93,435**	**61,118**	**—**	**403,405**

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

2007	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	55,404	8,929	5,439	—	69,772
Consumer lending	62,382	23,525	5,201	—	91,108
Small business lending	10,746	3,337	1,302	—	15,385
Credit cards	3,694	887	425	—	5,006
Total	132,226	36,678	12,367	—	181,271

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2008 and 2007 comprise of blocked accounts, property and machinery pledges.

The table below shows the carrying amount for renegotiated financial assets, by class:

	2008	2007
Due from financing activities:		
Corporate lending	**2,768**	3,140
Small business lending	**—**	—
Total renegotiated financial assets	**2,768**	3,140

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders.

Analysis of financial liabilities by remaining contractual maturities on an undiscounted basis:

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at December 31, 2008						
Due to other financial institutions and banks	—	501,980	310,105	25,406	—	**837,491**
Derivative financial instruments	—	854,091	2,491	—	—	**856,582**
Current accounts	877,146	—	—	—	—	**877,146**
Profit and loss sharing accounts	—	2,942,312	298,605	1,397	—	**3,242,314**
Other financial liabilities	—	—	—	4	—	**4**
Total undiscounted financial liabilities	**877,146**	**4,298,383**	**611,201**	**26,807**	**—**	**5,813,537**
As at December 31, 2007						
Due to other financial institutions and banks	—	40,647	148,928	259,702	—	**449,277**
Derivative financial instruments	—	495,280	2,596	—	—	**497,876**
Current accounts	690,385	—	—	—	—	**690,385**
Profit and loss sharing accounts	—	2,131,440	166,676	532	—	**2,298,648**
Other financial liabilities	—	895	1,181	6	—	**2,082**
Total undiscounted financial liabilities	**690,385**	**2,668,262**	**319,381**	**260,240**	**—**	**3,938,268**

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
December 31, 2008						
Contingent liabilities and other guarantees	**1,880,747**	**309,575**	**292,087**	**335,802**	**375,089**	**3,193,300**
Commitments	**655,231**	**—**	**—**	**—**	**—**	**655,231**
Total	**2,535,978**	**309,575**	**292,087**	**335,802**	**375,089**	**3,848,531**
December 31, 2007						
Contingent liabilities and other guarantees	947,298	137,246	211,056	173,537	300,646	1,769,783
Commitments	346,571	—	—	—	—	346,571
Total	1,293,869	137,246	211,056	173,537	300,646	2,116,354

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates, interest rates and equity prices.

The exchange rate risk of the financial positions taken by the Group related to balance sheet and off-balance sheet accounts are measured.

The Group has determined market risk management operations and has taken precautions in order to economically hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Systems of Banks".

The Board of Directors of the Group evaluates basic risks that it can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Group. Additionally, the Board of Directors oversees that the Risk Management Group and Senior Management have taken precautions to describe, evaluate, control and manage risks faced by the Group.

Market risk—Non-trading

The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading portfolio of the Group is not significant. Except for the concentration within foreign currency, the Group has no significant concentration of market risk. The Bank has precious metal transactions. Such transactions have also market risk. The analysis below calculates the effect of a reasonably possible movement of the gold price against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2008			December 31, 2007		
Precious metal	**Increase/ decrease in metal price in %**	**Effect on profit before tax**	**Effect on equity**	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity
Gold	**+10**	**9,976**	—	+10	1,009	—
Gold	**-10**	**(9,976)**	—	-10	(1,009)	—

Interest risk

The Group operates in non-interest banking sector. The only interest risk sensitive financial asset of the Group is Sukuk, which is classified as held to maturity in the financial statements (Note 6). The Group assesses the interest risk arising from this asset as insignificant to the financial statements.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

Currency risk

Exchange rate risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market. The Group does not enter into any derivative contracts to hedge its foreign exchange exposure. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The analysis below calculates the effect of a reasonably possible movement of the currency rate against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2008			December 31, 2007		
Currency	**Increase/ decrease in currency rate in %**	**Effect on profit before tax**	**Effect on equity**	Increase/ decrease in currency rate in %	Effect on profit before tax	Effect on equity
USD and Other	**+10**	**(93)**	**—**	+10	(2,859)	—
USD and Other	**-10**	**93**	**—**	-10	2,859	—
EUR	**+10**	**5,921**	**—**	+10	379	—
EUR	**-10**	**(5,921)**	**—**	-10	(379)	—

The concentrations of assets, liabilities and off balance sheet items:

