

# PROSPECTUS



## KUVEYT TÜRK

**KT Kira Sertifikaları Varlık Kiralama A.Ş.**  
(incorporated in the Republic of Turkey with limited liability)

**U.S.\$500,000,000 5.136 per cent. Certificates due 2021**

The U.S.\$500,000,000 5.136 per cent. Certificates due 2021 (the "**Certificates**") of KT Kira Sertifikaları Varlık Kiralama A.Ş. (the "**Issuer**") will have the benefit of a declaration of agency (the "**Declaration of Agency**") dated on or around 1 November 2016 (the "**Closing Date**") between the Issuer, in its capacity as issuer and as agent (the "**Certificateholders' Agent**") in its name and on behalf and for the account of holders of the Certificates (the "**Certificateholders**"), Kuveyt Türk Katılım Bankası A.Ş. ("**Kuveyt Türk**" or the "**Bank**") and HSBC Corporate Trustee Company (UK) Limited (the "**Certificateholders' Representative**"). Pursuant to the Declaration of Agency, the Certificateholders' Agent will declare that it will hold the Sukuk Assets (as defined herein) in its name and on behalf and for the account of the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Agency and the terms and conditions of the Certificates (the "**Conditions**").

Distributions in relation to the Certificates will be made to holders, *pro rata* to their respective holdings, on each of 1 November and 1 May in each year commencing on 1 May 2017 (each a "**Periodic Distribution Date**"). The amount of each such distribution (each a "**Periodic Distribution Amount**") to Certificateholders will be calculated at the rate of 5.136 per cent. per annum on the outstanding face amount of the Certificates on a 30/360 day basis.

The Issuer will pay such Periodic Distribution Amounts solely from the proceeds received in respect of the Sukuk Assets, which include payments by Kuveyt Türk under the Management Agreement (as defined herein). Unless previously redeemed following the occurrence of a Tax Event, a Change of Control Event or a Termination Event (each as defined herein) as further provided in Condition 9 or otherwise purchased and cancelled pursuant to Condition 10, the Certificates will be redeemed on the Scheduled Termination Date at the Termination Distribution Amount (as defined herein). The Certificateholders' Agent will pay Termination Distribution Amounts solely from the proceeds received in respect of the Sukuk Assets, which include payments by Kuveyt Türk under the Management Agreement and the Purchase and Asset Portfolio Undertaking (each as defined herein).

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

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC, as amended (including the amendments made by Directive 2010/73/EU) (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval only relates to Certificates which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments (the "**Markets in Financial Instruments Directive**") and/or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Certificates to be admitted to the official list (the "**Official List**") and trading on the regulated market (the "**Main Securities Market**") of the Irish Stock Exchange. The Main Securities Market is a regulated market for the purposes of the Markets in Financial Instruments Directive. References in this Prospectus to the Certificates being **listed** (and all related references) shall mean that the Certificates have been admitted to the Official List and trading on the Main Securities Market or any other regulated market.

Application has been made to the Capital Markets Board (the "**CMB**") of Turkey, in its capacity as competent authority under Law No. 6362 of Turkey relating to capital markets (the "**Capital Markets Law**"), for the approval of the sale and issuance of the Certificates by the Issuer outside of Turkey and the issuance certificate (*ihraç belgesi*) relating to the Certificates. The approval of the CMB upon which the offering and sale of the Certificates is conducted was obtained on 6 October 2016 and the issuance certificate (*ihraç belgesi*) representing the CMB's approval of the issuance of the Certificates is expected to be obtained from the CMB on or before the Closing Date.

The Certificates may only be offered, sold or transferred in registered form in minimum face amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. The Certificates are expected to be assigned a rating of BBB by Fitch Ratings Ltd. ("**Fitch**"), which is the rating assigned to Kuveyt Türk by Fitch. Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such, Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein), does not address the likelihood or timing of repayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Please also refer to "*Credit ratings may not reflect all risks*" in the Risk Factors section of this Prospectus.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States (as defined in Regulation S under the Securities Act ("**Regulation S**")) or to, or for the account or benefit of, U.S. Persons (as defined in 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 or sold solely to persons who are not U.S. Persons 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 will be represented by interests in a global certificate in registered form (the "**Global Certificate**") deposited on or about the Closing Date with, and registered in the name of a nominee for, a common depositary (the "**Common Depositary**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the QInvest *Sharia'a* Supervisory Board, the Fatwa and *Shari'a* Supervisory Board of Noor Bank, the Sharia Supervisory Committee of Standard Chartered Bank, the KFH Capital *Sharia* Committee and the Fatwa and *Shari'a* Supervision Board of Dubai Islamic Bank and Dar Al Sharia Legal and Financial Consultancy. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals referred to above is in compliance with *Shari'a* principles.

*Sole Global Coordinator*  
**KFH Capital**

*Joint Lead Managers and Joint Bookrunners*

<b>Bank ABC</b>	<b>Dubai Islamic Bank PJSC</b>	<b>Emirates NBD Capital</b>	<b>KFH Capital</b>
<b>Noor Bank PJSC</b>		<b>QInvest</b>	<b>Standard Chartered Bank</b>
	<b>Al Rayan Investment L.L.C.</b>	<i>Co-Managers</i>	<b>Warba Bank</b>

The date of this Prospectus is 27 October 2016

## IMPORTANT NOTICES

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

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

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, Kuveyt Türk, the Managers (as defined under "*Subscription and Sale*"), the Certificateholders' Agent, the Certificateholders' Representative, the Paying Agents (as defined herein) or any other person.

Neither the delivery of this document nor any offer, sale or delivery of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of any party mentioned herein since that date.

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

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

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

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

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of the Certificates may be restricted by law in certain jurisdictions. None of the Issuer, Kuveyt Türk, the Managers, the Certificateholders' Agent, the Certificateholders' Representative or the Paying Agents represents that

this Prospectus may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, Kuveyt Türk, the Managers, the Certificateholders' Agent, the Certificateholders' Representative or the Paying Agents which is intended to permit a public offering of any Certificates or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the European Economic Area (including the United Kingdom), the Republic of Turkey, the Kingdom of Bahrain, the Dubai International Financial Centre (the "**DIFC**"), Hong Kong, Malaysia, the Kingdom of Saudi Arabia ("**Saudi Arabia**"), State of Kuwait, State of Qatar, Singapore and the United Arab Emirates (the "**UAE**") (excluding the DIFC), see "*Subscription and Sale*".

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

#### *Suitability of investments*

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

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

#### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Some statements in this Prospectus may be deemed to be "forward-looking statements". Forward-looking statements involve risks, uncertainties and assumptions, and include statements (other than statements of historical fact) concerning Kuveyt Türk's or, as the case may be, the Group's plans,

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

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

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

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

### **CERTAIN PUBLICLY AVAILABLE INFORMATION**

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

### **PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

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

notes and explanations related to the accounting and financial reporting principles published by the BRSA (collectively, "**BRSA Principles**").

The annual statutory audited consolidated financial statements of Kuveyt Türk for the years ended 31 December 2014 and 2015 prepared and presented in accordance with BRSA Principles (the "**BRSA Accounts**") are incorporated by reference in this Prospectus. The BRSA Accounts were audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member of Deloitte Touche Tohmatsu Limited ("**Deloitte**").

The unaudited consolidated financial statements of Kuveyt Türk for the six month period ended 30 June 2016 prepared and presented in accordance with BRSA Principles (the "**Interim BRSA Accounts**") are also incorporated by reference in this Prospectus. The Interim BRSA Accounts were reviewed by Deloitte.

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

Although Kuveyt Türk is not legally required to prepare financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Standards Interpretations Committee of the IASB (collectively, "**IFRS**"), it also prepares audited consolidated annual financial statements for the year ended 31 December and unaudited consolidated interim financial statements for the six month period ended 30 June each year in accordance with IFRS. The audited consolidated annual financial statements of Kuveyt Türk for the years ended 31 December 2014 and 2015 prepared and presented in accordance with IFRS (the "**IFRS Accounts**") are further incorporated by reference in this Prospectus. The IFRS Accounts were audited by Deloitte.

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

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

All references in this Prospectus to "**U.S. dollars**", "**U.S.\$**" and "**\$**" are to the lawful currency of the United States of America, all references to "**euro**" and "**€**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, all references to "**Turkish lira**" (in Turkish: *Türk lirası*) and "**TRY**" are to the lawful currency of the Republic of Turkey and all references to "**Malaysian ringgit**" and "**MYR**" are to the lawful currency of Malaysia. Translations of amounts from U.S. dollars or euro to Turkish lira and *vice versa* in this Prospectus are solely for the convenience of the reader.

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

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

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



## CERTAIN DEFINED TERMS

Capitalised terms which are used but not defined in any section of this Prospectus will have the meaning attributed thereto in the Conditions or any other section of this Prospectus. In addition, the following terms as used in this Prospectus have the meanings defined below:

- references to "**BRSA**" are to the Banking Regulation and Supervision Agency of Turkey;
- references to "**Turkish Central Bank**" or the "**CBT**" are to the Central Bank of the Republic of Turkey.
- references to a "**Member State**" herein are references to a Member State of the European Economic Area; and
- references to "**Turkey**" or to the "**Republic**" herein are to the Republic of Turkey.

## STABILISATION

IN CONNECTION WITH THE ISSUE OF THE CERTIFICATES, STANDARD CHARTERED BANK, IN ITS CAPACITY AS STABILISATION MANAGER (THE "**STABILISATION MANAGER**") (OR ANY PERSON ACTING ON ITS BEHALF) MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION ACTION MAY NOT OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE CLOSING DATE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE CLOSING DATE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CERTIFICATES. ANY STABILISATION ACTION SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

## ENFORCEMENT OF FOREIGN JUDGMENTS AND SERVICE OF PROCESS

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

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

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

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

- (a) the defendant was not duly summoned or represented or the defendant's fundamental procedural rights were not observed;

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

If any action or proceeding is instituted in Turkey arising out of or relating to a Transaction Document, it may be necessary for a foreign plaintiff or plaintiffs under Law of Charges No. 492 (as amended) to pay, among other amounts (including amounts in relation to security for court costs), court fees in the amount of 6.831 per cent, of the Turkish lira equivalent of the amount claimed plus a fixed application fee to the relevant courts.

In connection with the Certificates, service of process may be made upon Kuveyt Türk at the registered office of Maples and Calder at 11th Floor, 200 Aldersgate Street, London, EC1A 4HD (Attention: Process Agent) with respect to any proceedings in England.

See "**Risk Factors-Risk factors relating to enforcement**".

#### **NOTICE TO RESIDENTS OF TURKEY**

The offering of the Certificates will be approved by the CMB only for the purpose of the sale of the Certificates outside of Turkey in accordance with Article 15(b) of Decree 32 on the Protection of the Value of the Turkish Currency ("**Decree 32**") and Article 11 of the Capital Markets Law (Law No. 6362) and accordingly the Certificates may only be offered or sold to real persons and legal entities domiciled outside of Turkey in accordance with the BRSA decision dated 6 May 2010 No. 3665 (as notified by the BRSA in its letter to the Participation Banks Association of Turkey dated 10 May 2010 and numbered B.02.1.BDK.0.11.00.00.31.2-9394). The CMB has authorised the offering of the Certificates provided that, following the primary sale of the Certificates, no party may engage in any transaction that may be deemed a sale of the Certificates in Turkey by way of private placement, public offering or otherwise. However, pursuant to Article 15(d)(ii) of Decree 32, there is no restriction on the purchase or sale of the Certificates in secondary markets by residents of Turkey, provided that they purchase or sell such Certificates in financial markets outside of Turkey and such sale and purchase is made through banks and/or licensed brokerage institutions authorised pursuant to CMB regulations.

#### **NOTICE TO RESIDENTS OF MALAYSIA**

The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia directly or indirectly for the purpose of any sale of the Certificates in Malaysia other than to persons falling within the categories specified under (i) Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b)) and (ii) Schedule 8 (or Section 257(3)) of the Capital Markets and Services Act 2007 of Malaysia (the "**CMSA**").

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Issuer or Kuveyt Türk and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus.



## KINGDOM OF SAUDI ARABIA NOTICE

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

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

## NOTICE TO RESIDENTS OF KUWAIT

Unless all necessary approvals from the Kuwait Capital Markets Authority (the "**Authority**") pursuant to Law No. 7 of 2010 and its executive bylaws (each as amended) together with various resolutions, instructions and announcements issued pursuant thereto, or in connection therewith, have been given in relation to the marketing of, and sale of, the Certificates, the Certificates may not be offered for sale, nor sold, in Kuwait. Neither this Prospectus nor any of the information contained herein is intended to lead to the conclusion of any contract of whatsoever nature within Kuwait. This Prospectus is not for general circulation to the public in Kuwait and the Certificates will not be sold by way of public offering in Kuwait. The Authority shall not be a party to any claim of damages arising from a prospectus approved by the Authority.

## NOTICE TO UNITED KINGDOM RESIDENTS

The Certificates constitute "alternative finance investment bonds" within the meaning of Article 77A of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 as amended by the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2010. Accordingly, this Prospectus is not being distributed to, and must not be passed on to, the general public in the United Kingdom.

The distribution in the United Kingdom of this Prospectus and any other marketing materials relating to the Certificates 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, as amended (the "**Financial Promotion Order**"); (ii) persons falling within any of the categories of persons described in Article 49 of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion 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.

Any individual intending to invest in any investment described in this Prospectus should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

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## 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.*

*If any of the risks described below actually materialise, the Issuer, Kuveyt Türk and/or the Group's business, results of operations, financial condition or prospects could be materially adversely affected. If that were to happen, the trading price of the Certificates could decline and investors could lose all or part of their investment.*

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

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

### **Risk factors relating to the Issuer**

#### ***The Issuer is dependent upon the performance by Kuveyt Türk of its obligations under the Transaction Document to make payments on the Certificates***

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

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

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

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

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

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

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

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

#### **Risk factors relating to Kuveyt Türk**

##### **Risk factors relating to Kuveyt Türk's business**

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

Kuveyt Türk's financing (which corresponds to the total due from financing activities, net and minimum finance lease payments receivable, net in the IFRS Accounts) have increased rapidly in recent years, growing to TRY25,852.47 million as at 31 December 2015 from TRY20,689.17 million as at 31 December 2014. The growth in Kuveyt Türk's cash loans is attributable to an overall increase in the growth of Kuveyt Türk's lending activity which Kuveyt Türk intends to continue to target as part of its growth strategy. See "Description of Kuveyt Türk Katılım Bankası A.Ş. —Strategy" for further details.

As at 31 December 2015, Kuveyt Türk's ratio of funds in arrears due from financing activities, net (based on BRSA Accounts) was 1.66 per cent., compared to 2.21 per cent. as at 31 December 2014. As a participation bank, the monthly principal repayment structure of Kuveyt Türk's cash loans (which always require a portion of principal to be repaid) helps to reduce its credit risks as compared to conventional banks which provide loans with principal repayable at maturity only. The significant increase in the size of its cash loans has increased Kuveyt Türk's credit exposure and will require continued analysis and monitoring of its credit quality and the adequacy of provisioning levels, as well as continued credit risk management. In common with all other Turkish banks, the growth rates recently experienced have required Kuveyt Türk to seek to attract and retain a significant number of qualified personnel to monitor asset quality.

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

statements prepared in accordance with BRSA Principles follows a prescribed allowance level as specified by the BRSA (see "*Risk Management — Credit Classification and Provisioning Policy General—IFRS/BRSA Provisioning*"). Kuveyt Türk's increased levels of financing may require Kuveyt Türk to make higher levels of provisioning for credit losses. Although Kuveyt Türk constantly seeks to revise and improve its lending procedures and credit quality analysis there can be no assurances that Kuveyt Türk will not experience lapses as a result of the growth and changing quality of its credit portfolio, which accordingly may have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects. See— "*Risk Management—Credit Risk*" for further details.

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

Kuveyt Türk's core banking businesses have historically been, and are expected to continue to be, loans to corporate and SME clients. As at 31 December 2015, loans to corporate and SME customers constituted 51.36 per cent. of Kuveyt Türk's total assets with corporate loans contributing 31.58 per cent. and SME loans contributing 19.78 per cent. (based on BRSA Accounts). Many factors affect customers' ability to repay their loans or meet their other obligations to Kuveyt Türk. Some of these factors, including adverse changes in consumer confidence levels due to local, national and global factors, consumer spending, banking rates, and increased market volatility, may be difficult to anticipate and outside of Kuveyt Türk's control. Other factors are dependent upon Kuveyt Türk's strategy for loan growth (including sector focus) and the viability of Kuveyt Türk's internal credit application and monitoring systems, see—"*Kuveyt Türk's risk management strategies and internal control capabilities may leave it exposed to unidentified or unanticipated risks*". All of the aforementioned risks could have a material adverse impact on Kuveyt Türk's business, financial condition, results of operations and prospects.

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

As at 31 December 2015, 30.65 per cent. of Kuveyt Türk's total loan portfolio consisted of loans to SMEs compared to 33.51 per cent. as at 31 December 2014 (based on BRSA Accounts). Although SMEs typically have less financial strength than larger companies, they are a key component of Kuveyt Türk's current business and growth strategy (see "*Description of Kuveyt Türk—Strategy—Strategies of each core business segment*" for further details). The availability of accurate and comprehensive financial information and general credit information on which to base credit decisions is more limited for SMEs than is the case of larger corporate clients. Therefore, notwithstanding the credit risk determination procedures that Kuveyt Türk has in place, Kuveyt Türk may be unable to evaluate correctly the current financial condition of each prospective SME customer and to determine their long-term financial viability.

Financing to SMEs generally includes a higher degree of risk than financing to larger corporate customers, and there can be no guarantee that Kuveyt Türk's non-performing loans ("NPLs") for SMEs, or any of its other customers, will not materially increase in the near to medium term, particularly if there is a significant deterioration in macroeconomic conditions in Turkey or if Kuveyt Türk is unable to accurately model and manage the risk associated with the SMEs or other customers to which it extends credit (see—"*Kuveyt Türk's Risk management strategies and internal control capabilities may leave it exposed to unidentified or unanticipated risks*"). Kuveyt Türk's provisions for impairments due from financing activities and lease receivables increased by 97.90 per cent. to TRY360.73 million in 2015 from TRY182.27 million in 2014, principally due to the growth of this segment of Kuveyt Türk's business.

Additionally, it is also anticipated that the general level of NPLs within the Turkish banking sector will increase in 2016 with Kuveyt Türk expecting its level of NPLs to increase to approximately 2.35 per cent. in 2016. There can be no assurances that an increased level of NPLs will not have a material adverse effect on Kuveyt Türk's business, financial condition results of operations.

***Security interests, collateral or loan guarantees provided in favour of Kuveyt Türk may not cover all losses in the event of debtor defaults and may involve long and costly enforcement proceedings***

Kuveyt Türk may have difficulty foreclosing on collateral or enforcing guarantees or other third party credit support arrangements when debtors default on their loans. In addition, the time and costs associated

with enforcing security interests in Turkey may make it uneconomical for Kuveyt Türk to pursue such proceedings, adversely affecting Kuveyt Türk's ability to recover its loan losses.

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

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

Kuveyt Türk has a high concentration of loans and deposits in geographic, currency and industry sector terms. Geographically, Kuveyt Türk's total loans are highly concentrated in Turkey with 98.5 per cent. of such loans being cash loans as at 31 December 2015 and 31 December 2014. Kuveyt Türk's deposits are also concentrated in Turkish lira accounts, which represented 51.74 per cent. of total deposits as at 31 December 2015 (compared to 54.87 per cent. as at 31 December 2014).

As at 31 December 2015, the percentage of Kuveyt Türk's total loans (both cash and non-cash loans) to customers in the construction industry sector and the financial services sector were 22.92 per cent. and 30.77 per cent., respectively (as compared to 23.51 per cent. and 30.56 per cent., respectively as at 31 December 2014).