December 31, 2008

	EUR	**USD**	**Other**	**TL**	**Total**
Cash and balances with the Central bank	10,185	23,510	206	215,087	248,988
Deposits with other banks and financial institutions	263,911	637,794	9,870	27,033	938,608
Reserve deposits at the Central Bank	—	209,488	—	3,933	213,421
Financial assets—available-for-sale	—	577	—	812	1,389
Financial assets—held for trading	—	—	—	64	64
Financial assets—held to maturity	—	7,583	—	—	7,583
Due from financing activities, net	505,240	1,587,576	—	1,786,737	3,879,553
Minimum finance lease payments receivable, net	52,675	39,758	—	21,042	113,475
Derivative financial instruments	207	3,828	—	9,898	13,933
Other assets (*)	—	772	99,762	22,474	123,008
Construction projects, net	—	—	—	3,087	3,087
Investment properties, net	—	—	—	67,586	67,586
Assets held for sale and disposal of group, net	—	—	—	6,410	6,410
Property and equipment, net	—	12	—	84,138	84,150
Intangible assets, net	—	—	—	2,847	2,847
Deferred tax assets	—	—	—	14,596	14,596
Total assets	**832,218**	**2,510,898**	**109,838**	**2,265,745**	**5,718,698**
Due to other financial institutions and banks	3,533	817,421	—	—	820,954
Current and profit / loss sharing investors' accounts	694,329	1,284,705	10,024	2,130,402	4,119,460
Other liabilities	750	8,030	552	36,782	46,114
Provisions	—	—	—	6,319	6,319
Income taxes payable	—	—	—	11,487	11,487
Derivative financial instruments	—	2,651	—	23,013	25,664
Liabilities directly associated with assets classified as held for sale, net	—	—	—	—	—
Equity	—	—	—	688,700	688,700
Total liabilities and equity	**698,612**	**2,112,807**	**10,576**	**2,896,703**	**5,718,698**
Net Balance Sheet Position	**133,606**	**398,091**	**99,262**	**(630,958)**	**—**
Net Off-Balance Sheet Position	**(74,392)**	**(422,637)**	**(73,785)**	**571,947**	

(*) Other section of "Other Assets" mainly consist of gold transactions.

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

December 31, 2007

	EUR	USD	Other	TL	Total
Cash and balances with the Central bank	9,490	13,778	371	131,869	155,508
Deposits with other banks and financial institutions	50,803	343,007	6,412	21,209	421,431
Reserve deposits at the Central Bank	189,029	519	—	2,263	191,811
Financial assets—available-for-sale	—	577	—	—	577
Financial assets—held-to-maturity	—	5,852	—	—	5,852
Financial assets—held for trading	—	—	—	133	133
Due from financing activities, net	558,062	998,296	—	1,191,287	2,747,645
Minimum finance lease payments receivable, net	74,724	59,192	—	27,024	160,940
Derivative financial instruments	—	709	29	3,240	3,978
Other assets	187	637	11,786	11,109	23,719
Construction projects, net	—	—	—	3,140	3,140
Investment properties, net	—	—	—	59,389	59,389
Assets held for sale and disposal of group, net	—	—	—	6,673	6,673
Property and equipment, net	—	19	—	69,723	69,742
Intangible assets, net	—	—	—	1,591	1,591
Deferred tax assets	—	—	—	7,886	7,886
Total assets	**882,295**	**1,422,586**	**18,598**	**1,536,536**	**3,860,015**
Due to other financial institutions and banks	13,073	420,245	—	—	433,318
Current and profit / loss sharing investors' accounts	681,024	900,863	15,211	1,372,572	2,969,670
Other liabilities	665	2,093	468	31,146	34,372
Provisions	—	—	—	3,226	3,226
Income taxes payable	—	—	—	7,816	7,816
Derivative financial instruments	—	125	—	6,522	6,647
Liabilities directly associated with assets classified as held for sale, net	—	—	—	544	544
Equity	—	—	—	404,422	404,422
Total liabilities and equity	**694,762**	**1,323,326**	**15,679**	**1,826,248**	**3,860,015**
Net Balance Sheet Position	**187,533**	**99,260**	**2,919**	**(289,712)**	**—**
Net Off-Balance Sheet Position	**(183,743)**	**(131,232)**	**459**	**313,929**	

Pricing risk

The Group utilizes funds with a pre-determined profit rate and receives deposits on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Group, rather than giving them a pre-determined rate of profit. In this aspect, there is no repricing structure for the financial assets and liabilities of the Group.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, it is managing the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Capital adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by the BRSA and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum

(Currency—In thousands of Turkish Lira–TL unless otherwise indicated)

12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2008 and 2007, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders. No changes were made in the objectives, policies and processes from the previous years. Below table is in accordance with financial statements prepared in accordance with BRSA accounting principles.

Regulatory capital

	2008		2007	
Tier 1 capital	**686,902**		378,008	
Tier 2 capital	**24,959**		15,491	
Total capital	**711,861**		393,499	
Risk weighted assets amount subject to market and operational risk	**4,555,841**		2,672,367	
	Actual	**Required**	**Actual**	**Required**
Tier 1 capital ratio	**15.08%**	—	14.15%	
Total capital ratio	**15.63%**	12%	14.72%	12%

29. Fair value of financial instruments

Fair values

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31, 2008, the fair value of financing and leasing receivables has been estimated as TL4,175,316 (December 31, 2007—TL2,888,177) whereas their carrying amount is TL3,993,028 (December 31, 2007—TL2,908,585).

Fair value of borrowings at amortized cost is estimated as TL821,732 (December 31, 2007—TL432,544), whereas their carrying amount is TL820,954 (December 31, 2007—TL433,318). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term. Fair value of held to maturity investment (Sukuk Bond) is estimated as TL6,994 (December 31, 2007—TL5,884), whereas its carrying amount is TL7,583 (December 31, 2007—5,852).