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

***Kuveyt Türk's business entails operational risks***

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

Although Kuveyt Türk has implemented risk controls and loss mitigation strategies and 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. Given Kuveyt Türk's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult for Kuveyt Türk to detect quickly or at all. Any failure to effectively control such risks would have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

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

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

Liquidity risks could arise from Kuveyt Türk's inability to anticipate and provide for unforeseen decreases or changes in funding sources which could have adverse consequences on Kuveyt Türk's ability to meet



its obligations when they fall due. As is the normal practice in the Turkish banking industry, Kuveyt Türk accepts deposits from its customers which are short-term in nature. Accordingly, of its TRY28,145.29 million in customer deposits at 31 December 2015, 89.57 per cent. had contractual maturities of less than three months (compared to TRY22,215.84 million as at 31 December 2014). However, it is also normal in the banking industry for these short-term deposits to be rolled over on their maturity such that, in practice, a significant portion of them have actual maturities of longer duration. Kuveyt Türk cannot however be certain, that its customer will continue to roll over or maintain their deposits with Kuveyt Türk. In relation to Kuveyt Türk's cash loans, of its TRY25,852.47 million of such loans at 31 December 2015, 27.36 per cent. had contractual maturities of less than three months. See "*Risk Management*" for a description of Kuveyt Türk's exposure to liquidity risks. Accordingly, there is a risk that if a significant number of Kuveyt Türk's customers do not choose to roll over their deposits at any time Kuveyt Türk could experience difficulties in repaying those deposits. In addition, Kuveyt Türk only has limited *Sharia* compliant products that could be used for short-term liquidity management.

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

To mitigate these risks, Kuveyt Türk monitors its liquidity position on a daily basis and is proactive in confirming with its large depositors their intentions in relation to maturing deposits. It also holds liquid assets at prudent levels to maintain liquidity, even under adverse market conditions. However, assets held for sale may not be able to be sold due to adverse market conditions. There can also be no assurance that Kuveyt Türk will not experience significant liquidity constraints in the future. In the event that Kuveyt Türk experiences liquidity issues, market disruptions and/or credit downgrades such events may cause certain sources of funding to become unavailable. For example, in the case of a liquidity crisis, wholesale funding becomes increasingly costly and more difficult to obtain which may adversely affect capital raising in the debt capital markets, including issuing sukuk certificates. Kuveyt Türk's inability to refinance or replace deposits and devalued assets with alternative funding available on commercially reasonable terms, or at all, could have an adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

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

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

***Kuveyt Türk is controlled by Kuwait Finance House K.S.C. ("KFH") whose interests may not be aligned with the interests of the Certificateholders***

As of 30 June 2016, KFH owns 62.32 per cent. of Kuveyt Türk's share capital, see "*Description of Kuveyt Türk—Shareholders*" for further details. There can be no guarantee that the interests of KFH will align with those of the Certificateholders and, if they do not, the Certificateholders may be disadvantaged.

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

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

Although the participation banking industry is well established with a loyal customer base in Turkey, participation banking is a relatively new and growing area in the Turkish banking sector. As at 31 December 2015, participation banks have a total market share of approximately 5.1 per cent. (compared to 5.2 per cent. as at 31 December 2014) and Kuveyt Türk has a market share of approximately 1.8 per cent. (compared to 1.7 per cent. as at 31 December 2014), in each case of the Turkish banking sector in terms of asset size. There can be no assurances that customer perception in relation to participation banking will not change as a result of events and factors affecting the socio-political environment in Turkey and in countries where Kuveyt Türk operates or considers operating in the future or that the market share of participation banks will remain stable.

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

In order to simplify the structure of reserve requirements that are used as monetary and macro prudential policy tools, the CBT has adopted a new approach. Instead of deducting specified items from total domestic liabilities, only the items subject to reserve requirements are directly taken into account while calculating liabilities subject to reserve requirements. Thus, immaterial items, which do not have a direct impact on the monetary policy but reduce the efficiency of the operational processes, have been excluded from reserve requirements coverage, consequently resulting in the reserve requirements being based on more stringent criteria.

In addition to these regulatory measures, the CBT has tightened monetary policy raising short term interest rates and simplifying the operational framework in order to contain the negative impacts of recent developments in domestic and international markets on risk perception and inflation outlook. The marginal funding rate was increased on 29 January 2014 to 12 per cent. from 7.75 per cent., the borrowing rate was also increased on 29 January 2014 from 3.5 per cent. to 8 per cent., the interest rate on borrowing facilities provided for primary dealers via repo transactions was increased from 6.75 per cent. to 11.5 per cent. on 29 January 2014 and the one-week repo rate was increased to 10 per cent. from 4.5 per cent. in January 2014. The CBT has, since the middle of 2014, lowered interest rates due to improvements in the outlook on inflation and global liquidity conditions. As at the date of this Prospectus, the one-week repo rate is 7.50 per cent., the overnight borrowing rate is 7.25 per cent. and the overnight lending rate is 8.25 per cent.

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

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

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

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

There can be no assurance that Kuveyt Türk's risk management and internal control policies and procedures will adequately control or protect Kuveyt Türk against all credit, liquidity, market, operational and other risks. In addition, certain risks could be greater than Kuveyt Türk's empirical data would otherwise indicate.

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

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

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

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

Although Kuveyt Türk is a participation bank dealing in financial products that differ in many ways from the products of conventional banks, it faces significant competition from not only other participation banks, but also from conventional banks in the Turkish banking sector. As at 31 December 2015, there were a total of 51 banks (excluding the CBT) licensed to operate in Turkey, 25 of which were banks with foreign ownership (including the subsidiaries of foreign banks and joint ventures between Turkish and foreign shareholders) and five of which were participation banks. A small number of banks in the Turkish banking sector dominate the market. According to the BRSA, as at 31 December 2015, the top five banks in Turkey (in terms of asset size), one of which was state controlled, held approximately 58 per cent. of the banking sector's total credit portfolio, approximately 60 per cent. of total bank assets in Turkey and approximately 62 per cent. of total depositors in Turkey.

State-controlled banks in Turkey have historically focused on government and government-related projects but are increasingly focusing on the private sector, leading to increased competition and pressure on margins. The government of Turkey (the "**Government**") has granted approvals to various state-controlled banks to enter the participation banking market through the establishment of subsidiaries which will operate as participation banks. As at the date of this Prospectus, T.C. Ziraat Bankası's participation banking operations have commenced and Vakıf Katılım Bankası A.Ş.'s participation banking operations also commenced as of 24 February 2016. In addition, state-controlled banks in Turkey have historically had access to very inexpensive funding in the form of very significant Government deposits, which has provided a competitive advantage over private banks. This competitive advantage has often resulted in such banks adopting aggressive pricing strategies on both deposit and loan products.

International banks have shown an increased interest in the banking sector in Turkey. For example, Standard Chartered Bank of the United Kingdom acquired Credit Agricole's Turkish banking operations (announced in August 2012), and Bank Audi of Lebanon launched retail operations in Turkey through its Odea Bank subsidiary after receiving its operating licence from the BRSA in October 2012. In December 2012, the BRSA approved the incorporation of a bank (with a deposit taking licence) by the Bank of Tokyo—Mitsubishi UFJ, Ltd and The Bank of Tokyo—Mitsubishi UFJ, Ltd was granted an operational permit in September 2013. The Commercial Bank of Qatar (Q.S.C.) acquired 70.84 per cent. of Alternatif Bank A.Ş. in July 2013. In August 2013, Rabobank International Holding B.V. was granted an authorisation to establish a deposit bank in Turkey. In April 2014, Industrial and Commercial Bank of China Ltd. announced that it had signed an agreement to acquire 75.5 per cent. of Tekstilbank from GSD

Holding A.S. In June 2016, Qatar National Bank announced that it had completed the acquisition of Turkey's Finansbank. The entry of foreign-owned banks to the sector, either directly or in collaboration with existing Turkish banks, may increase the already significant competition in the market, especially given that some of these foreign competitors have significantly greater resources and less expensive funding sources than Turkish banks.

Although Kuveyt Türk has been adapting to the changing conditions based on competition to limit the effects on its operations, this increased competition may have a negative impact on the margins Kuveyt Türk can charge for its products. Competitors may also direct greater resources and be more effective in the development and/or marketing of technologically advanced products and services that may compete directly with Kuveyt Türk's products and services, adversely affecting the acceptance of Kuveyt Türk's products and/or leading to adverse changes in the spending habits of Kuveyt Türk's customer base. There can be no assurances that further competitive pressures will not result in margin compression or that Kuveyt Türk will be able to keep pace with competitors' development of new products and services, which could have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Kuveyt Türk is increasingly dependent on information technology systems to conduct its business. Any failure or interruption or breach in security of these systems could result in failures or interruptions in Kuveyt Türk's risk management, general ledger, account servicing or credit organisation systems.

Although Kuveyt Türk has developed back-up systems and may continue some of its operations through branches in case of emergency, if Kuveyt Türk's information systems fail, Kuveyt Türk could be unable to serve some customers' needs on a timely basis and could lose their business or experience negative publicity. Likewise, a temporary shutdown of Kuveyt Türk's information technology systems could result in significant costs being incurred in connection with information retrieval and verification.

Kuveyt Türk has established a disaster recovery centre (the "**Disaster Recovery Centre**") at Türk Telekom Data Centre in Ankara. This site is located in a first degree earthquake risk zone. Kuveyt Türk has established a separate online back-up system which is used to transfer critical data to the Disaster

Recovery Centre. Notwithstanding these precautions, should a natural disaster or other event affecting the Ankara area occur, or should Kuveyt Türk be unable to use its online link to the back-up system at the Disaster Recovery Centre, it may be impossible for Kuveyt Türk to recover data in the event that its main information systems located in Istanbul 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 and prospects.

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

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

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

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

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

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

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

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



material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

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

***Adverse judgments or settlements in legal disputes could impose costs on Kuveyt Türk***

Kuveyt Türk is subject to, and may become subject to, a variety of litigation or other claims and suits that arise from time to time in the ordinary course of its business. Adverse judgments or settlements in some or all of these legal disputes may result in monetary damages, injunctive relief or costs orders being awarded against Kuveyt Türk. Whilst Kuveyt Türk has not been subject to any such claims which have had a significant effect on its financial position or profitability in the last 12 months, it has recently been made aware, through media reports, that certain allegations have been made against it by persons based in the United States. It is alleged in such reports that persons holding accounts with Kuveyt Türk have raised funds for terrorist organisations. Kuveyt Türk believes that such allegations are entirely untrue and without merit, and has, to date, received no formal notice of such proceedings (See "*Description of Kuveyt Türk Katılım Bankası A.Ş —Legal Proceedings*"). However, these claims or other claims that arise from time to time in the ordinary course of Kuveyt Türk's business could, if successful, adversely effect Kuveyt Türk.

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

Credit ratings affect the cost and other terms upon which Kuveyt Türk is able to obtain funding. Rating agencies regularly evaluate Kuveyt Türk and their ratings of its long-term debt are based on a number of factors, including its financial strength as well as conditions affecting the financial services industry generally. As at the date of this Prospectus, Kuveyt Türk's long-term local currency rating was BBB with a negative outlook from Fitch. In addition, the Certificates are expected to be assigned a credit rating of BBB by Fitch. Any ratings of either Kuveyt Türk or the Certificates may not reflect the potential impact of all risks related to the Certificates, the global financial market and the Turkish banking sector. In light of the difficulties in the financial markets, there can also be no assurance that the rating agencies will maintain Kuveyt Türk's current ratings or outlooks.

On 20 July 2016, Standard & Poor's ("**Standard & Poor's**") downgraded Turkey's credit rating to BB with a negative outlook from BB+. On 19 August 2016, Fitch cut its outlook for Turkey's credit rating to negative from stable and, on 23 September 2016, Moody's downgraded Turkey's credit rating to Ba1 with a stable outlook. Such downgrades or any further downgrades of the Turkish sovereign rating could negatively affect the perception of Kuveyt Türk's ratings.

Fitch is established in the European Union and is registered under the CRA Regulation. As such, Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein), does not address the likelihood or timing of repayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

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

All banks established in Turkey require licensing by the BRSA. Each of Kuveyt Türk and, to the extent applicable, each of its subsidiaries has a current Turkish and/or other applicable licence for all of its banking and other operations. Kuveyt Türk believes that it, and each of its subsidiaries, is currently in compliance with its existing material licence and reporting obligations.

In the event of financial instability within a bank in Turkey, the Savings Deposits Insurance Fund ("**SDIF**") may take measures to restructure such a bank to strengthen its fiscal structure (See "*Overview of the Turkish Banking Sector and Regulations — The Role of the SDIF*"). In February 2015, Bank Asya came under the supervision of the SDIF as a result of a determination by the BRSA that Bank Asya had

failed to submit information and documents concerning 132 of 185 of its privileged shareholders. On 22 July 2016, Bank Asya's banking permissions were cancelled by the BRSA.

Any failure by Kuveyt Türk to comply with its material licence and reporting obligations could result in it coming under the supervision of the SDIF and ultimately having its banking permissions cancelled. If Kuveyt Türk or, to the extent applicable, any of its subsidiaries were to suffer a future loss of any licence for the foregoing or other reasons, breach the terms of any licence or fail to obtain any further required licences, then this could have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

### **Risk factors relating to Turkey**

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

Kuveyt Türk is predominantly engaged in business in Turkey and its results of operations and financial condition are to a large extent dependent upon the overall level of economic activity and political stability in Turkey. Even though in recent years Turkey has undergone significant political and economic transformation which has resulted in increased stability and economic growth, Turkey has experienced social and political challenges (see – "*Risk Factors – Adverse political, economic and related considerations in Turkey could adversely affect Kuveyt Türk's business*") been affected by the global financial crisis and is still generally considered by international investors to be an emerging market.

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

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

The Turkish economy has experienced significant inflationary pressures in the past with year-over-year consumer price inflation rates as high as 69 per cent. in the early 2000s. However, weak domestic demand and declining energy prices in 2009 caused the domestic year-over-year consumer price index to decrease to 6.5 per cent. at the end of 2009, the lowest level in many years. Consumer price inflation was 6.4 per cent. in 2010, 10.5 per cent. in 2011, 6.2 per cent. in 2012, 7.4 per cent. in 2013, 8.17 per cent. in 2014 and increased further to 8.81 per cent. in 2015. Global price increases for certain commodities such as cotton, corn and wheat are likely to increase supply side inflation pressures throughout the world. These inflationary pressures may result in Turkish inflation exceeding the CBT's inflation target, which may cause the CBT to modify its monetary policy. Inflation-related measures that may be taken by the Government in response to increases in inflation could have an adverse effect on the Turkish economy. If the level of inflation in Turkey were to fluctuate or increase significantly, whether as a result of recent social and political challenges faced in Turkey (see – "*Risk Factors – Adverse political, economic and related considerations in Turkey could adversely affect Kuveyt Türk's business*") or otherwise, then this could have a material adverse effect on Kuveyt Türk's business, financial condition and results of operations and prospects.

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

In 2010, Turkey's current account deficit was U.S.\$45.4 billion, which increased to U.S.\$75.1 billion in 2011, before decreasing to U.S.\$48.5 billion in 2012 according to the CBT. This decline in the current account deficit in 2012 was largely the result of coordinated measures initiated by the CBT, BRSA and Turkish Ministry of Finance to lengthen the maturity of deposits, reduce short-term capital inflows and

curb domestic demand. The main aim of these measures has been to slow the rate of growth in the current account deficit by controlling the rate of loan growth. The current account deficit increased from U.S.\$48.5 billion in 2012 to U.S.\$65 billion in December 2013 primarily driven by strong domestic demand and banking sector credit expansion. The increase was followed by a decrease in the current account deficit to U.S.\$45.9 billion in 2014 and a further decrease to U.S.\$32.2 billion in 2015. Further regulations may be introduced by the BRSA or the CBT with respect to loan growth ratios that could have a material adverse effect on Kuveyt Türk's business, financial condition and results of operations.

As a result of the current financial situation in the EU, a decline in demand for imports could have a material adverse effect on Turkish exports and Turkey's economic growth and result in an increase in Turkey's current account deficit.

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

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

As a result of Turkey's high-level political commitment to work with the Financial Action Task Force ("FATF") to seek to address Turkey's deficiencies in combating the financing of terrorism, the Law on Prevention of Financing of Terrorism numbered 6415 and dated 7 February 2013 (the "**Terrorism Law**") was enacted by Turkey and was published on the Official Gazette on 17 February 2013 in order to make sufficient progress in: (a) adequately criminalising terrorist financing; and (b) implementing an adequate legal framework for identifying and freezing terrorist assets before 22 February 2013. Otherwise, the FATF may call upon its members to apply counter measures proportionate to the risks associated with Turkey (for example, the FATF may require banks in member states to apply extra procedures on any transactions with banks in Turkey).

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

The FATF published its 15<sup>th</sup> follow-up report in October 2014 on the mutual evaluation of Turkey and noted that Turkey had taken sufficient steps in addressing technical compliance with the core and key FATF recommendations to be removed from the follow-up process relating to its deficiencies in combating the financing of terrorism. Nevertheless, the FATF may further request that Turkey adopt additional measures and procedures to ensure full compliance with then applicable FATF requirements. This may have an adverse affect on Kuveyt Türk's business, financial condition and results of operations and prospects.

#### ***Risks relating to emerging markets***

In recent years Turkey has undergone significant political and economic transformation which has resulted in increased stability and economic growth coupled with continued times of instability and unrest. 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.

In particular, on 15 July 2016, the Government was subject to an attempted coup by a group within the Turkish army (the "**Attempted Coup**"). The Government and the Turkish security forces (including the Turkish army) took control of the situation in a short period of time and the ruling Government remained in control.

On 20 July 2016, the Government declared a three month state of emergency in Turkey, entitling the Government to exercise additional powers. Under Article 120 of the Turkish Constitution, in the event of serious indications of widespread acts of violence aimed at the destruction of the free democratic order, a state of emergency may be declared in one or more regions of, or throughout, the country for a period not exceeding six months; however, this period may be extended. The state of emergency entitles the Government to exercise additional powers. The Government has arrested, discharged or otherwise limited the roles of, in the aggregate, thousands of members of the military, the judiciary and the civil service alleged to have links to those responsible for the Attempted Coup, and has taken other actions in response to the Attempted Coup. Although, to date, Kuveyt Türk's operations have not been materially affected by the Attempted Coup, the impact on political and social circumstances following the Attempted Coup and its aftermath (including rating downgrades of Turkey) have been significant and could reasonably be expected to have a negative impact on the Turkish economy (including the value of the Turkish Lira, international investors' willingness to invest in Turkey and domestic demand), the institutional and regulatory framework in Turkey, Kuveyt Türk's and/or the Group's business, liquidity and/or conditions (financial or otherwise) and/or the value and/or market price of an investment in the Certificates. Government investigations with respect to the Attempted Coup are on-going as at the date of this Prospectus. There may be further arrests and actions taken by the Government in relation to these investigations, including changes in policies and laws.

As a result of these and other events, Standard & Poor's downgraded Turkey's credit rating to BB with a negative outlook from BB+ on 20 July 2016, Fitch cut its outlook for Turkey's credit rating to negative from stable on 19 August 2016 and Moody's downgraded Turkey's credit rating to Ba1 with a stable outlook on 23 September 2016.

Any further uncertainty or instability stemming from, or related to, the Attempted Coup, or other such political events in Turkey, could have a material adverse effect on Kuveyt Türk's business, financial condition and results of operations and prospects.

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

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

Since December 2010, political instability has increased markedly in a number of countries in the Middle East and North Africa, such as Tunisia, Egypt, Jordan, Yemen, Syria, Iraq and Libya. Political instability in the Middle East and elsewhere remains a concern, most recently exemplified by the internal conflict in Syria and Iraq (and terrorist groups operating in those countries), and tension between Iran and Israel. Unrest in those countries and regions may also have implications for the wider global economy and may negatively affect market sentiment towards other countries in the region, including Turkey and between Iran and member countries of the Gulf Cooperation Council ("**GCC**"). The conflict in Syria has been the subject of significant international attention and is inherently volatile and its impact and resolution is difficult to predict. In early October 2012, Turkish territory was hit by shells launched from Syria, some of which killed Turkish civilians. On 4 October 2012, the Turkish Parliament authorised the Government for one year to send and assign military forces in foreign countries should such action be considered appropriate by the Government, and on 3 October 2013, the authorisation was extended for one year.

In November 2015, relations between Turkey and Russia deteriorated as a result of the downing of a Russian war plane on the boarder of Turkey and Syria. As a result, Russia implemented a series of economic sanctions against Turkey in the aftermath of the event, and while relations have improved, there

is no guarantee that any such sanctions will be limited or removed and, to the extent that such sanctions are not limited or removed, they may negatively impact Turkey's economy.

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

Turkey has also experienced problems with domestic terrorist and ethnic separatist groups. For example, Turkey has been in conflict for many years with the People's Congress of Kurdistan, formerly known as the PKK (an organisation that is listed as a terrorist organisation by states and organisations including Turkey, the EU and the United States). On 9 January 2013, three PKK activists were killed in Paris jeopardising Turkish-Kurdish peace talks. Furthermore, tensions between Syria and Turkey have intensified following the shooting down of a Turkish aircraft by Syrian forces in June 2012 and more recently a mortar attack on the Turkish border town of Akcakale which killed five civilians. In response to this, the Turkish Parliament authorised the government on 4 October 2012 to task the military and send troops outside Turkey for a one year period, if deemed necessary, while the United Nations Security Council issued a statement condemning the attack on Akcakale by the Syrian armed forces. A terrorist attack in Suruc in July 2015 which killed 32 civilians prompted a counter-offensive by the Turkish military in Syria and raids against the PKK were also intensified.

In addition, there have been a number of terror attacks in recent months, such as the terror attacks in Istanbul in January and March 2016 targeting tourists in the Sultanahmet and Beyoglu districts which killed a total of 18 people. In April 2016, a suicide bomber wounded 13 people in Bursa. In May 2016, six Turkish soldiers were killed and four others were wounded in a PKK lead attack in the district of Caldıran in the eastern Van province. On 7 June 2016, a bomb attack targeting a police vehicle in a central Istanbul district killed 11 people, including seven members of the police force. The explosion took place near the Vezneciler metro station, which is within walking distance of some of the city's main tourist sites, including the Suleymaniye Mosque. On 28 June 2016, A terrorist attack, consisting of shootings and suicide bombings, occurred at Atatürk Airport in Istanbul. Most recently, on 20 August 2016, a suicide bomber targeted a wedding party in Gaziantep, killing a total of 54 people.

The continuing conflict in Syria has resulted in hundreds of thousands of Syrian refugees crossing into Turkey. According to the United Nations, as of March 2016, more than 2.7 million refugees from Syria are present in Turkey and the country has spent over U.S.\$8 billion on aid for refugees. On 18 March 2016, Turkey and the European Union entered into an agreement which would see refugees and economic migrants returned to Turkey from Greece in exchange for the settlement of certain asylum seekers in Europe. In return, Turkey would receive U.S.\$7 billion in financial support for the refugee population and certain other concessions, including the possibility of visa free travel for Turkish citizens and advanced talks on possible European Union membership for Turkey. It is uncertain whether this agreement will last or what effect it will have on the refugee crisis. If the refugee crisis persists it may lead to continued strained relations between Turkey and the European Union and may continue to have a negative economic, political and social impact on Turkey.

Such regional conflicts and terrorist attacks and the threat of future terrorism has had and may continue to have an affect on the level of tourism, foreign investment and other elements of the Turkish economy, as well as Turkey's capital markets, which, together or in combination, could have an adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects. While Kuveyt Türk's property and business interruption insurance covers damage to insured property directly caused by terrorism, there can be no assurance that such amounts will be sufficient to cover any losses that may occur.

Kuveyt Türk may also be affected if there are regional, political or economic events that prevent it from delivering its services. It is not possible to predict the occurrence of such events or circumstances or the

impact of such occurrences and no assurance can be given that Kuveyt Türk would be able to fulfil its obligations if such events or circumstances were to occur. A general economic downturn or instability in certain sectors of the regional economy could have an adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

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

The 2008 global financial crisis has affected the banking sector in Turkey. Turkey has diversified its export markets in recent years but the EU remains Turkey's largest export market and as a result, the recent financial crisis being experienced within countries in the EU, had, and may in the future have, an adverse impact on the Turkish economy as demand for Turkish exports may decrease from the EU.

During the global financial crisis, Turkey suffered reduced domestic consumption and investment and a sharp decline in exports, which led to an increase in unemployment. Turkey's GDP contracted by 7.0 per cent. in the fourth quarter of 2008 and declined 4.8 per cent. in 2009. Following the implementation of fiscal and monetary measures during 2009, the Turkish economy began to recover in the fourth quarter of 2009, resulting in Turkey's GDP growing by 9.2 per cent. in 2010, 8.8 per cent. in 2011, 2.1 per cent. in 2012 and 4.2 per cent. in 2013, 2.9 per cent. in 2014 and 4.2 per cent. in 2015. Its unemployment rate decreased from 16.1 per cent. in February 2009 to 9.1 in October 2012 but increased slightly in 2013 to 9.7 per cent. As at May 2016, the unemployment rate was 9.4 per cent. There can be no assurance that the unemployment rate will, in fact, improve, or even that it will not increase further in the future. Continuing high levels of unemployment may affect Kuveyt Türk's retail customers and business confidence, which could impair its business strategies and have a material adverse effect on its business, financial condition and results of operations.

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

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

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

Though Turkey has had a long relationship with the EU, that relationship has at times been strained. During 2006, the EU issued several warnings in connection with Turkey's undertakings under the additional protocol dated July 2005. Following this, in December 2006, the EU decided that negotiations in eight Chapters should be suspended and that no Chapter be closed until the EU has verified that Turkey has fulfilled its commitments relating to the additional protocol. In November 2013, the negotiations on the Chapters and Turkey's accession to the EU were recommenced. There can be no assurance that the EU will continue to maintain an open approach to Turkey's EU membership, nor that Turkey will be able to meet all the criteria applicable to becoming a member state, including the new Chapters opened in 2009 relating to taxation and the environment.

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

Recently, four significant pieces of legislation have been subject to substantial amendment, namely the Turkish Code of Obligations, the Turkish Code of Civil Procedures, the Turkish Commercial Code and



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

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

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

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

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

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

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

Pursuant to the regulation regarding the internal systems and internal capital assessment process of banks as issued by the BRSA and published in the Official Gazette on 11 July 2014, banks are obligated to establish, manage and develop (for themselves and all of their consolidated affiliates) internal audit, internal control and risk management systems commensurate with the scope and structure of their organisations, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. To achieve this, according to the regulation, the internal control personnel cannot also be appointed to work in a role conflicting with their internal control duties.

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

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

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

***Any introduction of exchange controls would have an adverse effect on Kuveyt Türk 's business, financial condition or results of operations generally and its ability to make any payments required under the Transaction Documents***

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

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

### ***The Turkish economy is undergoing transformation to a free market system***

The Turkish economy is undergoing continued transformation to a free market system, is subject to significant macroeconomic risks and has been dependent upon the support of the International Monetary Fund (the "IMF") in times of economic crisis. Since the early 1980s, the Turkish economy has undergone a transformation from a highly protected and regulated system to a free market system. Although the Turkish economy has responded well in general to this transformation, it has continued to experience severe macroeconomic imbalances and has frequently resorted to support from the IMF. While the economy has been significantly stabilised due, in part, to IMF requirements, Turkey may experience another significant economic crisis. If the IMF or similar support is not provided or available in any future crisis, then this lack of assistance could have a material adverse effect on Kuveyt Türk's business, financial condition and/or results of operations and/or prospects. Investors should note that notwithstanding the Turkish economy's traditional resort to the IMF in times of macroeconomic imbalance, the Government decided that IMF support was not required in connection with the 2008 global financial crisis.

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

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

### ***Earthquakes — Turkey is subject to the risk of significant seismic events***

A significant portion of Turkey's population and most of its economic resources are located in a first-degree earthquake risk zone and Turkey has experienced a large number of earthquakes in recent years, some quite significant in magnitude. For example, in October 2011, the eastern part of the country was struck by an earthquake measuring 7.2 on the Richter scale, causing significant property damage and loss of life.

Kuveyt Türk maintains earthquake insurance but does not have the wider business interruption insurance or insurance for loss of profits, as such insurance is not generally available in Turkey. In the event of future earthquakes, effects from the direct impact of such events on Kuveyt Türk's business and its employees, as well as measures that could be taken by the Government (such as the imposition of taxes), could have a material adverse effect on the Kuveyt Türk's business, financial condition and/or results of operations. In addition, an earthquake or other large-scale disaster might have an adverse impact on the Kuveyt Türk's customers' ability to honour their obligations to Kuveyt Türk.

### ***Risks relating to the Turkish banking industry***

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

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

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

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

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

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

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

#### ***Turkish banking regulation is administered on the basis of BRSA accounts***

Kuveyt Türk's primary regulator, the BRSA, uses the BRSA Financial Statements to assess Kuveyt Türk's compliance with banking regulations and capital adequacy requirements. Therefore, the results of operations and financial condition of Kuveyt Türk as reflected in the IFRS Financial Statements might not reflect Kuveyt Türk's business, results of operations or financial condition as used to determine Kuveyt Türk's performance under, and in compliance with, Turkish regulations issued by the BRSA. In addition, Kuveyt Türk uses its BRSA Financial Statements to determine whether, and to what extent, it can undertake certain activities, such as paying dividends to shareholders. A summary of differences between IFRS and BRSA Principles and details of the reconciliation of certain IFRS and BRSA data are set out in *"Summary of Differences between IFRS and BRSA Principles."*

## **Risk factors relating to the Certificates**

### ***Absence of secondary market or limited liquidity***

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

### ***The Certificates are limited recourse obligations***

The Certificates are not debt obligations of the Issuer. Instead, the Certificates solely represent the interests of Certificateholders in the Sukuk Assets. Recourse to the Issuer in respect of the Certificates is limited to the Sukuk Assets and the proceeds of such Sukuk Assets are the sole source of payments on the Certificates.

Upon the occurrence of a Termination Event, the sole rights of each of the Certificateholders' Representative and, through the Certificateholders' Representative, the Certificateholders will be against Kuveyt Türk to perform its respective obligations under the Transaction Documents. Certificateholders will otherwise have no recourse to any assets of the Issuer or Kuveyt Türk in respect of any shortfall in the expected amounts due under the Sukuk Assets. Kuveyt Türk is obliged to make certain payments under the Transaction Documents directly to the Certificateholders' Agent, and the Certificateholders' Representative will have direct recourse against Kuveyt Türk to recover such payments due to the Certificateholders' Agent pursuant to the Transaction Documents. In the absence of default by the Certificateholders' Representative, investors have no direct recourse to Kuveyt Türk and there is no assurance that the net proceeds of the realisation of, or enforcement with respect to, the Sukuk Assets will be sufficient to make all payments due in respect of the Certificates.

After enforcing or realising the Sukuk Assets and distributing the net proceeds of the Sukuk Assets in accordance with the Conditions, the obligations of the Issuer and the Certificateholders' Agent in respect of the Certificates shall be satisfied and neither the Certificateholders' Representative nor any Certificateholder may take any further steps against the Issuer or the Certificateholders' Agent to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Issuer, the Certificateholders' Agent, the Certificateholders' Representative or any Certificateholder have any right to cause the sale or other disposition of any of the Sukuk Assets except pursuant to the Transaction Documents and the sole right of the Issuer, the Certificateholders' Agent, the Certificateholders' Representative and the Certificateholders against Kuveyt Türk shall be to enforce the obligation of Kuveyt Türk to perform its obligations under the Transaction Documents.

### ***The Certificates may be subject to early redemption***

Subject as provided in Condition 9, Kuveyt Türk will be granted the right under the Sale and Transfer Undertaking to oblige the Certificateholders' Agent to sell the Asset Portfolio at any time upon the occurrence of a Tax Event, following which the Issuer may redeem all, but not some only, of the Certificates at the Termination Distribution Amount. Depending on prevailing market conditions on such redemption, an investor may not be able to reinvest the redemption proceeds in a comparable security in respect of which distributions are payable at an equivalent rate to that at which Periodic Distribution Amounts are payable in respect of the Certificates.

## **Risk factors relating to the Asset Portfolio**

### ***Interest in the Constituent Assets***

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

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

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

### ***Transfer of the Constituent Assets***

No investigation has been or will be made as to whether any interest in the Constituent Assets may be transferred as a matter of the law governing the contracts, the law of the jurisdiction where such assets are located or any other relevant law. No investigation will be made to determine if the Purchase Agreement will have the effect of transferring an interest in the Constituent Assets. Accordingly, no assurance is given that any interest in the Constituent Assets has been or will be transferred to the Certificateholders' Agent.

Kuveyt Türk has undertaken in the Purchase and Asset Portfolio Undertaking to indemnify the Certificateholders' Agent for the purposes of redemption in full of the outstanding Certificates in the event that any transfer of any relevant interest in any Constituent Assets is found to be ineffective. In addition, Kuveyt Türk has agreed in the Purchase and Asset Portfolio Undertaking that, to the extent that the sale and purchase or transfer of any relevant interest in any Constituent Assets is not effective in any jurisdiction for any reason, it will in consideration for the payment to Kuveyt Türk by the Certificateholders' Agent of the purchase price for that relevant interest make payment of an amount equal to the purchase price by way of restitution to the Certificateholders' Agent immediately upon request.

In the event that the Constituent Assets are not repurchased by Kuveyt Türk for any reason, the Certificateholders' Representative will seek to enforce the payment and indemnity obligations of Kuveyt Türk under the Purchase and Asset Portfolio Undertaking. To the extent that it obtains an English judgment in its favour, it may seek to enforce that judgment or award in a Turkish court. This will be subject to general enforcement risks in Turkey (see "*Risk factors relating to enforcement—Enforcing foreign judgments in Turkey*").



## **Risk factors relating to taxation**

### ***Taxation risks on payments***

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

### ***Certain payments made on or with respect to the Certificates may be subject to U.S. withholding tax under FATCA***

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the Republic of Turkey) have entered into intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Certificates, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, such withholding would not apply prior to 1 January 2019. Prospective investors should consult their own tax advisors regarding how these rules may apply to their investment in the Certificates. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Certificates, no person will be required to pay additional amounts as a result of the withholding.

## **Risk factors relating to enforcement**

### ***Enforcement risk***

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

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

### ***Enforcing foreign judgments in Turkey***

Kuveyt Türk is a joint stock company organised under the laws of Turkey. Certain of the directors and officers of Kuveyt Türk reside inside Turkey and all or a substantial portion of the assets of such persons may be, and substantially all of the assets of Kuveyt Türk are, located in Turkey. As a result, it may not

be possible for investors to effect service of process upon such persons outside Turkey or to enforce against them in the courts of jurisdictions other than Turkey any judgments obtained in such courts that are predicated upon the laws of such other jurisdictions.

In addition, under the International Private and Procedural Law of Turkey (Law No. 5718), a judgment of a court established in a country other than the Republic of Turkey may not be enforced in Turkish courts in certain circumstances. There is no treaty between the United Kingdom and Turkey providing for reciprocal enforcement of judgments; however, Turkish courts have rendered at least one judgment confirming *de facto* reciprocity between the United Kingdom and Turkey with respect to the enforcement of judgments of their respective courts. Nevertheless, since *de facto* reciprocity is decided by the relevant court on a case-by-case basis, there remains uncertainty as to the enforceability of court judgments obtained in the United Kingdom by Turkish courts. See "*Enforcement of Foreign Judgments and Service of Process*".

### ***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 the enforcement fee.

### ***Change of law***

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

### ***Claims for specific enforcement***

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

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

### ***Additional risk factors***

#### ***Credit ratings may not reflect all risks***

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

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit

rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("ESMA") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency being included in such list as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list.

### ***Emerging markets***

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

### ***Modification of the Conditions and the Transaction Documents and other matters***

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

The Conditions and the Declaration of Agency also provide that the Certificateholders' Representative may, without the consent of Certificateholders and without regard to the interests of particular Certificateholders, agree to any modification of any of the provisions of the Certificates, the Declaration of Agency or any other Transaction Document if, in the opinion of the Certificateholders' Representative, such modification is (a) of a formal, minor or technical nature, (b) made to correct a manifest error, or (c) not materially prejudicial to the interests of Certificateholders. The Certificateholders' Representative may further agree to any waiver or authorisation of any breach or proposed breach of the Conditions, the Declaration of Agency or any other Transaction Document, in each such case as further described in Condition 17.

### ***Reliance on Euroclear and Clearstream, Luxembourg procedures***

The Certificates will be represented on issue by a Global Certificate that will be deposited with, and registered in the name of a nominee for, 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 and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Certificate. While the Certificates are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

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

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

### ***Sharia rules***

The QInvest *Sharia*'a Supervisory Board, the Fatwa and *Shari'a* Supervisory Board of Noor Bank, the Sharia Supervisory Committee of Standard Chartered Bank, the KFH Capital *Sharia* Committee and the Fatwa and *Shari'a* Supervision Board of Dubai Islamic Bank and Dar Al Sharia Legal and Financial

Consultancy have each reviewed the Transaction Documents. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be *Sharia* compliant by any other *Sharia* board or *Sharia* scholars or in the future. None of the Issuer, the Certificateholders' Agent, the Certificateholders' Representative, the Paying Agents, Kuveyt Türk or the Managers makes any representation as to the *Sharia* compliance of the Certificates and potential investors are reminded that, as with any *Sharia* views, differences in opinion are possible. Potential investors should obtain their own independent *Sharia* advice as to the compliance of the Transaction Documents and the issue and trading of the Certificates with *Sharia* principles.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the Central Bank of Ireland shall be incorporated in, and form part of, this Prospectus:

- (a) the audited consolidated financial statements of Kuveyt Türk for the year ended 31 December 2014, prepared and presented in accordance with BRSA Principles (together with the auditors reports thereon), available at:

[http://www.ise.ie/debt\\_documents/31.12.2014%20BRSA%20Consolidated\(18199791\\_1\)\\_51a5900b-7f6e-4a3a-9362-8e48acdf970a.PDF?v=2072015](http://www.ise.ie/debt_documents/31.12.2014%20BRSA%20Consolidated(18199791_1)_51a5900b-7f6e-4a3a-9362-8e48acdf970a.PDF?v=2072015)

- (b) the audited consolidated financial statements of Kuveyt Türk for the year ended 31 December 2015, prepared and presented in accordance with BRSA Principles (together with the auditors reports thereon), available at:

[http://www.ise.ie/debt\\_documents/BRSA%20financial%20statement%20of%20KT%20year%20ended%202015\(22060153\\_1\)\\_46028caa-0f85-4d4c-8292-ee9a93a2e4c6.PDF](http://www.ise.ie/debt_documents/BRSA%20financial%20statement%20of%20KT%20year%20ended%202015(22060153_1)_46028caa-0f85-4d4c-8292-ee9a93a2e4c6.PDF)

- (c) the unaudited consolidated financial statements of Kuveyt Türk for the six month period ended 30 June 2016 (including comparative financial information for the six month period ended 30 June 2015), prepared and presented in accordance with BRSA Principles (together with the auditors review reports thereon), available at:

[http://www.ise.ie/debt\\_documents/Half-yearly%20Financial%20Statement\\_cd9b5d45-74b8-4914-986c-f563fada0086.PDF](http://www.ise.ie/debt_documents/Half-yearly%20Financial%20Statement_cd9b5d45-74b8-4914-986c-f563fada0086.PDF)

- (d) the audited consolidated financial statements of Kuveyt Türk for the year ended 31 December 2014, prepared and presented in accordance with IFRS (together with the auditors reports thereon), available at:

[http://www.ise.ie/debt\\_documents/31.12.2014%20-%20IFRS%20Consolidated\(18199880\\_1\)\\_0b7ab8a9-fc92-4c4f-ba0d-6b141c5a42cd.PDF?v=2072015](http://www.ise.ie/debt_documents/31.12.2014%20-%20IFRS%20Consolidated(18199880_1)_0b7ab8a9-fc92-4c4f-ba0d-6b141c5a42cd.PDF?v=2072015)

- (e) the audited consolidated financial statements of Kuveyt Türk for the year ended 31 December 2015, prepared and presented in accordance with IFRS (together with the auditors reports thereon), available at:

[http://www.ise.ie/debt\\_documents/Annual%20Financial%20Statement\\_1b470102-c9bc-4a6f-96e6-baa57621becb.PDF](http://www.ise.ie/debt_documents/Annual%20Financial%20Statement_1b470102-c9bc-4a6f-96e6-baa57621becb.PDF)

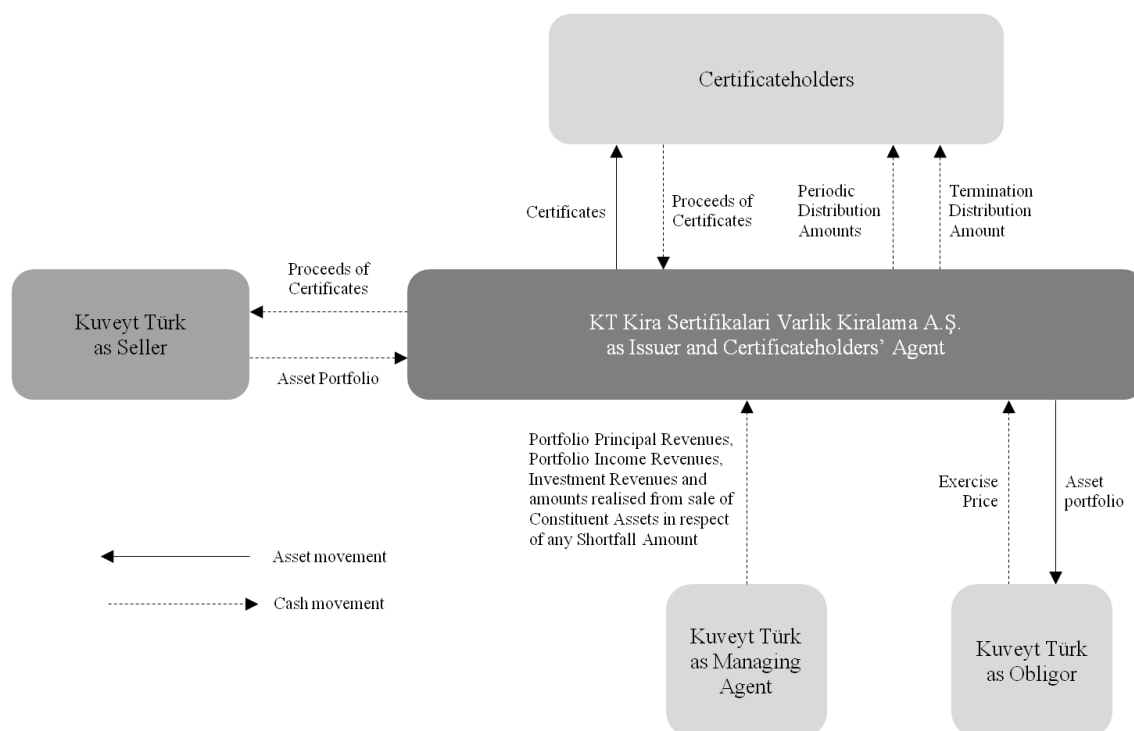
Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

The contents of any website referenced in this Prospectus do not form part of (and are not incorporated into) this Prospectus.