For other short-term financial assets and liabilities, fair value is estimated to approximate carrying value due to their short term or non-interest bearing structures.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristic or by discounting the expected future cash flows at prevailing profit rates.

30. Subsequent events

The Bank has repaid its syndication borrowing amounting to USD 200 million on February 19, 2009 in cash.

As of the authorization date of the financial statements US Dollar/TL parity and EUR/TL parity is 1.6813 and 2.1442 respectively.

APPENDIX B—SUMMARY OF DIFFERENCES BETWEEN IFRS AND TURKISH GAAP

The Audited IFRS financial statements of Kuveyt Türk set out in this Prospectus have been prepared in accordance with IFRS, which differ in certain respect from Turkish GAAP (each as defined in Presentation of Financial and other Information). The following paragraphs summarise certain differences between IFRS and Turkish GAAP. Such differences have been identified based on accounting principles applicable as of 31 December 2009.

In making an investment decision, prospective investors must rely upon their own examination of Kuveyt Türk, the terms of the offering and other financial information. Prospective investors should consult their own professional advisors for an understanding of the differences between IFRS and Turkish GAAP, and how these differences might affect the financial information contained in this Prospectus.

Highlights of Certain Differences among IFRS and Turkish GAAP

Provisions for possible loan, lease receivable and possible premium receivable losses

Under Turkish GAAP, specific and general reserves for possible loan losses are provided for in accordance with the "Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves" and the "Communiqué on Changes in Methods and Principles for the Determination of Loans and Other Receivables to Reserved for and Allocation of Reserves" issued by the BRSA.

Under IFRS, if there is objective evidence that all amounts due (principal and interest) according to the original contractual terms of the loan will not be collected, such loans are considered impaired and the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flow that may result from foreclosure less costs for obtaining and selling the collateral whether or not the foreclosure is probable. Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

Income tax

Under Turkish GAAP, deferred taxes are calculated on the timing differences arising between taxable income and pre-tax income reported for accounting purposes. Deferred tax assets and tax credits resulting from tax loss carry-forwards are recognised when it is probable that sufficient taxable income will be available to use such deferred tax assets (based on financial projections). In accordance with the accounting standards published on 12 August 2004, effective 1 July 2004, accounting policies for deferred taxes under Turkish GAAP is aligned with IFRS. However, in December 2004, a new circular was published by the BRSA, which prohibited the recognition of deferred tax asset on temporary differences, such as general loan loss reserves and other similar general reserves.

Consolidation of subsidiaries

According to IFRS subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the bank and cease to be consolidated from the date on which control is transferred out of the bank.

Under BRSA, subsidiaries which are not operating in financial sector are not consolidated.

Inflation Accounting

Under IFRS property, equipment and capital indexing is calculated with reference to December 2005, however under BRSA, the same are calculated with reference to December 2004.

Basis of Presentation

Financial statements presentation format (all financial statements) and disclosure requirements (like IFRS 7) are different, directly as prescribed in the regulations. Accordingly, the BRSA format and disclosures do not always meet IFRS or IAS 34 requirements.

ISSUER AND TRUSTEE

KT Turkey Sukuk Limited
c/o Maples Finance Limited
PO Box 1093
Queensgate House
Grand Cayman, KY1-1102
Cayman Islands

KUVEYT TÜRK

Kuveyt Türk Katılım Bankası A.Ş.
Büyükdere Cad. No 129/1, 34394
Esentepe Şişli
Istanbul
Turkey

PRINCIPAL PAYING AGENT, CALCULATION AGENT AND REPLACEMENT AGENT

Citibank N.A.
14th Floor, Citigroup Centre
Canada Square London E14 5LB
United Kingdom

DELEGATE

Citicorp Trustee Company Limited
14th Floor, Citigroup Centre
Canada Square London E14 5LB
United Kingdom

REGISTRAR AND TRANSFER AGENT

Citigroup Global Markets Deutschland AG
Reuterweg 16
D-60323 Frankfurt am Main
Germany

LEGAL ADVISERS

To the Joint Lead Managers as to English law

Hogan Lovells (Middle East) LLP
19th Floor, Currency Tower
Dubai International Financial Centre
PO Box 506602
Dubai, United Arab Emirates

To Kuveyt Türk as to English law

Norton Rose (Middle East) LLP
4th Floor, Gate Precinct Building 3
Dubai International Financial Centre
PO Box 103747
Dubai, United Arab Emirates

To the Joint Lead Managers as to Turkish law

Somay Hukuk Bürosu
Büyükdere Cad. No:118/7-8-10
34394 Esentepe
İstanbul, Turkey

To the Issuer as to Cayman Islands law

Maples and Calder
5th Floor, The Exchange Building,
Dubai International Financial Centre,
PO Box 119980
Dubai, United Arab Emirates

To the Delegate as to English law

Hogan Lovells International LLP
Atlantic House, Holborn Viaduct
London EC1A 2FG
United Kingdom

Printed by RRDonnelley 75234