## STRUCTURE DIAGRAM AND CASHFLOWS

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

### Structure diagram



### Principal cash flows

#### *Payments by the Certificateholders and the Certificateholders' Agent*

On the Closing Date, the Certificateholders will pay the issue price in respect of the Certificates to the Issuer, which will hold such proceeds of the issue of the Certificates (the "**Issue Proceeds**") as Certificateholders' Agent and will pay the Issue Proceeds to or to the order of Kuveyt Türk as the purchase price payable under the Purchase Agreement for the purchase of an initial portfolio (the "**Asset Portfolio**") of:

- certain assets the subject of ijara (lease) financing contracts (including the related ijara financing contracts and all rights under such contracts) ("**Ijara Assets**");
- shari'a* compliant sukuk or trust certificates having associated with such certificates underlying tangible assets of a value not less than the aggregate face amount of those certificates ("**Tangible Investment Sukuk**" and, together with the Ijara Assets, the "**Tangible Assets**"); and
- receivables under murabaha contracts (involving the sale of commodities on a deferred payment basis, which deferred payment includes a related profit amount), together with the related murabaha contract and all rights, interests, benefits and entitlements in, to and under such contract ("**Murabaha Receivables**") (together, the "**Constituent Assets**"),

with not less than 33<sup>1/3</sup> per cent. of the Issue Proceeds to be paid towards the purchase of Tangible Assets.

### ***Asset Portfolio Revenues***

The Certificateholders' Agent will appoint the Managing Agent to manage the Asset Portfolio on its behalf. The services to be provided by the Managing Agent in managing the Asset Portfolio will include the crediting of all revenues received in respect of the Asset Portfolio in the nature of capital or principal, including all amounts received in respect of Murabaha Receivables (the "**Portfolio Principal Revenues**") to a separate ledger account in the name of the Certificateholders' Agent (the "**Principal Collection Account**") on the Payment Business Day immediately prior to each Periodic Distribution Date. Amounts received in respect of Murabaha Receivables will constitute Portfolio Principal Revenues for these purposes on the basis such amounts will not represent a profit on the amounts invested by the Certificateholders' Agent (or the Managing Agent on its behalf) in those Murabaha Receivables, as the purchase price of any Murabaha Receivable on such investment will be an amount equal to the outstanding amounts payable in respect of that Murabaha Receivable.

All other revenues received in respect of the Asset Portfolio (the "**Portfolio Income Revenues**" and, together with the Portfolio Principal Revenues, the "**Portfolio Revenues**"), which will consist of any such other revenues received in respect of the Tangible Assets, will be credited by the Managing Agent to a further ledger account in the name of the Certificateholders' Agent (the "**Income Collection Account**") on the Payment Business Day immediately prior to each Periodic Distribution Date.

All Portfolio Principal Revenues credited to the Principal Collection Account on such Payment Business Day, after payment of any Shortfall Amount (as defined below) if required, will be applied by the Managing Agent, for and on behalf of the Certificateholders' Agent, towards the purchase from Kuveyt Türk (acting in its own capacity and for its own account) of additional Constituent Assets (the "**Additional Constituent Assets**"). In the event that Kuveyt Türk has insufficient Additional Constituent Assets available for sale to the Certificateholders' Agent at that time, the Managing Agent will invest any remaining Portfolio Principal Revenues by placing the relevant amounts on deposit with Kuveyt Türk on a Sharia compliant basis (the "**Sharia Compliant Investments**") pending the availability of such Additional Constituent Assets. Any returns generated from the investment of such Portfolio Principal Revenues in Sharia Compliant Investments (Sharia Compliant Investment Amounts) will be credited to the Income Collection Account on each Payment Business Day immediately prior to each Periodic Distribution Date.

### ***Periodic Distribution Payments***

Prior to each Periodic Distribution Date, the Managing Agent will pay to the Certificateholders' Agent from any amounts then standing to the credit of the Income Collection Account, an amount equal to the Periodic Distribution Amounts payable by the Issuer under the Certificates on such Periodic Distribution Date, and any amount so paid shall be applied by the Certificateholders' Agent for that purpose. To the extent the amounts standing to the credit of the Income Collection Account are insufficient to fund any such Periodic Distribution Amounts (with the shortfall in the relevant amounts credited to the Income Collection Account being the "**Shortfall Amount**"), the Managing Agent shall:

- (a) *first*, using amounts standing to the credit of the Principal Collection Account, pay into the Transaction Account an amount equal to the lesser of the Shortfall Amount and the balance of the Principal Collection Account;
- (b) *second*, where the amount paid into the Transaction Account pursuant to (i) above is insufficient to cover the Shortfall Amount, realise a portion of any Sharia Compliant Investments then held by the Managing Agent as selected by the Managing Agent equal in value to the remaining Shortfall Amount or, where the aggregate value of such Sharia Compliant Investments is less than the remaining Shortfall Amount, all such Sharia Compliant Investments, and pay the amount so realised to the Transaction Account; and
- (c) *third*, where the amounts paid into the Transaction Account pursuant to (i) and (ii) above are insufficient to cover the Shortfall Amount, realise a portion of the Asset Portfolio equal in value to such remaining Shortfall Amount through the liquidation of Constituent Assets on behalf of the Certificateholders' Agent (with Murabaha Receivables to be liquidated or transferred first, then Tangible Investment Sukuk and finally Ijara Assets but in each case only to the extent necessary to realise an amount equal to the remaining Shortfall Amount), and pay the amount so realised to the Transaction Account.

### ***Termination Payment by Kuveyt Türk***

On the Scheduled Termination Date, the Certificateholders' Agent will have the right under the Purchase and Asset Portfolio Undertaking to require Kuveyt Türk to purchase the Asset Portfolio and the payment of the exercise price payable by Kuveyt Türk for such purchase to the Certificateholders' Agent, together with the amounts realised upon the termination of any Sharia Compliant Investments by the Managing Agent and the repayment of such amounts by Kuveyt Türk, and any Portfolio Principal Revenues then held by the Managing Agent, to the Certificateholders' Agent, in each case pursuant to the Management Agreement, is intended to fund the Termination Distribution Amount payable by the Issuer under the Certificates.

Kuveyt Türk may also be required to purchase the Asset Portfolio and make such payments prior to the Scheduled Termination Date for the following reasons: (i) following the optional exercise by Kuveyt Türk of its rights under the Sale and Transfer Undertaking to oblige the Certificateholders' Agent to sell the Asset Portfolio on the occurrence of a Tax Event or (ii) pursuant to the Purchase and Asset Portfolio Undertaking, upon the occurrence of a Termination Event.

### ***Redemption of the Certificates following a Change of Control Event***

On the occurrence of a Change of Control Event, Certificateholders will have the right under Condition 9.4 to require the Issuer to redeem their Certificates. Upon the exercise of such right, the Issuer shall redeem the relevant Certificates (the "**Change of Control Certificates**") on the Change of Control Redemption Date for an amount equal to the sum of the face amount of the Change of Control Certificates and the Periodic Distribution Amounts on the Change of Control Certificates (if any) accrued and unpaid to the Change of Control Redemption Date.

Such redemption will be funded through the exercise by the Certificateholders' Agent of its right under the Purchase and Asset Portfolio Undertaking to require Kuveyt Türk to purchase a portion of the Asset Portfolio (on a *pro rata* basis relative to the composition of the Asset Portfolio at that time as split between Ijara Assets, Tangible Investment Sukuk and Murabaha Receivables) equal to the percentage of the aggregate face amount of the Certificates then outstanding that the aggregate face amount of the Change of Control Certificates represents (the "**Change of Control Certificate Percentage**"). The Managing Agent will further terminate a corresponding percentage of any Sharia Compliant Investments and pay the relevant amounts received from Kuveyt Türk in respect of such termination, together with the same percentage of any Portfolio Principal Revenues then held by the Managing Agent, to the Certificateholders' Agent, which amounts shall also be applied by the Certificateholders Agent towards such redemption of the Change of Control Certificates.



## OVERVIEW OF THE OFFERING

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

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

### Parties

Issuer and Certificateholders' Agent	KT Kira Sertifikaları Varlık Kiralama A.Ş., a company incorporated in accordance with the laws of, and formed and registered in, Turkey as an Asset Leasing Company with trade registration number 881355. The Issuer will issue the Certificates on the Closing Date and act as Certificateholders' Agent in respect of the Sukuk Assets for the benefit of the Certificateholders.
Ownership of the Issuer	The issued share capital of the Issuer consists of shares of a nominal value of TRY 50,000, all of which are held by Kuveyt Türk.
Seller	Kuveyt Türk (in such capacity, the " <b>Seller</b> "). The Seller will sell to the Certificateholders' Agent (to hold in its name and on behalf and for the account of the Certificateholders) and the Certificateholders' Agent will purchase using the Issue Proceeds the Asset Portfolio identified in, and pursuant to, the Purchase Agreement, with not less than 33 <sup>1/3</sup> per cent. of the Issue Proceeds to be paid towards the purchase of Tangible Assets.
Managing Agent	Kuveyt Türk (in such capacity, the " <b>Managing Agent</b> "). In accordance with the Management Agreement, the Managing Agent will manage and provide certain services with respect to the Asset Portfolio, including the payments described above in " <i>Structure Diagram and Cashflows</i> " to fund the Periodic Distribution Amounts and towards the funding of the Termination Distribution Amount payable by the Issuer in respect of the Certificates, which payments shall be made to the Transaction Account on the Payment Business Day immediately preceding the relevant Periodic Distribution Date or Termination Date, respectively.
Obligor	Kuveyt Türk. In accordance with the Purchase and Asset Portfolio Undertaking, Kuveyt Türk will, at the option of the Certificateholders' Agent, purchase the Asset Portfolio, with the exercise price payable by Kuveyt Türk for such purchase to be paid towards the funding of the corresponding Termination Distribution Amount payable by the Issuer under the Certificates. Kuveyt Türk shall have the right, under the Sale and Transfer Undertaking, to oblige the Certificateholders' Agent to sell the Asset Portfolio following the occurrence of a Tax Event, against payment by Kuveyt Türk of the exercise price for such purchase, which the Certificateholders' Agent shall pay towards the funding of the corresponding Termination Distribution Amount payable by the Issuer under the Certificates.

Joint Lead Managers and Joint Bookrunners	Arab Banking Corporation B.S.C. Dubai Islamic Bank PJSC Emirates NBD PJSC KFH Capital Investment Company K.S.C.C. Noor Bank PJSC QInvest LLC Standard Chartered Bank
Co-Managers	Al Rayan Investment L.L.C. Warba Bank K.S.C.P.
Certificateholders' Agent	KT Kira Sertifikalan Varhk Kiralama A.Ş. In accordance with the Declaration of Agency, the Certificateholders' Agent shall act as agent in respect of the Sukuk Assets for the benefit and for the account of the Certificateholders.
Certificateholders' Representative	HSBC Corporate Trustee Company (UK) Limited. Under the Conditions and as further provided in the Declaration of Agency, the Certificateholders have appointed the Certificateholders' Representative as their representative to act in their name and on their behalf on the terms set out in the Declaration of Agency.
Principal Paying Agent, Registrar and Transfer Agent	HSBC Bank plc
Summary of the Transaction Structure and Documents	An overview of the structure of the transaction and the principal cash flows is set out under " <i>Structure Diagram and Cashflows</i> " and a description of the principal terms of the significant Transaction Documents is set out under " <i>Summary of the Principal Transaction Documents</i> ".

### **Summary of the Certificates**

Certificates	U.S.\$500,000,000 5.136 per cent. Certificates due 2021.
Closing Date	1 November 2016.
Issue Price	100 per cent. of the aggregate face amount of the Certificates.
Sukuk Assets	Each Certificate evidences an undivided interest in the Sukuk Assets, subject to the terms of the Transaction Documents and the Conditions, and is a limited recourse obligation of the Issuer. The Sukuk Assets are all of the Certificateholders' Agent's rights, interest and benefit, present and future, in, to and under the Asset Portfolio, any Sharia Compliant Investments and the Transaction Documents together with all monies standing to the credit of the Transaction Account and all proceeds of the foregoing.
Periodic Distribution Dates	Each of 1 November and 1 May in each year commencing on 1 May 2017.
Periodic Distributions	On each Periodic Distribution Date, Certificateholders will be paid, from moneys received by the Certificateholders' Agent in respect of the Sukuk Assets, a Periodic Distribution Amount in U.S. dollars equal to the product of (a) 5.136 per cent. per annum, (b) the face amount of the relevant

	<p>Certificates and (c) the number of days in the relevant Return Accumulation Period calculated on the basis of a year of 12 30-day months divided by 360. See Condition 7.</p>
Return Accumulation Period	<p>The period from and including the Closing Date to but excluding the first Periodic Distribution Date and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date or, if earlier, the relevant Termination Date.</p>
Scheduled Termination	<p>The Scheduled Termination Date is 2 November 2021. Upon receipt by the Certificateholders' Agent of the exercise price payable in accordance with the terms of the Purchase and Asset Portfolio Undertaking, together with the payment to the Certificateholders' Agent by the Managing Agent of the amounts realised upon the termination of any Sharia Compliant Investments by the Managing Agent and their repayment by Kuveyt Türk, and any Portfolio Principal Revenues then held by the Managing Agent, in each case pursuant to the Management Agreement, such amounts will be applied to redeem the Certificates at the Termination Distribution Amount.</p>
Early Termination	<p>Other than as a result of the occurrence of a Termination Event or an early termination upon the occurrence of any of the events or circumstances specified in Conditions 9.2(a) or (b) (each a "<b>Tax Event</b>"), the Agency Arrangements will not be terminated, and the Certificates will not be redeemed, prior to the Scheduled Termination Date.</p>
Termination Events	<p>The Termination Events are set out in Condition 13. Following the occurrence of a Termination Event which is continuing, the Certificates may be redeemed in full at the Termination Distribution Amount.</p>
Termination Distribution Amount	<p>The aggregate outstanding face amount of the Certificates plus all accrued and unpaid Periodic Distribution Amounts in respect of such Certificates.</p>
Change of Control Event	<p>On the occurrence of a Change of Control Event, Certificateholders will have the right as described in Condition 9.4 to require the Issuer to redeem their Certificates.</p> <p>A "<b>Change of Control Event</b>" will occur if at any time KFH ceases to own, directly or indirectly, at least 51 per cent. of the issued share capital of Kuveyt Türk or otherwise ceases to control, directly or indirectly, Kuveyt Türk. For these purposes, KFH will be deemed to <b>control</b> Kuveyt Türk if (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract, trust or otherwise) it has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of Kuveyt Türk or otherwise controls, or has the power to control, the affairs and policies of Kuveyt Türk.</p>
Covenants	<p>The Purchase and Asset Portfolio Undertaking contains a negative pledge and certain other covenants given by Kuveyt Türk, including in relation to the maintenance of authorisations, transactions with affiliates and the provision of certain financial information. See Condition 6.</p>

Role of Certificateholders'  
Representative

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

In particular, the Certificateholders' Representative shall be entitled to:

- (a) deliver an Exercise Notice to Kuveyt Türk in accordance with the Purchase and Asset Portfolio Undertaking; and
- (b) following a Termination Event, take any enforcement action in the name of the Certificateholders' Agent against either Kuveyt Türk or the Managing Agent.

Form and Delivery of the Certificates

The Certificates will be issued in registered global form only.

The Certificates will be represented on issue by beneficial interests in the Global Certificate which will be deposited with, and registered in the name of a nominee for, a 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 the limited circumstances described under "*Global Certificate*".

Clearance and Settlement

Holders of the Certificates must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearance systems.

Face Amounts of the Certificates

The Certificates will be issued in minimum face amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

Status

Each Certificate will rank *pari passu*, without any preference or priority, with the other Certificates.

The payment obligations of Kuveyt Türk under the Transaction Documents to which it is a party will constitute direct, unconditional, unsecured and general obligations of Kuveyt Türk and shall rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of Kuveyt Türk, save for any obligations of Kuveyt Türk which are preferred under the laws of Turkey.

Withholding Tax

All payments by the Issuer under the Certificates are to be made without withholding or deduction for or on account of Turkish taxes, unless the withholding or deduction is required

by law. In such event, Kuveyt Türk will be required pursuant to the relevant Transaction Documents to pay to the Certificateholders' Agent such additional amounts as may be necessary to ensure that the full amount which otherwise would have been due and payable under the Certificates is received by the Certificateholders.

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

#### Transaction Account

The Principal Paying Agent will maintain and operate a U.S. dollar account opened in the name of the Certificateholders' Agent (the "**Transaction Account**"). Payments to the Certificateholders' Agent by Kuveyt Türk under the Management Agreement (as managing agent) and the Purchase and Asset Portfolio Undertaking or the Sale and Transfer Undertaking, as the case may be will be credited to the Transaction Account. Periodic Distribution Amounts and the Termination Distribution Amount will be paid to holders of the Certificates from funds standing to the credit of the Transaction Account in accordance with the order of priority described under "*Priority of Distributions*" below.

#### Priority of Distributions

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

- (a) *first*, to the Certificateholders' Representative or any Appointee in respect of all amounts owing to it under the Transaction Documents in its capacity as Certificateholders' Representative or Appointee;
- (b) *second*, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;
- (c) *third*, only if such payment is made on a Termination Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the Termination Distribution Amount;
- (d) *fourth*, only if such payment is made on a Termination Date, to the Managing Agent in or towards payment of all outstanding Management Expenses (as defined in the Management Agreement) as directed by the Managing Agent; and
- (e) *fifth*, only if such payment is made on a Termination Date, to the Managing Agent by way of incentive fee in accordance with the Management Agreement.

## Limited Recourse

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

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

## Enforcement

Following the distribution of the Sukuk Assets to the Certificateholders to the extent permitted under the Conditions and the Declaration of Agency, neither the Issuer nor the Certificateholders' Agent shall be liable for any further amounts and accordingly the Certificateholders may not take any action against the Issuer or the Certificateholders' Agent or any other person (including Kuveyt Türk) to recover any such amount in respect of the Certificates or the Sukuk Assets.

Neither the Certificateholders' Representative nor the Certificateholders' Agent shall be bound in any circumstances to take any action to enforce or to realise the Sukuk Assets or take any action against the Issuer, the Certificateholders' Agent, Kuveyt Türk or any other party under any Transaction Document unless directed or requested to do so: (a) by an Extraordinary Resolution; or (b) in writing by the holders of at least 20 per cent. of the aggregate outstanding face amount of the Certificates, and in either case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities (as defined in the Declaration of Agency) to which it may thereby render itself liable or which it may incur by so doing.

No Certificateholder shall be entitled to proceed directly against the Issuer, the Certificateholders' Agent, Kuveyt Türk or any other party unless the Certificateholders' Representative, having become bound so to proceed, fails to do so within a reasonable period of becoming so bound and such failure is continuing. Under no circumstances shall the Certificateholders' Representative or any Certificateholder have any right to cause the sale or other disposition of any of the Sukuk Assets (other than pursuant to the Purchase and Asset Portfolio Undertaking) and the sole right of the Certificateholders' Representative and the Certificateholders against the Issuer, Kuveyt Türk or any other party shall be to enforce their respective obligations under the Transaction Documents.

The foregoing is subject to the following. After enforcing or realising the Sukuk Assets and distributing the net proceeds in accordance with Condition 4.2 and the Declaration of Agency, the obligations of the Issuer and the Certificateholders' Agent in respect of the Certificates shall be satisfied and no holder of the Certificates may take any further steps against the Issuer, the Certificateholders' Agent or the Certificateholders'

	<p>Representative or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no holder of the Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Issuer or the Certificateholders' Agent.</p>
Use of Proceeds	<p>The proceeds of the issue of the Certificates will be paid by the Certificateholders' Agent on the Closing Date to the Seller as the purchase price for the Asset Portfolio.</p>
Listing Ratings	<p>Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the Official List and trading on the Main Securities Market.</p> <p>The Certificates are expected to be assigned a rating of BBB by Fitch. Fitch is established in the EU and is registered under the CRA Regulation. As such, Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.</p> <p>A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein), does not address the likelihood or timing of repayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.</p>
Certificateholders' Meetings	<p>A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 17.</p>
Tax Considerations	<p>See "<i>Taxation</i>" for a description of certain tax considerations applicable to the Certificates.</p>
Transaction Documents	<p>The Transaction Documents are the Purchase Agreement, the Management Agreement, the Purchase and Asset Portfolio Undertaking, the Sale and Transfer Undertaking, the Declaration of Agency and the Paying Agency Agreement.</p>
Governing Law	<p>The Management Agreement, the Purchase and Asset Portfolio Undertaking, the Sale and Transfer Undertaking, the Declaration of Agency, the Paying Agency Agreement and the Certificates will be governed by English law. The Purchase Agreement and any Sale Agreement or Transfer Agreement entered into pursuant to the Purchase and Asset Portfolio Undertaking or the the Sale and Transfer Undertaking will be governed by Turkish law.</p>
Selling Restrictions	<p>There are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, Turkey, the Kingdom of Bahrain, the DIFC, Hong Kong, Malaysia, Saudi Arabia, State of Kuwait, State of Qatar, Singapore and the United Arab Emirates (excluding the DIFC).</p>

## TERMS AND CONDITIONS OF THE CERTIFICATES

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

Each of the U.S.\$500,000,000 5.136 per cent. Certificates due 2021 (the "**Certificates**") is issued by KT Kira Sertifikalan Varlik Kiralama A.Ş. (in its capacity as issuer, the "**Issuer**") and represents an undivided interest in the Sukuk Assets (as defined in Condition 4.1) held by KT Kira Sertifikalan Varlik Kiralama A.Ş. (in such capacity, the "**Certificateholders' Agent**") in its name and on behalf and for the account of the holders of such Certificates (the "**Certificateholders**") pursuant to a declaration of agency (the Declaration of Agency) dated on or about 1 November 2016 (the "**Closing Date**") made by KT Kira Sertifikalan Varlik Kiralama A.Ş. (in its capacity as Issuer and as Certificateholders' Agent), Kuveyt Türk Katihm Bankasi A.Ş. ("**Kuveyt Türk**") and HSBC Corporate Trustee Company (UK) Limited as the representative of the Certificateholders (the "**Certificateholders' Representative**").

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

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

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Issuer, in its capacity as Certificateholders' Agent for and on behalf of the Certificateholders: (a) to apply the sums paid by it in respect of its Certificates in making payment to Kuveyt Türk, in its capacity as seller (the "**Seller**") as the purchase price for the Asset Portfolio (each as defined in Condition 4.1) for immediate sale to Kuveyt Türk, in its capacity as purchaser (the "**Purchaser**"), on immediate delivery and deferred payment terms; and (b) to enter into each Transaction Document to which it is a party, subject to the provisions of the Declaration of Agency and these Conditions.

### 1. **FORM, DENOMINATION AND TITLE**

#### 1.1 **Form and Denomination**

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

*Upon issue, the Certificates will be represented by interests in the Global Certificate, in fully registered form, which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to*



*receive Definitive Certificates representing their holdings of Certificates. See "Global Certificate".*

1.2 **Title**

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

2. **TRANSFERS OF CERTIFICATES**

2.1 **Transfers**

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

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

2.2 **Delivery of New Certificates**

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk and expense of the holder entitled to the Certificate to the address specified in the form of transfer.

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

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

2.3 **Formalities Free of Charge**

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

2.4 **Closed Periods**

No Certificateholder may require the transfer of a Certificate to be registered during the period of seven days ending on (and including) the due date for any payment of the Termination Distribution Amount (as defined in Condition 9.1) or any Periodic Distribution Amount (as defined in Condition 7.1).

## 2.5 Regulations

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

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

## 3. STATUS AND LIMITED RECOURSE

### 3.1 Status

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

*The payment obligations of Kuveyt Türk under the Transaction Documents to which it is a party will constitute direct, unconditional, unsecured and general obligations of Kuveyt Türk and shall rank at least pari passu with all other unsecured, unsubordinated and general obligations of Kuveyt Türk, save for any obligations of Kuveyt Türk which are preferred under the laws of Turkey.*

### 3.2 Limited Recourse

The proceeds of the Sukuk Assets are the sole source of payments on the Certificates. Save as provided in the next paragraph, the Certificates do not represent an interest in or obligation of either the Issuer or Kuveyt Türk. Accordingly, Certificateholders, by subscribing for or acquiring the Certificates, acknowledge that, notwithstanding anything to the contrary contained in these Conditions or any Transaction Document, they will have no recourse to any assets of the Issuer, the Certificateholders' Agent (other than the Sukuk Assets) or Kuveyt Türk, the Certificateholders' Representative or the Paying Agents in respect of any shortfall in the expected amounts from the Sukuk Assets to the extent the Sukuk Assets have been exhausted following which all obligations of the Issuer and the Certificateholders' Agent shall be extinguished.

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

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

### 3.3 Agreement of Certificateholders

By subscribing for or acquiring the Certificates, each Certificateholder acknowledges that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (a) no payment of any amount whatsoever shall be made by or on behalf of the Issuer or the Certificateholders' Agent except to the extent funds are available therefor from the Sukuk Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or under any Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon any Transaction Document, against the Issuer, the Certificateholders' Agent, the Certificateholders' Representative or the Paying Agents to the extent the Sukuk Assets have been exhausted following which all obligations of the Issuer, the Certificateholders' Agent, the Certificateholders' Representative and the Paying Agents shall be extinguished; and
- (b) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents have been paid in full, it will not institute against, or join with any other person in instituting against, the Issuer or the Certificateholders' Agent any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law; and
- (c) no recourse (whether by institution or enforcement of any legal proceeding or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Issuer or the Certificateholders' Agent arising under these Conditions or otherwise in connection with the Certificates by virtue of any law, statute or otherwise shall be had against any shareholder, officer, director or corporate administrator of the Issuer or the Certificateholders' Agent in its capacity as such and any and all personal liability of every such shareholder, officer, director or corporate administrator in their capacity as such for any breaches by the Issuer or the Certificateholders' Agent of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law.

## 4. AGENCY ARRANGEMENTS

### 4.1 Summary of the Agency Arrangements

The Certificateholders' Agent will enter into a purchase agreement (the "**Purchase Agreement**") to be dated the Closing Date with Kuveyt Türk (in such capacity, the "**Seller**"). Pursuant to the Purchase Agreement the Seller will sell a portfolio (the "**Asset Portfolio**") of certain constituent assets (the "**Constituent Assets**") to the Certificateholders' Agent and the Certificateholders' Agent will purchase the Asset Portfolio using the proceeds of the issue of the Certificates (the "**Issue Proceeds**"). The Certificateholders' Agent will also enter into a management agreement (the "**Management Agreement**") to be dated the Closing Date with Kuveyt Türk as managing agent (in such capacity, the "**Managing Agent**") of the Asset Portfolio.

Kuveyt Türk will enter into a purchase and asset portfolio undertaking (the "**Purchase and Asset Portfolio Undertaking**") to be dated the Closing Date in favour of the Issuer, the Certificateholders' Agent and the Certificateholders' Representative by which Kuveyt Türk will undertake to purchase all of the Certificateholders' Agent's rights, interests, benefits and entitlements in, to and under the Asset Portfolio on the Scheduled Termination Date (as defined in Condition 9.1) or, if earlier, on the due date for termination in accordance with Condition 13, at an amount equal to the Termination Distribution Amount, or the relevant portion of the Asset Portfolio upon the redemption of any Certificates pursuant to Condition 9.4 on the occurrence of a Change of Control Event, in each case after taking into account any corresponding payments to be made under the Management Agreement.

The Certificateholders' Agent will enter into a sale and transfer undertaking (the "**Sale and Transfer Undertaking**") to be dated the Closing Date in favour of Kuveyt Türk and acknowledged by the Certificateholders' Representative. Pursuant to the Sale and Transfer

Undertaking, Kuveyt Türk may, by exercising its option under the Sale and Transfer Undertaking and serving notice on the Certificateholders' Agent no later than 45 days prior to the Tax Redemption Date (as defined in Condition 9.2), as the case may be, oblige the Certificateholders' Agent to sell all of its rights, interests, benefits and entitlements in, to and under the Asset Portfolio on the Tax Redemption Date at an amount equal to the Termination Distribution Amount, after taking into account any corresponding payments to be made under the Management Agreement.

Following any purchase of the Certificates by Kuveyt Türk pursuant to Condition 10, Kuveyt Türk may also oblige the Certificateholders' Agent pursuant to the Sale and Transfer Undertaking to sell all of its rights, interests, benefits and entitlements in, to and under a portion of the Asset Portfolio (on a *pro rata basis* relative to the different Constituent Asset comprised within the Asset Portfolio at that time) against the delivery of such Certificates to the Principal Paying Agent for cancellation. A corresponding portion of any amounts deposited by the Managing Agent with Kuveyt Türk on a Sharia compliant basis (the "**Sharia Compliant Investments**") pursuant to the Management Agreement will also be realised against such delivery and cancellation under the Management Agreement.

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

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

- (a) all of the Certificateholders' Agent's rights, title, interest and benefit, present and future, in, to and under the Asset Portfolio and any Sharia Compliant Investments;
- (b) all of the Issuer's other rights, title, interest and benefit, present and future, in, to and under the Transaction Documents; and
- (c) all monies standing to the credit of the Transaction Account from time to time,

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

The Purchase Agreement, the Management Agreement, the Purchase and Asset Portfolio Undertaking, the Sale and Transfer Undertaking, any Sale Agreement entered into pursuant to the Purchase and Asset Portfolio Undertaking or the Sale and Transfer Undertaking, any Transfer Agreement entered into pursuant to the Sale and Transfer Undertaking, the Declaration of Agency and the Paying and Agency Agreement are together referred to in these Conditions as the "**Transaction Documents**" and all of the above arrangements as the "**Agency Arrangements**".

#### 4.2 **Application of Proceeds from Sukuk Assets**

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

- (a) *first*, to the Certificateholders' Representative or any Appointee in respect of all amounts (including by way of indemnity) owing to it under the Transaction Documents in its capacity as Certificateholders' Representative or Appointee;
- (b) *second*, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;
- (c) *third*, only if such payment is made on a Termination Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the Termination Distribution Amount;

- (d) *fourth*, only if such payment is made on a Termination Date, to the Managing Agent in or towards payment of all outstanding Management Expenses (as defined in the Management Agreement) as directed by the Managing Agent; and
- (e) *fifth*, only if such payment is made on a Termination Date, to the Managing Agent by way of incentive fee in accordance with the Management Agreement.

5. **APPOINTMENT OF CERTIFICATEHOLDERS' REPRESENTATIVE**

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

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

6. **COVENANTS**

The Issuer covenants that for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Certificateholders' Representative and as provided in Condition 17):

- (a) save in respect of any other series of lease certificates issued and outstanding as of the Closing Date and/or that may be issued from time to time where Kuveyt Türk is the sole obligor, in each case in accordance with the Communiqué III-61.1 on Lease Certificates published in the Official Gazette dated 7 June 2013 (No. 28670) issued by the Capital Markets Board of Turkey):
  - (i) incur any indebtedness in respect of borrowed money whatsoever, or give any guarantee in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;
  - (ii) secure any of its present or future indebtedness for borrowed money or any other certificates issued by it by any lien, pledge, charge, mortgage or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);
  - (iii) act as agent in respect of any arrangements other than the Agency Arrangements or in respect of any parties other than the Certificateholders; and
  - (iv) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:
    - (A) as provided for or permitted in the Transaction Documents;
    - (B) the ownership, management and disposal of the Sukuk Assets as provided in the Transaction Documents; and
    - (C) such other matters which are incidental thereto;
- (b) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement

of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interest in any of the Sukuk Assets except pursuant to the Transaction Documents;

- (c) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
- (d) amend or agree to any amendment of any Transaction Document to which it is a party or its memorandum and articles of association;
- (e) have any subsidiaries or employees;
- (f) redeem any of its shares or pay any dividend or make any other distribution to its shareholders; and
- (g) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents to which it is a party have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it.

*For so long as any Certificate is outstanding, Kuveyt Türk will further undertake in the Purchase and Asset Portfolio Undertaking as follows:*

(i) *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.*

(ii) *Maintenance of Authorisations*

*So long as any Certificates remain outstanding (as defined in the Declaration of Agency), Kuveyt Türk shall take all necessary action to maintain, obtain and promptly renew, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, permissions, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Republic of Turkey ( including, without limitation, with the Capital Markets Board (in Turkish: Sennaye Piyasasi Kurulu) (the "**CMB**") and the Banking Regulatory and Supervisory Authority) (in Turkish: Bankacilik Duzenleme ve Denetleme Kurumu) (the "**BRSA**") for (i) the execution, delivery or performance of the Transaction Documents or for the validity or enforceability thereof. or (ii) the conduct by it of the Permitted Business, save for any consents, permissions, licences, approvals, authorisations, registrations, recordings and filings which are immaterial in the conduct by Kuveyt Türk of the Permitted Business.*

(iii) *Transactions with Affiliates*

*So long as any Certificates remain outstanding (as defined in the Declaration of Agency), Kuveyt Türk shall not, and shall not permit any of its Subsidiaries to, in any 12 month period: (a) make any payment to, (b) sell, lease, transfer or otherwise dispose of any of its properties, revenues or assets to, (c) purchase any properties, revenues or assets from, or (d) enter into or make or amend any transaction, contract, agreement, understanding, loan, advance, indemnity or guarantee (whether related or not) with or for the benefit of, any Affiliate (each, an "**Affiliate Transaction**") which Affiliate Transaction has (or, when taken together with any other Affiliate Transactions during such 12 month period, which Affiliate Transactions in the aggregate have) a value in excess of*

U.S.\$10,000,000 (or its equivalent in any other currency unless (i) such Affiliate Transaction (and each such other aggregated Affiliate Transaction) is on terms that are no less favourable to Kuveyt Türk or the relevant Subsidiary than those that would have been obtained in a comparable transaction by Kuveyt Türk or such Subsidiary with an unrelated Person, or (ii) such Affiliate Transaction (or any such other aggregated Affiliate Transaction) is made pursuant to an Islamic financing structure, provided that the assets which are the subject of such financing structure cannot be ultimately sold or otherwise disposed of, except to Kuveyt Türk and no other person.

(iv) *Financial Reporting*

So long as the Certificates remain outstanding (as defined in the Declaration of Agency), Kuveyt Türk shall deliver to the Certificateholders' Representative and the Principal Paying Agent for distribution to any Certificateholder upon such Certificateholder's written request to the Principal Paying Agent:

- (A) not later than six months after the end of each financial year of Kuveyt Türk, English language copies of Kuveyt Türk's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding financial year, and all such annual financial statements of Kuveyt Türk shall be accompanied by the report of the auditors thereon; and
- (B) not later than 120 days after the end of the first six months of each financial year of Kuveyt Türk, English language copies of its unaudited consolidated financial statements for such six-month period, prepared in accordance with IFRS consistently applied, together with the financial statements for the corresponding period of the previous financial year.

(v) *Notification of any Change of Control Event, Potential Kuveyt Türk Event and Kuveyt Türk Event*

Kuveyt Türk undertakes that it shall forthwith notify the Certificateholders' Representative of any (i) Change of Control Event, (ii) Potential Kuveyt Türk Event or (iii) Kuveyt Türk Event (and the steps, if any, being taken to remedy it), in each case promptly upon becoming aware of its occurrence.

(vi) *Interpretation*

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

**"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 or Islamic financing transaction) having the commercial effect of a borrowing;*
- (H) *any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and*
- (I) *(without double counting) the amount of any liability in respect of any Guarantee for any of the items referred to in paragraphs (A) to (H) above;*

**"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 any 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;*
- (D) *any obligation to pay an exercise price or other amount under any undertaking or indemnity given in favour of the obligor in respect of such Financial Indebtedness as part of an Islamic financing transaction; and*
- (E) *any other agreement to be responsible for such Financial Indebtedness.*

**"Permitted Business"** means any business which is the same as or related, ancillary or complementary to any of the businesses of Kuveyt Türk on the Closing Date;

**"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 (i) hedging any risk to which it is exposed in its ordinary course of business or (ii) its profit rate or currency management operation which are carried out in the ordinary course of business and, in any case, for non-speculative purposes only and excluding, in each case, any Security Interest under a credit support arrangement in relation to a hedging transaction;*
- (I) *any Security Interest created or outstanding with the approval of an Extraordinary Resolution of the Certificateholders; and*
- (J) *any Security Interest not otherwise permitted by the above paragraphs securing Financial Indebtedness of Kuveyt Türk in an aggregate principal amount at any time outstanding not exceeding an amount equal to 20 per cent. of Kuveyt Türk's consolidated tangible net worth. For the purpose of this paragraph, Kuveyt Türk's consolidated tangible net worth means the amount equal to the aggregate of the fully paid and issued share capital, share capital premium, all reserves and retained earnings of the Group as shown in the then most recent consolidated annual financial statements of Kuveyt Türk prepared in accordance with IFRS;*

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

**"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 of Kuveyt Türk or the Group, provided that:*

- (A) *any Security Interest given in connection with the securitisation is limited solely to the assets and/or revenues which are the subject of the securitisation;*

- (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 such Financial Indebtedness; and*
- (C) *there is no other recourse to Kuveyt Türk or any other member of the Group in respect of such Financial Indebtedness;*

*"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; and*

*"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.*

## 7. PERIODIC DISTRIBUTIONS

### 7.1 Periodic Distribution Amounts and Periodic Distribution Dates

Subject to Condition 4.2 and Condition 8, the Principal Paying Agent shall distribute to holders of the Certificates, *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account a distribution in relation to the Certificates on each Periodic Distribution Date, which shall be an amount equal to the product of 5.136 per cent. per annum (the "**Periodic Distribution Rate**") and the face amount of the relevant Certificates divided by two (each a "**Periodic Distribution Amount**"). For this purpose, "**Periodic Distribution Date**" means the 1<sup>st</sup> day of November and the 1<sup>st</sup> day of May in each year commencing on 1 May 2017 and, subject to Condition 8.3, ending on the Scheduled Termination Date (as defined in Condition 9.1).

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

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than, or, as the case may be, more than, a full Return Accumulation Period (the "**Relevant Period**"), it shall be calculated as an amount equal to the product of (a) the Periodic Distribution Rate, (b) the face amount of the relevant Certificate and (c) the number of days in the Relevant Period calculated on the basis of a year of 12 30-day months divided by 360 (with the result being rounded to the nearest U.S.\$0.01, U.S.\$0.005 being rounded upwards).

The period from and including the Closing Date to but excluding the first Periodic Distribution Date and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date is called a "**Return Accumulation Period**".

7.3 **Cessation of Accrual**

No further amounts will be payable on any Certificate from and including its due date for redemption as a result of the failure by Kuveyt Türk to pay the exercise price and enter into a sale agreement in accordance with the terms of the Purchase and Asset Portfolio Undertaking or the Sale and Transfer Undertaking, as the case may be, unless default is made in payment of the Termination Distribution Amount in which case Periodic Distribution Amounts will continue to accrue in respect of the Certificates in the manner provided in this Condition 7.

8. **PAYMENT**

8.1 **Payments in respect of the Certificates**

Subject to Condition 8.2, payment of the Termination Distribution Amount and any Periodic Distribution Amount will be made by the Principal Paying Agent in U.S. dollars by wire transfer in same day funds to the registered account of each Certificateholder or by U.S. dollar cheque drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Certificateholder if it does not have a registered account. Payments of the Termination Distribution Amount will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Termination Distribution Amount and each Periodic Distribution Amount will be paid to the holder shown on the Register at the close of business on the date (the "**record date**") being the seventh day before the date on which the Termination Distribution Amount or the relevant Periodic Distribution Amount, as the case may be, is paid.

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

8.2 **Payments subject to Applicable Laws**

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

8.3 **Payment only on a Payment Business Day**

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

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

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

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

#### 8.4 **Agents**

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents with the prior written consent of the Certificateholders' Representative provided that it will at all times maintain a Principal Paying Agent, a Transfer Agent and a Registrar (which may be the same entity). 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.

In acting under the Paying Agency Agreement and in connection with the Certificates, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Certificateholders' Representative and do not assume any obligations towards or relationship of agency for or with any of the Certificateholders. The Paying Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

### 9. **CAPITAL DISTRIBUTIONS**

#### 9.1 **Scheduled Termination**

Unless the Certificates are previously redeemed or purchased and cancelled, the Issuer will redeem each Certificate at the Termination Distribution Amount on the Periodic Distribution Date falling on 2 November 2021 (the "**Scheduled Termination Date**"). Upon payment in full of the Termination Distribution Amount to the Certificateholders, the Agency Arrangements will terminate, the Certificates shall cease to represent Sukuk Assets and no further amounts shall be payable in respect thereof and the Issuer and the Certificateholders' Agent shall have no further obligations in respect thereof.

In these Conditions, "**Termination Date**" means any of the Scheduled Termination Date, the Tax Redemption Date and any date specified by the Certificateholders' Representative in accordance with Condition 14 and "**Termination Distribution Amount**" in relation to a Certificate means its outstanding face amount plus all accrued and unpaid Periodic Distribution Amounts in respect of such Certificate.

#### 9.2 **Early Termination for Tax Reasons**

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

- (a) (1) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 11 as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 11) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 1 November 2016 and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or
- (b) (1) the Issuer has received notice from Kuveyt Türk that Kuveyt Türk has or will become obliged to pay additional amounts pursuant to the terms of the Management Agreement as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 1 November 2016 and (2) such obligation cannot be avoided by Kuveyt Türk taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given unless a corresponding exercise notice has been received by the Certificateholders' Agent under the Sale and Transfer Undertaking and no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which (in the case of (a) above) the Issuer would be obliged to pay such

additional amounts if a payment in respect of the Certificates were then due or (in the case of (b) above) Kuveyt Türk would be obliged to pay such additional amounts if a payment to the Certificateholders' Agent under the Management Agreement was then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Certificateholders' Representative (i) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such termination and setting forth a statement of facts showing that the conditions precedent in (a) or (b) above to the right of the Issuer so to dissolve have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer or Kuveyt Türk, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment. The Certificateholders' Representative shall be entitled to accept (without further investigation) any such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Certificateholders.

### 9.3 Termination Following Expiry of Notice of Redemption

Upon the expiry of any notice of redemption as is referred to in Condition 9.2, the Issuer shall be bound to redeem the Certificates at the Termination Distribution Amount and upon payment in full of the Termination Distribution Amount to the Certificateholders, the Agency Arrangements will terminate, the Certificates shall cease to represent Sukuk Assets and no further amounts shall be payable in respect thereof and neither the Issuer nor the Certificateholders' Agent shall have any further obligations in respect thereof.

### 9.4 Redemption of Certificates following a Change of Control

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

For the purposes of this Condition 9.4:

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

"**Change of Control Redemption Date**" means the first Payment Business Day following the expiration of the Change of Control Redemption Period provided that the Change of Control Notice is given within 30 days of the Change of Control Event occurring, otherwise it means the date falling 14 days after the date on which the relevant Certificateholders exercise their right to require the redemption of the relevant Certificates in accordance with this Condition 9.4; and

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

The Certificateholders' Representative is under no obligation to ascertain whether a Change of Control Event, or any event which could lead to the occurrence of or could constitute a Change of Control Event, has occurred and, until it shall have actual knowledge or written notice pursuant to the Declaration of Agency to the contrary, the Certificateholders' Representative may assume that no Change of Control Event or other such event has occurred.

- (c) The right of Certificateholders to require the redemption of Certificates under this Condition 9.4 on the occurrence of a Change of Control Event may be exercised by Certificateholders in any multiple of the Authorised Denomination of the Certificates. To exercise such right, a Certificateholder must deliver, at the specified office of the Principal Paying Agent at any time during normal business hours of such Principal Paying Agent within the Change of Control Redemption Period, a duly completed and signed notice of redemption in the form (for the time being current) obtainable from the specified office of the Principal Paying Agent (a **"Redemption Notice"**) and in which the Certificateholder must specify a bank account to which payment is to be made under this Condition 9.4 accompanied by the relevant Certificates or evidence satisfactory to the Principal Paying Agent concerned that the relevant Certificates will, following delivery of the Redemption Notice, be held to its order or under its control.
- (d) All notices to be given by any Certificateholder to the Issuer or by the Issuer or Kuveyt Türk to any Certificateholder under this Condition 9.4 must be given in accordance with Condition 16. Any Redemption Notice given by a Certificateholder pursuant to this Condition 9.4 shall be irrevocable and the Issuer will redeem all Certificates which are the subject of a validly delivered Redemption Notice on the Change of Control Redemption Date.

#### 9.5 **Termination Following a Termination Event**

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

#### 9.6 **No other Termination**

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

#### 9.7 **Cancellation**

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

### 10. **PURCHASE OF CERTIFICATES**

#### 10.1 **Purchases**

Kuveyt Türk or any Subsidiary of Kuveyt Türk (other than the Issuer) may at any time purchase Certificates at any price in the open market or otherwise.

## 10.2 **Constituent Assets**

Following any purchase of Certificates by Kuveyt Türk pursuant to Condition 10.1, Kuveyt Türk may oblige the Certificateholders' Agent pursuant to the Sale and Transfer Undertaking to sell all of its rights, interests and entitlements in, to and under specified Constituent Assets, together with a corresponding *pro rata* reduction in the amount payable pursuant to the Management Agreement in respect of any Principal Cash Amount (as defined in the Management Agreement) then held or payable to the Managing Agent and such that the aggregate amount or Value (as defined in the Management Agreement) of such Constituent Assets and the reduction in the amount payable in respect of the Principal Cash Amount is equal to the aggregate face amount of the Certificates so purchased, in return for the delivery of such Certificates to the Principal Paying Agent for cancellation in accordance with Condition 10.3.

## 10.3 **Cancellation**

Following any purchase of Certificates by Kuveyt Türk pursuant to this Condition 10, such Certificates shall be delivered by Kuveyt Türk to the Principal Paying Agent for cancellation on the immediately following Periodic Distribution Date and accordingly may not be held, reissued or resold and Kuveyt Türk shall notify the Certificateholders' Representative of such cancelled Certificates.

## 11. **TAXATION**

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

- (a) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or
- (b) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day (as defined in Condition 8.3);

Notwithstanding anything to the contrary in these Conditions, none of the Issuer, Kuveyt Turk, any Paying Agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or with respect to any Certificate pursuant to Section 1471 to 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**"), any treaty, law, regulation or other official guidance implementing FATCA, or any agreement (or related guidance) between the Issuer, Kuveyt Turk, a Paying Agent or any other person and the United States, any other jurisdiction, or any authority of any of the foregoing implementing FATCA.

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

In addition, in these Conditions:

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

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

*The Management Agreement and Purchase and Asset Portfolio Undertaking each provides that payments thereunder by Kuveyt Türk shall be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by law and, in such case, provides for the payment by Kuveyt Türk of additional amounts so that the full amount which would otherwise have been due and payable is received by the Certificateholders' Agent.*

12. **PRESCRIPTION**

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within periods of 10 years (in the case of the Termination Distribution Amount) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof, subject to the provisions of Condition 7.

13. **TERMINATION EVENTS**

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

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

upon being notified in writing or otherwise upon having actual knowledge thereof, the Certificateholders' Representative shall give notice of the occurrence of such Termination Event to the holders of Certificates in accordance with Condition 16 with a request to such holders to



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

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

For the purposes of this Condition 13, a "**Kuveyt Türk Event**" means:

- (a) *Non-payment*: Kuveyt Türk fails to pay any amount due under any Transaction Document to which it is a party, and such default continues unremedied for a period of seven days; or
- (b) *Breach of other obligations*: Kuveyt Türk does not perform or comply with any one or more of its other obligations or undertakings in any of the Transaction Documents to which it is a party which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days of the Certificateholders' Agent giving notice to Kuveyt Türk requiring such default to be remedied; or
- (c) *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 (ii) 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.\$20,000,000 (or its equivalent in any other currency or currencies); or
- (d) *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 convenes a meeting with one or more of its creditors to consider a proposal for 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; or
- (e) *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, reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) or bankruptcy 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.\$20,000,000 or its

equivalent in another currency or currencies), or any analogous procedure or step is taken in any jurisdiction; or

- (f) *Creditors' process*: any process of expropriation, attachment, sequestration, distress or execution is taken in respect of any asset or assets of Kuveyt Türk if the aggregated value of such asset or assets is in excess of U.S.\$20,000,000 (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; or
- (g) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution of Kuveyt Türk, or Kuveyt Türk ceases or threatens to cease to carry on all or a substantial part of its business or operations, or enters into any amalgamation, demerger or merger, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or demerger or consolidation on terms approved by the Certificateholders' Representative or by an Extraordinary Resolution of the Certificateholders; or
- (h) *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; or
- (i) *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; or
- (j) *Banking licence*: the banking licence of Kuveyt Türk is revoked, suspended, withdrawn or not renewed; or
- (k) *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; or
- (l) *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 with respect to the Transaction Documents is not taken, fulfilled or done; or
- (m) *Nationalisation and expropriation*: all or any substantial part of the undertaking or assets of Kuveyt Türk are expropriated, nationalised, compulsorily acquired or taken into public ownership or Kuveyt Türk ceases to be able or entitled to exercise the rights of control or ownership of the same.

#### 14. **ENFORCEMENT AND EXERCISE OF RIGHTS**

- 14.1 Following the distribution in full of the proceeds of the Sukuk Assets in respect of the Certificates to the Certificateholders in accordance with these Conditions and the Declaration of Agency, neither the Issuer nor the Certificateholders' Agent shall be liable for any further sums and, accordingly, Certificateholders may not take any action against the Issuer, the Certificateholders' Agent or any other person to recover any such sum in respect of the Certificates or Sukuk Assets.
- 14.2 Neither the Certificateholders' Representative nor the Certificateholders' Agent shall be bound in any circumstances to take any action to enforce or to realise the Sukuk Assets or take any action against the Issuer, the Certificateholders' Agent, Kuveyt Türk or any other party under any Transaction Document unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least 20 per cent, of the then aggregate face amount of the Certificates outstanding and in either case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.
- 14.3 No Certificateholder shall be entitled to proceed directly against the Issuer, the Certificateholders' Agent, Kuveyt Türk or any other party unless the Certificateholders' Representative, having

become bound so to proceed, fails to do so within a reasonable period of becoming so bound and such failure is continuing. Under no circumstances shall the Certificateholders' Representative or any Certificateholder have any right to cause the sale or other disposition of any of the Sukuk Assets (other than pursuant to the Purchase and Asset Portfolio Undertaking) and the sole right of the Certificateholders' Representative and the Certificateholders against the Issuer, Kuveyt Türk or any other party shall be to enforce their respective obligations under the Transaction Documents.

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

15. **REPLACEMENT OF CERTIFICATES**

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

16. **NOTICES**

All notices to Certificateholders will be valid if:

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

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

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

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

- 17.1 The Declaration of Agency contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of these Conditions or the provisions of the Declaration of Agency. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent, in aggregate face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the outstanding face amount of the Certificates held or represented by him or them, except that any meeting the business of which includes the modification of certain provisions of the Certificates (including modifying the Scheduled Termination Date, reducing or cancelling any amount payable in respect of the Certificates or altering the currency of payment of the Certificates or amending certain covenants given by the Issuer and Kuveyt Türk in the Transaction Documents), the quorum shall be one or more persons present holding or representing not less than 75 per cent, in aggregate face amount of the Certificates for the time

being outstanding, or at any adjourned such meeting one or more persons present holding or representing not less than 25 per cent, in aggregate face amount of the Certificates for the time being outstanding. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than three-quarters of the persons voting on a show of hands or, if a poll is duly demanded, a majority of not less than three-quarters of the votes cast on such poll.

- 17.2 The Declaration of Agency provides that an Extraordinary Resolution (i) passed at a meeting of Certificateholders duly convened and held in accordance with the Declaration of Agency (ii) passed as an Extraordinary Resolution in writing in accordance with the Declaration of Agency or (iii) passed by way of electronic consents given by holders through the relevant Clearing System(s) in accordance with the Declaration of Agency shall be binding upon all the Certificateholders whether or not present or whether or not represented at such meeting and whether or not voting and each of them shall be bound to give effect thereto accordingly and the passing of any such resolution shall be conclusive evidence that the circumstances justify the passing thereof. A Written Resolution or an Electronic Consent shall take effect as an Extraordinary Resolution. A Written Resolution or an Electronic Consent will be binding on all Certificateholders whether or not they participated in such Written Resolution or Electronic Consent.
- 17.3 The Certificateholders' Representative may agree, without the consent or sanction of the Certificateholders, to any modification (including in respect of a Reserved Matter) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Agency or any other Transaction Document, which in any such case is not, in the opinion of the Certificateholders' Representative, materially prejudicial to the interests of Certificateholders or may agree, without any such consent or sanction as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.
- 17.4 In connection with the exercise by it of any of its powers, authorities, obligations and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Certificateholders' Representative shall have regard to the general interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Certificateholders' Representative shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Certificateholders' Representative or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders.
- 17.5 Any modification, abrogation, waiver, authorisation or determination shall be binding on all the Certificateholders and, if the Certificateholders' Representative so requires, shall be notified by the Issuer to the Certificateholders as soon as practicable thereafter in accordance with Condition 16.
18. **INDEMNIFICATION AND LIABILITY OF THE CERTIFICATEHOLDERS' REPRESENTATIVE AND THE CERTIFICATEHOLDERS' AGENT**
- 18.1 The Declaration of Agency contains provisions for the indemnification of each of the Certificateholders' Agent and the Certificateholders' Representative in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.
- 18.2 The Certificateholders' Representative makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of Kuveyt Türk, the Issuer or the Certificateholders' Agent under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been made by Kuveyt Türk, the Issuer or the Certificateholders' Agent but are not so paid and shall not in any circumstances have any liability arising from the Sukuk Assets other than as expressly provided in the Conditions or in the Declaration of Agency.

18.3 Each of the Certificateholders' Agent and the Certificateholders' Representative is exempted from (i) any liability in respect of any loss or theft of the Sukuk Assets or any cash, (ii) any obligation to insure the Sukuk Assets or any cash and (iii) any claim arising from the fact that the Sukuk Assets or any cash are held by or on behalf of the Certificateholders' Agent or on deposit or in an account with any depositary or clearing system or are registered in the name of the Certificateholders' Agent or its nominee, unless such loss or theft arises as a result of default or misconduct by the Certificateholders' Agent.

18.4 The Declaration of Agency also contains provisions pursuant to which the Certificateholders' Representative is entitled, among other things (a) to enter into business transactions with Kuveyt Türk, the Issuer and/or any of their respective Subsidiaries and to act as representative, delegate or trustee for the holders of any other securities issued or guaranteed by, or relating to Kuveyt Türk, the Issuer and/or any of their respective Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Certificateholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

19. **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

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

20. **GOVERNING LAW AND DISPUTE RESOLUTION**

20.1 The Declaration of Agency and the Certificates (including the remaining provisions of this Condition and any non-contractual obligations arising out of or in connection with the Declaration of Agency and the Certificates) are governed by, and shall be construed in accordance with, English law.

20.2 Both the Issuer and Kuveyt Türk have in the Declaration of Agency irrevocably agreed for the benefit of the Certificateholders' Agent, the Certificateholders' Representative and the Certificateholders that the courts of England and Wales, sitting in London, are to have exclusive jurisdiction to settle any dispute, suit, action or proceeding (together referred to as "**Proceedings**") which may arise out of or in connection with the Declaration of Agency and the Certificates (and any non-contractual obligations arising out of or in connection with the Declaration of Agency and the Certificates) and has accordingly submitted to the exclusive jurisdiction of the courts of England and Wales, sitting in London.

20.3 Each of the Issuer and Kuveyt Türk has also agreed to waive any objection to the Proceedings on the grounds that they are in an inconvenient or inappropriate forum and has agreed that a judgment in any Proceedings brought in the courts of England and Wales, sitting in London, shall be conclusive and binding on it and may be enforced in the courts of any other jurisdiction.

20.4 The Certificateholders' Agent, the Certificateholders' Representative and the Certificateholders may bring Proceedings under the Declaration of Agency and the Certificates in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

20.5 The Issuer and Kuveyt Türk agree, without prejudice to the enforcement of a judgment obtained in the courts of England and Wales, sitting in London, according to the provisions of Article 54 of the International Private and Procedure Law of Turkey (Law No. 5718), that in the event that any action is brought in relation to the Issuer and/or Kuveyt Türk in a court in Turkey in connection with the Certificates and/or the Declaration of Agency (or any non-contractual obligations arising out of or in connection with the Certificates and/or the Declaration of Agency), in addition to other permissible legal evidence, any judgment obtained in the courts of England and Wales, sitting in London, in connection with such action shall constitute conclusive evidence of the existence and amount of the claim against the Issuer and/or Kuveyt Türk, as applicable, pursuant to the provisions of Article 193/1 of the Civil Procedure Code of Turkey (Law No. 6100) and Articles 58 and 59 of the International Private and Procedure Law of Turkey (Law No. 5718).

- 20.6 Each of the Issuer and Kuveyt Türk has in the Declaration of Agency appointed an agent for service of process and has undertaken that, in the event of such agent ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Certificateholders' Representative as its agent for service of process in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any matter permitted by law.

## GLOBAL CERTIFICATE

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

### 1. **Holders**

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

### 2. **Cancellation**

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

### 3. **Payments**

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

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

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

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

### 4. **Notices**

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

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

5. **Registration of Title**

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

6. **Transfers**

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

7. **Exchange for Definitive Certificates**

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

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



### **USE OF PROCEEDS**

The net proceeds of the issue of the Certificates will be applied by the Issuer and the Certificateholders' Agent on the Closing Date towards the purchase from Kuveyt Türk of the Asset Portfolio.

## DESCRIPTION OF THE ISSUER

KT Kira Sertifikaları Varlık Kiralama A.Ş. (the "**Issuer**") was incorporated in Turkey on 3 September 2013. The Issuer was incorporated under the laws of Turkey as an asset leasing company in the form of a joint stock company and with limited liability. Its trade registration number is 881355.

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

Kuveyt Türk holds 100 per cent. of the Issuer's issued share capital. The Issuer has no subsidiaries. The rights of Kuveyt Türk as a shareholder in the Issuer are contained in the articles of association of the Issuer and the Issuer will be managed in accordance with those articles and with the provisions of the Turkish Commercial Code (Law No. 6102), Capital Market Law (Law No. 6362) and the Communiqué on Lease Certificates (III-61.1). The ownership structure of the Issuer is as follows:

	<b>Percentage of Shares</b>	<b>Nominal Value of shares in TRY</b>
<b>Shareholder</b>		
Kuveyt Türk Katılım Bankası A.Ş. ....	100%	50,000
<b>Total</b> .....	<b>100%</b>	<b>50,000</b>

### Business of the Issuer and Principal Activities

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

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

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

	<b>Date of Issuance</b>
<b>Description of lease certificates</b>	
U.S.\$500,000,000 Certificates due 2019 .....	26 June 2014
MRY 300,000,000 Certificates due 2020 .....	31 March 2015
MRY 200,000,000 Certificates due 2020 .....	15 May 2015
MRY 300,000,000 Certificates due 2020 .....	15 July 2015
TRY 10,000,000 Certificates due 2018 .....	21 April 2016
TRY 35,000,000 Certificates due 2016 .....	5 May 2016
TRY 300,000,000 Certificates due 2016 .....	8 May 2016
TRY 100,000,000 Certificates due 2016 .....	24 August 2016
TRY 30,000,000 Certificates due 2016 .....	1 September 2016
TRY 180,000,000 Certificates due 2017 .....	11 October 2016

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

## Directors

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

<b>Name</b>	<b>Nationality</b>	<b>Business Address</b>	<b>Occupation</b>
Ru�en Ahmet Albayrak	Turkish	Turkish Kuveyt T�rk B�y�kdere Cad. No:129/1, 34394 ����li - �stanbul	Executive Vice President, Kuveyt T�rk
�mer Asim �zg�z�kara	Turkish	Turkish Kuveyt T�rk B�y�kdere Cad. No:129/1, 34394 ����li - �stanbul	Chartered Accountant
Tufan Karamuk	Turkish	Turkish Kuveyt T�rk B�y�kdere Cad. No:129/1, 34394 ����li - �stanbul	Vice Chairman of the board
Rag�p Ali Kili�	Turkish	Turkish Kuveyt T�rk B�y�kdere Cad. No:129/1, 34394 ����li - �stanbul	Member of the board
Esm� Karabulut	Turkish	Turkish Kuveyt T�rk B�y�kdere Cad. No:129/1, 34394 ����li - �stanbul	Member of the board

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

## Share Capital

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

## Financial Statements

Since the date of its incorporation, financial statements of the Issuer for the years ended 31 December 2013, 2014 and 2015, and quarterly interim financial statements have been prepared. These financial statements have been prepared in Turkish and are not included in this Prospectus.

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

### Overview

Kuveyt Türk Katilim Bankasi Anonim Şirketi (which translates to Kuveyt Türk Participation Bank Inc.) ("**Kuveyt Türk**") is a full service bank operating primarily in the Republic of Turkey ("**Turkey**") and is a subsidiary of Kuwait Finance House K.S.C. ("**KFH**"), a financial institution incorporated in the State of Kuwait ("**Kuwait**") (see "*—Shareholders and Capital Structure—Shareholders—KFH*" for further details). Kuveyt Türk's business is undertaken in compliance with the principles of interest-free banking, known as participation banking in Turkey. Kuveyt Türk's commercial registration number is 250489/198060. Its registered address is Büyükdere Cad. No. 129, 34394 Esentepe-Sisli, Istanbul and its telephone number is +90 21254 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**").

Kuveyt Türk was incorporated pursuant to the Turkish Commercial Code (Law No. 6102) on 22 November 1988 as a joint stock company and commenced operations on 31 March 1989 under the name Kuveyt Türk Evkaf Finans Kurumu A.Ş., after being granted a licence by the CBT to operate as a "Special Finance Institution" (an institution undertaking banking activities in an interest-free manner). Following the introduction of a new banking framework in 2005 (whereby the regulation and supervision of all interest-free financial institutions in Turkey was transferred to the BRSA, Kuveyt Türk was reclassified as a "Participation Bank" (*katilim bankasi*), see "*Overview of the Turkish Banking Sector and Regulations*" for further details). On 26 April 2006, in accordance with changes to the BRSA's regulations, Kuveyt Türk changed its name to Kuveyt Türk Katilim Bankasi A.Ş.

Kuveyt Türk's five core business segments are:

- **Retail Banking:** which focuses on deposit taking (current and participation accounts), the granting of loans, credit card facilities and fund transfer facilities to all individual retail customers (see "*—Business Activities—Retail Banking*" for further details);
- **Small and Medium Business Banking:** which focuses on deposit taking (current and participation accounts), the granting of loans, credit facilities and current, saving and investment accounts for small and medium sized enterprises ("**SMEs**") **provided that:** (i) the relevant small business has an annual turnover of less than TRY10 million and that the level of credit provided to such SME is below TRY2.5 million ("**Small Business**") or (ii) the relevant medium sized business has an annual turnover between TRY10 million and TRY40 million and that the level of credit provided to such SME is between TRY2.5 million and TRY10 million ("**Medium Business**") (see "*—Business Activities—Small Business Banking*" for further details);
- **Commercial Banking:** which focuses on the granting of loans, other credit facilities and banking services to institutional customers **provided that** the annual turnover is between TRY40 million and TRY150 million (see "*—Business Activities—Commercial Banking*" for further details);
- **Corporate Banking:** which focuses on loans and other credit facilities and current, saving and investment accounts for all corporate customers comprising businesses that have an annual turnover in excess of TRY150 million (see "*—Business Activities—Corporate Banking*" for further details); and
- **Treasury, International and Investment Banking:** which focuses on: (i) international banking services to Kuveyt Türk's retail and corporate customers such as international trade finance; (ii) international organisation in order to expand Kuveyt Türk's international network; (iii) investment banking; and (iv) treasury services, which is responsible for managing Kuveyt Türk's liquidity and market risks (see "*—Business Activities—Treasury, International and Investment Banking*" for further details).

As at 31 December 2015, Kuveyt Türk had approximately 2,573,252 individual customers, 3,124 private customers, 36,733 corporate customers, 523,263 small business banking clients (comprising both Small Business and Medium Business), 12,000 commercial clients and 3,700 corporate clients, over 90 per cent. of which originated from Turkey, to which it provided retail, small business, commercial, corporate and international banking services. Kuveyt Türk expanded its branch network in Turkey by opening 20 branches in 2008, 19 branches in 2010, 41 branches in 2011, 39 branches in 2012, 47 branches in 2013

and 40 branches in 2014. In 2015, Kuveyt Türk added 52 new branches bringing the total number of branches in Turkey to 359. The BRSA granted Kuveyt Türk approval to open additional branches and by 30 June 2016 Kuveyt Türk had opened a further 18 branches bringing the total number of branches in Turkey to 377, which is anticipated to contribute to an increase in Kuveyt Türk's market share. Approximately 42 per cent. of Kuveyt Türk's branches are in Istanbul, with the rest spread across the country.

In addition to its head office in İstanbul and its branches spread across Turkey, Kuveyt Türk provides banking services to international customers through its wholesale banking branch in Bahrain, its subsidiary incorporated in the Dubai International Financial Centre ("**DIFC**") in the Emirate of Dubai ("**Dubai**") in the UAE and its financial services branch in Mannheim, Germany (see "*Group Structure, Subsidiaries, International Branches and Strategic Relationships*" for further details).

## **History**

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

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

In 2000, Kuveyt Türk began implementing its growth strategy (see "*Strategy*" for further details) and opened a total of eight new branches, thereby doubling its network of branches at the time. In the same year, Kuveyt Türk began offering online banking services to its customers, followed by the introduction of its Automated Teller Machines ("**ATM**") network. In 2001 Kuveyt Türk introduced debit cards, followed by credit cards in 2002 thereby becoming 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 GCC countries (comprising the UAE, Kingdom of Saudi Arabia, State of Qatar, the Sultanate of Oman, Bahrain and Kuwait) and accordingly opened an offshore branch in Bahrain. The branch was established in December 2002 and was granted a wholesale banking licence issued by the Central Bank of Bahrain (see "*Group Structure, Subsidiaries, International Branches and Strategic Relationships*" for further details).

In May 2005, Kuveyt Türk established a representative office in Mannheim, Germany, to focus on trade financing and fund mobilisation from the local population of Turkish descent living in Germany. On 28 August 2009, Kuveyt Türk received a financial services branch licence from the German Federal Financial Supervisory Authority ("**BaFin**") which permitted Kuveyt Türk to convert its representative office into a financial services branch. Kuveyt Türk commenced limited financial services operations from the branch on 26 April 2010. On 2 April 2015, BaFin approved the establishment of KT Bank AG, a subsidiary which is fully licensed in Germany. KT Bank AG commenced operations in July 2015 with three branches. As at the date of this Prospectus, no other bank provides interest-free banking in Germany.

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

## Shareholders and Capital Structure

### Shareholders

As at 30 June 2016, Kuveyt Türk's principal shareholders and their shareholdings were as follows:

Shareholders	Per cent.
KFH.....	62.24
General Directorate for Foundations—Turkey ("GDF").....	18.72
Public Institution for Social Security—Kuwait ("PIFSS").....	9.00
The Islamic Development Bank ("IDB").....	9.00
Others .....	1.04
<b>Total.....</b>	<b>100.0</b>

### KFH

As at 30 June 2016, KFH, one of the world's largest Islamic banks by assets, held 62.24 per cent. of the share capital of Kuveyt Türk. KFH was established in Kuwait in 1977 as the first bank operating in accordance with *Sharia* principles and is listed on the Kuwait Stock Exchange ("KSE").

### GDF

As at 30 June 2016, the GDF (Vaköfler Genel Müdürlüğü Mazbut Vaköflerö) held 18.72 per cent. of the share capital of Kuveyt Türk. The GDF was established in 1924 as a state entity to administer, manage and regulate existing and future Turkish charitable foundations and reports directly to the Turkish Prime Minister. The GDF consists of a large number of recorded foundations, the assets and prospects of which are administered and managed by the GDF. Pursuant to Foundations Law No. 2762 and the Law on the Organisation and Duties of the General Directorate for Foundations, the assets and properties of the recorded foundations are administered and managed by the GDF.

### PIFSS

As at 30 June 2016, the PIFSS held 9.00 per cent. of the share capital of Kuveyt Türk. PIFSS was founded in 1976, to implement the Kuwaiti social security system including social security benefits for: (i) old age, disability, sickness and death of civil workers in the government, private and oil sectors; (ii) old age, disability, sickness and death of the self-employed, those working for their own account and their affiliates; and (iii) sufferers of occupational diseases. PIFSS is a major investor on the KSE and in other Arab and Islamic countries.

### IDB

As at 30 June 2016, the IDB held 9.00 per cent. of the share capital of Kuveyt Türk. The IDB is a multinational development bank established in 1973 as a result of the Declaration of Intent issued by the Conference of Finance Ministers of Muslim Countries to promote the economic development and social progress of its member countries in accordance with the principles of Islamic law. The IDB currently has 57 member states, all of which are shareholders and members of the Organisation of the Islamic Conference. Turkey is a founding member and owns 6.45 per cent. of the shares of the IDB. Other major shareholders include Saudi Arabia, Kuwait, Libya, Iran, Nigeria, Qatar, Egypt and the UAE. The head office of the IDB is located in Jeddah in Saudi Arabia.

### Capital Structure

At the time of incorporation, Kuveyt Türk's initial share capital was TRY15,000,000,000. As at 30 June 2016, Kuveyt Türk's authorised and issued share capital was TRY2,790,000,000 and each share has a nominal value of TRY1. The shares of Kuveyt Türk are not listed. There are no different classes of shares or different privileges attached to any shares.

The following table sets out the total share capital reflecting capital increases which have been undertaken since 2005. All shareholders have contributed to capital increases *pro rata* in accordance with their respective shareholding.

Date of registration	Capital (TRY)
5 May 2005 .....	200,188,000
2 May 2007 .....	213,500,000
30 June 2007.....	260,000,000
30 May 2008.....	500,000,000
14 April 2010 .....	550,000,000
8 August 2010 .....	850,000,000
1 May 2011 .....	950,000,000
19 April 2012 .....	1,100,000,000
29 May 2013.....	1,460,000,000
24 June 2013.....	1,700,000,000
4 April 2014 .....	1,930,000,000
28 May 2014.....	2,290,000,000
6 April 2015 .....	2,530,000,000
5 April 2016 .....	2,790,000,000

In terms of recent capital increases, on 28 May 2014, Kuveyt Türk increased its share capital by TRY360,000,000 by way of a cash injection from its shareholders. On 6 April 2015, Kuveyt Türk increased its share capital further by TRY240,000,000 from retained earnings bringing its total share capital to TRY2,530,000,000. On 5 April 2016, Kuveyt Türk increased its share capital by TRY260,000,000 from retained earnings to TRY2,790,000,000. This capital increase allowed Kuveyt Türk to extend additional cash loans, resulting in increased income from current accounts and equity.

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

## Strategy

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

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

Kuveyt Türk intends to grow its local customer base by expanding its branch network throughout Turkey into under-banked areas which it considers represent high growth opportunities. Kuveyt Türk has expanded its branch network to 377 branches within Turkey as at 30 June 2016 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.

Kuveyt Türk also aims to increase its customer base and decrease operational costs through the expansion of its alternative distribution channels including Extended Teller Machines ("**XTMs**"), ATMs, internet banking, Automated Teller Safes, call centres and mobile banking. XTMs are satellite branches with mostly automated banking services which link to customer service assistants located in the head office. XTMs are minimally staffed with employees who are there to greet customers and assist with using the XTM terminals. The XTM project is unique to Kuveyt Türk and represents a cost efficient approach to providing banking services. Operating costs of an XTM are 20 per cent. of the cost of a traditional branch. There are currently 23 XTM branches in operation. Initial indications show that these XTM branches have had a high uptake rate by customers. Based on this success Kuveyt Türk plans to open additional XTMs over the next couple of years. In addition, Kuveyt Türk aims to grow its international customer base by expanding its international geographical presence (see "*—Strategy—Strategic investments and international expansion*" for further details).

### ***Selective growth focused on value generating and unique products***

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

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

Kuveyt Türk aims to develop revenue opportunities by continuing to provide bespoke solutions and a variety of products to meet the evolving needs of customers. The approach involves continuously reviewing and developing products and service offerings to complement its core banking products as well as increasing operations geared towards small businesses. Kuveyt Türk opened its first corporate only branch in Istanbul in 2010, and, in 2011, opened its second corporate only branch in Ankara. As of 30 June 2016, Kuveyt Türk had 3 corporate only branches to target high-value Turkish corporates and provide bespoke Commercial Banking and Corporate and International Banking services. The branches are also designed to support and increase Kuveyt Türk's corporate loan portfolio and increase its market share in trade finance and various other related financial products and services.

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

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

### ***Enhancing profitability and improving operational efficiency through cost control initiatives***

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

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

### ***Strategic investments and international expansion***

Although Kuveyt Türk's strategic plan is to focus primarily on organic growth opportunities, Kuveyt Türk from time to time may seek to enhance growth through sector and/or geographic-specific strategic relationships. Kuveyt Türk's strategy is to also invest in related businesses which allow it to supplement its product offerings and align with its strategy to provide products which are ancillary to its banking services. An example of this is Kuveyt Türk's investment in the insurance company, Neova Sigorta A.Ş. ("**Neova**"), to provide interest-free (*takaful*) insurance to its Turkish customers. In addition, Kuveyt Türk established a joint pension fund company with Albaraka Türk Katılım Bankası A.Ş. which began operations in the second half of 2014 (see "*Group Structure, Subsidiaries, International Branches and Strategic Relationships*" for further details).



Kuveyt Türk's strategy for international expansion comprises three core elements, namely: (i) that Kuveyt Türk's customers have a direct business relationship with the geographic location (to capture trade financing opportunities and key trade finance routes); (ii) that Kuveyt Türk has a presence in key geographical regions to source funding; and (iii) the locations have a strong Turkish immigrant community with continuing relationships with Turkey. Kuveyt Türk aims to strengthen and consolidate its presence in Europe and the GCC. In this regard, Kuveyt Türk has established a subsidiary with three branches in Germany.

### ***Strategies of each core business segment***

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

#### ***Retail Banking***

Kuveyt Türk aims to target young customers, particularly university students and new workforce entrants, as well as female customers. In addition, Kuveyt Türk plans to increase its product range to enhance its customer base and to target its existing high net worth clients and new high net worth individuals by offering *Sharia* compliant investment services focused on asset management and financing.

#### ***Small Business Banking***

Kuveyt Türk focuses on providing banking services for small and medium sized enterprises and companies including all credit-related products and financing products. Operating within an interest-free banking framework, Kuveyt Türk seeks to provide innovative, practical and cost effective financing solutions for the specific requirements of its small and medium-sized business customers.

#### ***Commercial Banking***

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

#### ***Corporate Banking***

Kuveyt Türk designs and offers business solutions to corporates through dedicated client care teams which enables Kuveyt Türk to provide project based solutions to companies with a view to becoming a long-term strategic partner and bank of choice for such companies.

#### ***Treasury, International and Investment Banking***

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

### **Business Activities**

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

The Group's segments were reorganised into the business segments displayed in the table below during 2014 to better reflect how Kuveyt Türk's business is managed, to provide greater efficiency across Kuveyt Türk's operations and to enhance customer service. The following table sets out certain income, profit, asset and liability information for each of the business segments as reported in the IFRS Accounts for the years ended 31 December 2015 and 31 December 2014 (see "*Business Activities*" for more details).

For the period ended 31 December 2015	Retail Banking	Small Business Banking	Commercial Banking	Corporate Banking	Treasury International & Investment Banking	Segments Total	Reconciliation	Grand Total
Net financing income.....	509,702	367,451	24,388	103,036	10,325	1,014,901	(68,348)	946,553
Net profit for the year.....	313,566	294,605	(54,719)	109,253	46,316	709,020	(208,774)	500,246
Segment Assets.....	4,990,489	10,241,907	7,288,020	5,083,323	14,256,887	41,860,627	-	41,860,627
Segment Liabilities & Equity.....	18,216,751	6,585,526	1,425,005	2,341,094	9,591,528	38,159,903	3,700,724	41,860,627

For the period ended 31 December 2014	Retail Banking	Small Business Banking	Commercial Banking	Corporate Banking	Treasury International & Investment Banking	Segments Total	Reconciliation	Grand Total
Net financing income.....	423,085	286,123	114,143	129,944	(70,177)	883,118	16,891	900,009
Net profit for the year.....	229,979	214,436	46,269	142,097	(73,549)	559,232	(101,196)	458,036
Segment Assets.....	4,507,793	8,499,487	5,462,161	4,028,546	11,252,759	33,750,746	-	33,750,746
Segment Liabilities & Equity.....	15,249,728	4,744,620	1,315,443	1,576,104	7,628,148	30,514,043	3,236,703	33,750,746

## Retail Banking

### Overview

The Retail Banking Department was established in 2000. Kuveyt Türk was the first participation bank in Turkey to offer retail banking services to customers. Kuveyt Türk provides a wide range of retail banking services and products to individuals with a primary focus on middle-to-high-income individuals. Kuveyt Türk conducts its retail banking operations through its 377 branches as at 30 June 2016 located throughout Turkey, as well as through its alternative distribution channels including XTMs, ATMs, internet banking, 24-hour telephone banking, and POS terminal payment locations.

### Retail Banking in Participation Banks

The principles underlying participation banking products determine the ways in which the proceeds from Kuveyt Türk's retail credits may be used and how these proceeds are transferred. Transfers of funds are effected in such a manner that the proceeds are transferred directly to the vendor or service provider that is the subject of the transaction. Repayments of retail credits are done in a similar way as at a conventional bank, with a larger portion of the earlier payments being applied to the mark-up portion and, subsequently, a greater portion applied to the principal closer to the end of the term. Turkish law requires Kuveyt Türk to permit retail customers to pre-pay in part or in full. In the event that a retail customer makes an early payment, Kuveyt Türk commits to making a reduction of the profit share and commission payable *pro rata* to the sums that are paid early. The current accounts and participation accounts offered by Kuveyt Türk also comply with interest-free banking principles. Kuveyt Türk utilises the funds deposited by account holders (which are accumulated in a pool for specific business activities), and any profits earned from such respective pools of funds are shared between the account holders and Kuveyt Türk in proportion to a pre-agreed ratio. As at 31 December 2015, Retail Banking accounted for 11.92 per cent. of Kuveyt Türk's total assets, and 43.52 per cent. of Kuveyt Türk's total liabilities. For the year ended 31 December 2014, Retail Banking accounted for 13.36 per cent. of Kuveyt Türk's total assets, and 45.18 per cent. of Kuveyt Türk's total liabilities.

As at 31 December 2015, Kuveyt Türk had approximately 1,179,140 active retail customers (including individuals and Small Business) with outstanding cash or non-cash loan balances (as compared to 769,869 active retail customers for the same period in 2014). The customers of Kuveyt Türk's Retail Banking Department had total cash loans outstanding as at 31 December 2015 of TRY4,779.73 million, as compared to TRY3,749.91 million as at 31 December 2014. Kuveyt Türk's deposits from customers are primarily denominated in Turkish lira, Euro and U.S. dollars.

## *Retail Products*

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

- *Deposit taking:* Kuveyt Türk provides customers with deposit taking services categorised under two types of accounts (set out below). The majority of Kuveyt Türk's deposits are short-term deposits averaging between one and two months. The majority of these deposits are typically rolled over on maturity.
- *Current Accounts:* These are accounts which may be opened in Turkish lira or foreign currency in return for a Special Current Account Deposit Book in the name of the customer. The funds deposited may be withdrawn at any time, either partially or completely (as preferred by the customer). The accounts allow customers to pay invoices via automatic payment instructions, carry out electronic fund transfers ("**EFTs**"), collect cheques/bonds and make credit payments. As at 31 December 2015, Kuveyt Türk had 470,282 current accounts opened for customers compared to 807,500 current accounts opened for customers as at 31 December 2014. Customers do not receive any mark-ups (i.e. profit share) on their deposits.
- *Participation Accounts:* These are high-revenue accounts that may be opened in one of three currencies (Turkish lira, U.S. dollars or Euro). These accounts offer customers the option of participating in the profit and loss of Kuveyt Türk which arises through the investment of the deposited funds by Kuveyt Türk. The funds are accumulated in participation accounts which are used in the financing of the real sector (in order to be compliant with the principles of interest-free banking). Kuveyt Türk has five types of participation accounts: the Classical Account, the Silver Account, the Gold Account, the Platinum Account and the Platinum+ Account, each of which differs according to minimum deposit requirements. In participation accounts, customers forfeit any accrued profits if amounts on deposit are withdrawn prior to maturity. As at 31 December 2015, Kuveyt Türk had 186,760 participation accounts opened for customers compared to 415,301 participation accounts as at 31 December 2014.
- *Gold savings and trading products:* Kuveyt Türk has introduced a number of products based on, and related to, gold, including the following:
  - *Gold Storage Account:* These accounts enable customers to invest in gold (buy or sell). Through the Gold Storage Account, accountholders have the added benefit of minimising risk as the government (through a separate scheme) guarantees the amount of gold up to the value of U.S.\$48,000. In addition, these accounts can have varying maturity dates, providing greater flexibility to customers and enabling them to convert their gold savings into TRY or U.S. dollars at market value on demand.
  - *Participation Accounts (denominated in gold):* This type of participation account can be opened with 10 grams of gold and provides customers with the ability to save in gold and generate returns on their savings. Each gram of gold deposited in this account is used in the physical gold trading sector and profits from that are returned to the customer in the form of more gold. The participation account has different maturity options ranging between three months and one year and can be opened at Kuveyt Türk branches or via the internet.
  - *Kuveyt Türk Gram Altın—Physical Gold:* Kuveyt Türk has commenced purchasing and selling physical gold denominated in 1, 1.5, 2.5, 5, 10, 20, 50 and 100 grams certified and coined by the İstanbul Gold Refinery. This is an alternative product offered to customers who prefer to have physical gold rather than cash accounts. Kuveyt Türk gold purchased from Kuveyt Türk branches and other gold products carrying the certificate of the İstanbul Gold Refinery can be resold to all branches after the necessary security checks have been undertaken.

- *Gold Transfer and Delivery:* Kuveyt Türk also provides its customers with the ability to transfer their gold to other accounts as well as the delivery of gold. This is undertaken for a set fee.
- *Physical Gold Deposit:* Kuveyt Türk introduced a new product whereby its customers are able to deposit their physical gold savings into their current and/or participation accounts electronically without the need to convert the gold into physical cash.
- *Silver and platinum trading:* In addition to providing its customers the opportunity to trade in gold, Kuveyt Türk has established additional products which allow customers to invest in silver and platinum at market prices (a first of its kind product to be provided by a participation bank). These products allow customers to buy silver or platinum for investment purposes, which Kuveyt Türk then holds at the İstanbul Gold Exchange on their behalf.
- *Car financing:* Kuveyt Türk provides finance for vehicle purchases by individuals and businesses pursuant to a Murabaha structure by purchasing approved vehicles and selling them to the relevant customer at a pre-determined mark-up price, paid back to Kuveyt Türk by the individuals/businesses in instalments. Leasing is also widely used for car financing.
- *Property finance:* Kuveyt Türk provides financing to customers to purchase land, properties which have been, or are being, built by an approved developer, and properties on the secondary market. Kuveyt Türk also provides financing for self-construction. In each instance, evaluation and approval is determined on a case-by-case basis. Property financing is provided on a fixed rate basis.
- *Consumer loans:* Kuveyt Türk provides general purpose financing to customers including study, travel, home appliance purchases and boat financing. Collateral taken when providing such financings is dependent upon credit capability of each customer and is evaluated on a case by case basis.
- *Credit and debit cards:* Kuveyt Türk was the first participation bank to introduce interest-free debit cards and credit cards to its customers in 2001 and 2002, respectively. As at 31 December 2015, Kuveyt Türk has issued a total of approximately 1,513,754 debit cards and 238,797 credit cards. Debit cards permit customers to access their current accounts and conduct transactions, including ATM withdrawals, fund transfers, account activity and balance enquiries, retail purchases and credit card, utility and other payments. Kuveyt Türk intends to continue developing unique card products to capture niche markets. In accordance with the principles underlying its participation banking status, Kuveyt Türk's credit cards contain some features that are not typical of conventional credit cards. For example, the credit cards may only be used for purchases and not for cash advances.

In addition to earning fees from the customers' use of credit cards, Kuveyt Türk has Point of Sale ("POS") terminals in stores throughout Turkey from which Kuveyt Türk earns a small fee from each transaction in which the cards are used (regardless of whether they are used by a customer of Kuveyt Türk or not). The number of Kuveyt Türk POS terminals through which transactions using Kuveyt Türk's own debit or credit cards and the credit cards of other banks are effected has slightly increased to 21,701 units as at 31 December 2015 compared to 18,212 units as at 31 December 2014. The volume of transactions has slightly increased with TRY3,790 million for the year ended 31 December 2015 compared to TRY3,276 million for the same period in 2014.

As at 31 December 2015, Kuveyt Türk had TRY4,779.73 million in outstanding retail loans as compared to TRY4,064.23 million as at 31 December 2014. Home financings accounted for 92.19 per cent., or TRY4,406.46 million, of Kuveyt Türk's total retail loans, as at 31 December 2015 as compared to 86.42 per cent., or TRY3,653.23 million, as at 31 December 2014. Auto financings accounted for 4.89 per cent., or TRY233.59 million, of Kuveyt Türk's total retail loans as at 31 December 2015, as compared to 3.84 per cent., or TRY162.2 million, as at 31 December 2014. All of Kuveyt Türk's home and vehicle financings are collateralised by the property or vehicles purchased with the proceeds of such credits. Credit card financings accounted for 5.12 per cent., or TRY244.99 million, of Kuveyt Türk's total retail loans as at 31 December 2015, as compared to 4.66 per cent., or TRY197.06 million, as at 31 December 2014.

## *Customers*

Kuveyt Türk categorises its retail customers primarily based on the amount of their opening deposits with Kuveyt Türk as follows: Classic (minimum opening balance TRY250), Silver (TRY50,000), Gold (TRY250,000), Platinum (TRY750,000) and Platinum+ (TRY1,500,000). As a client's deposits increase, Kuveyt Türk offers the client a wider variety of products with more attractive terms, thereby encouraging customers to concentrate their banking business with Kuveyt Türk. Kuveyt Türk intends to increase the number of Retail Banking customers by cross-selling new products and services and expanding the branch network (see "*Strategy*" for further details).

The individuals primarily targeted by Kuveyt Türk's Retail Banking Department comprise professionals and owners of businesses that use Kuveyt Türk's services primarily for their non-business related banking needs. For the year ended 31 December 2015, Kuveyt Türk provided retail banking services to approximately 2,573,252 individuals.

## ***Small Business Banking***

### *Overview*

Kuveyt Türk's Small Business Banking Department has developed special products and services tailored to Small Business and Medium Business. In addition, Kuveyt Türk provides small business owners with credit support as well as consultancy services for banking and finance.

### *Small Business Banking in Participation Banks*

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

As a participation bank, Kuveyt Türk does not provide credit to fund a business' general working capital which does not have any underlying assets. Instead, when 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 small business 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 small business 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 small business customers (as well as its commercial and corporate customers) do not have the legal right to pre-pay their credit obligations. Under certain circumstances, however, Kuveyt Türk may permit a small business 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*

Kuveyt Türk's Small Business Banking Department provides a wide range of products and services to Small Business and Medium Business. As at 31 December 2015, the total amount of Kuveyt Türk's outstanding cash loans to Small Business customers represented 36.32 per cent. of the cash loans of its Small Business Banking Department, amounting to TRY9,316.15 million. As at 31 December 2014, the total amount represented 16.52 per cent. of the cash loans, amounting to TRY3,480.25 million.

## ***Commercial Banking***

### *Overview*

Kuveyt Türk's Commercial Banking Department designs and offers business solutions to large corporates (operating primarily in the manufacturing, construction, wholesale and trade industries) through dedicated

teams. Operating within an interest-free banking framework, Kuveyt Türk's Commercial Banking Department seeks to provide innovative financing solutions for the specific requirements of the customers.

#### *Commercial Banking in Participation Banks*

For a description of the principles underlying Kuveyt Türk's provision of commercial banking services as a participation bank, see "*Business Activities—Small Business —Small Business Banking in Participation Banks*" for further details).

As at 31 December 2015, Commercial Banking accounted for 17.41 per cent. of Kuveyt Türk's total assets (as compared to 41.16 per cent. as at 31 December 2014) and 3.4 per cent. of Kuveyt Türk's total liabilities (as compared to 17.44 per cent. as at 31 December 2014).

#### *Commercial Products and Services*

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

##### *Cash Loans*

Kuveyt Türk provides a broad range of cash loan facilities and financial leasing products to its commercial customers to meet their short and long-term financing requirements. Kuveyt Türk's cash loans are used to support the business activities of Kuveyt Türk's commercial customers and consist principally of loans that are offered in Turkish lira, U.S. dollars and euro.

Kuveyt Türk focuses on high volume, short-term financing provided for the purposes of production support and working capital requirements (described below) in order to mitigate any adverse effects caused by interest rate fluctuations. Kuveyt Türk also provides a broad range of financial leasing products. Through its leasing products, commercial customers are able to obtain machinery, equipment and other goods from both domestic and international vendors. Under Turkish law, conventional banks are not allowed to engage directly in leasing activities – they are only permitted to do so through leasing subsidiaries. Consequently, Kuveyt Türk (as a participation bank) can enter into leasing transactions more efficiently with its customers compared to conventional banks. Kuveyt Türk also has a basket loans product which allows customers who seek to reduce foreign exchange risk with foreign exchange indexed loans, to borrow in two or three different currencies for the same project. As at 31 December 2015, Kuveyt Türk had TRY1,183.42 million in net minimum finance lease payments receivable, as compared to TRY710.85 million as at 31 December 2014. Kuveyt Türk also provides commercial customers with a variety of credit card services.

##### *Non-Cash Loans*

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

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

##### *Customers*

As at 31 December 2015, Kuveyt Türk had over 26,099 commercial clients to whom designated commercial relationship managers provide a dedicated point of contact throughout, assessing their cash management, treasury, trade finance, working capital finance, asset and project finance requirements (as compared to over 92,000 commercial clients as at 31 December 2014). As at 31 December 2015, Kuveyt

Türk's commercial customers had cash loans outstanding with Kuveyt Türk of TRY6,978.56 million and total non-cash loans (comprising of letters of credit and letters of guarantee) outstanding with Kuveyt Türk of TRY2,131.58 million (as compared to TRY10,964.99 million cash loans and TRY4,441.10 million non-cash loans as at 31 December 2014 outstanding with Kuveyt Türk).

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

## ***Corporate Banking***

### *Overview*

The Corporate Banking Department was established to offer project-based solutions to companies with a view to becoming a long-term strategic business partner and the principal bank of such companies.

### *Corporate Banking in Participation Banks*

For a description of the principles underlying Kuveyt Türk's provision of corporate banking services as a participation bank, see "*Business Activities—Small Business —Small Business Banking in Participation Banks*" for further details).

### *Corporate Products and Services*

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

### *Cash Loans*

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

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

### *Non-Cash Loans*

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

### *Customers*

As at 31 December 2015, Kuveyt Türk had over 10,472 corporate clients to whom designated corporate relationship managers provide a dedicated point of contact for assessing their cash management, treasury, trade finance, working capital finance, asset and project finance requirements. As at 31 December 2015, Kuveyt Türk's corporate customers had cash loans outstanding with Kuveyt Türk of TRY4,716.33 million and total non-cash loans (comprising of letters of credit and letters of guarantee) outstanding with Kuveyt Türk of TRY3,610.13 million (as compared to TRY2,012.24 million cash loans and TRY2,710.78 million non-cash loans as at 31 December 2014 outstanding with Kuveyt Türk).

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

### ***Treasury, International and Investment Banking***

#### ***Overview***

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

As at 31 December 2015, the Treasury, International and Investment Banking Department accounted for 34.06 per cent. of total assets (excluding unallocated assets) (compared to 33.34 per cent. as at 31 December 2014). As at 31 December 2015, the Treasury, International and Investment Banking segment accounted for 22.91 per cent. of total liabilities (compared to 22.60 per cent. as at 31 December 2014).

#### ***Treasury, International and Investment Banking in Participation Banks***

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

#### ***Treasury Department***

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

The Treasury Department is active in money market, currency trading and precious metals trading activities (see "Risk Management" for further details). The core strategy for Kuveyt Türk's Treasury Department is to focus on liquidity and market risk management. The Treasury Department does not carry out proprietary trading. As at 31 December 2015, Kuveyt Türk's foreign exchange trade volume was U.S.\$81 billion, compared to U.S.\$82 billion as at 31 December 2014.

The Treasury department is also responsible for the marketing of treasury products that Kuveyt Türk offers to customers. These products include currency spot trading, precious metals trading and currency forwards and swaps. Kuveyt Türk carries out a variety of operations related to gold, including import and export, refining services, and contracts with international gold refiners and, in February 2013, Kuveyt Türk received authorisation for clearing transactions on the Istanbul Gold Exchange. Kuveyt Türk has also entered into a number of ISDA (International Swaps and Derivatives Association) agreements with international counterparties and has been ranked first in terms of gold trading volume in BIST Precious Metals Market. As at 31 December 2015, Kuveyt Türk's total Murabaha transactions volume was U.S.\$11,850,500 million and swap volume transactions amounted to U.S.\$51,136,098 million, as compared to U.S.\$10,100 million and U.S.\$53,600 million respectively in 2014.

#### ***Investment Banking Department***

Kuveyt Türk's Investment Banking Department offers customers credit arrangement services and corporate products related to structured international financing projects. Kuveyt Türk was the first Turkish participation bank to have an investment banking arm when it established its Investment Banking Department in 2000. Kuveyt Türk's Investment Banking Department has undertaken a number of intermediary and advisory roles in relation to project financing. Although active in different sections of



corporate finance, Kuveyt Türk intends to continue to focus on niche financing products such as the arrangement of internationally syndicated interest-free credit facilities for Turkish corporations. In line with Kuveyt Türk's reputation of providing innovative financing solutions, the Investment Banking Department has been involved in the introduction of a number of innovative transaction types. The Investment Banking Department introduced the "matched Murabaha" to the Turkish market in 2005 followed by Kuveyt Türk's internationally syndicated commodity Murabaha transaction that was arranged to meet Kuveyt Türk's funding need. The U.S.\$200 million facility, which completed in 2006 (and was renewed in the amount of U.S.\$115 million in 2009 and finally repaid in full in April 2010). In addition, Kuveyt Türk's U.S.\$100 million Sukuk due 2013 issued in 2010, which was listed on the London Stock Exchange, was the first Sukuk issuance from Turkey.

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

In terms of the volume of transactions, Kuveyt Türk's main area of focus is financing arrangements for its corporate customers. The majority of these transactions are generated through Kuveyt Türk's branch network and relationship managers. The main products Kuveyt Türk offers are trade finance services, with transaction sizes typically ranging from U.S.\$500,000 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.\$1,052 million of syndications and club deals since 2004. Working through its Bahrain branch and its Dubai subsidiary, Kuveyt Türk intends to continue to use its relationship with KFH to tap additional funding sources in the GCC. In the future, Kuveyt Türk believes that its Dubai subsidiary will provide a key avenue to meet its future funding needs (see "*Group Structure, Subsidiaries, International Branches and Strategic Relationships*" for further details).

#### *International Banking Department*

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

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

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

#### **Competition**

As at 30 June 2016, according to the Banks Association of Turkey, there were 51 banks operating in Turkey, including six participation banks (albeit that, on 22 July 2016, the BRSA cancelled the banking permissions of one participation bank, being Bank Asya) (see "*Overview of Turkish Banking Sector and Regulations—Participation Banks*"). The private commercial banks in Turkey can be divided into three

groups: (i) large private banks (with a bank-only asset size between TRY1 billion and TRY20 billion); (ii) small private banks (with a bank-only asset size less than TRY1 billion); and (iii) banks under foreign control.

In addition to the five other participation banks in Turkey, Kuveyt Türk considers its main competitors to be the medium-sized commercial banks (in terms of asset size). Kuveyt Türk considers these banks to be its main competitors due to the level of their activities in certain areas of the Turkish banking sector and, in particular, retail and small business banking and import/export trade finance. However, the commercial banks do not have Islamic banking capabilities 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.

Although the main competition faced by Kuveyt Türk is from the other participation banks in Turkey and the medium-sized commercial banks (in terms of asset size) in Turkey, Kuveyt Türk also faces competition from large and small-sized private Turkish banks and from foreign banks operating in Turkey. The principal area of competition is in relation to small businesses, corporate banking and retail banking activities given the increased appetite amongst banks in Turkey to compete for mortgage loans across these sectors and the high profit margins available in the small business sector in particular.

In addition to the establishment of Ziraat Participation Bank, the Government of Turkey has also given its approval for other state-controlled banks to enter the participation banking market through the establishment of subsidiaries, which is likely to increase competition further; the subsidiary of Türkiye Vakıflar Bankası T.A.O. offering participation banking services has now been established and commenced operations on 26 February 2016 and the subsidiary of Türkiye Halk Bankası A.Ş. which intends to offer participation banking services is currently awaiting its license to commence its operations.

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, international network and strong customer deposit base and expects the recent developments in the participation banking sector to lead to an overall growth in demand for interest-free products and banking services.

### ***Competitive Strengths***

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

*Committed and strong majority shareholder support:* Kuveyt Türk's majority shareholder, KFH, is one of the world's largest Islamic banks in terms of assets (see "*—Shareholders and Capital Structure—KFH*"). KFH has over 35 years of experience in providing *Sharia* compliant banking services and Kuveyt Türk has been able to leverage this experience when developing and introducing new products to the Turkish market, as well as in adopting best practices within its operations, including practices relating to reporting and risk management systems. Senior Management believe that the support provided by KFH to Kuveyt Türk (including the global expertise represented by directors appointed by them, see "*Management*") has been important in Kuveyt Türk's growth, both in Turkey and the GCC. Senior Management believe that Kuveyt Türk also benefits from being associated with the KFH brand, which it believes provides Kuveyt Türk with a competitive advantage as the levels of trade between Turkey and the GCC increase. In addition to the support on business know-how and experience, the shareholders have supported Kuveyt Türk since its establishment to strengthen its capital structure and to leverage its financing opportunities and increase its market share. The shareholders provide periodic capital injections (see "*—Shareholders and Capital Structure—Capital Structure*" for frequency of capital injections).

*Growing and attractive interest-free banking market:* The Turkish banking sector has been one of the fastest growing in the Middle East and North Africa region. Between 2003 and 2008, the Turkish banking sector grew by approximately 40 per cent. annually in terms of loan volume. With the global economic crisis, the growth slowed down to 7 per cent. in 2009, but returned to a similar level (34 per cent.) in 2010 and thereafter. Senior Management expect that the banking sector will continue to grow, driven by the expected strong economic growth in Turkey, which is supported by, among other factors, lower inflation, a relatively stable currency, positive demographics (for example, the third largest population in Europe (approximately 74 million) with a relatively low median age of 29 years), low interest rates and a relatively sophisticated regulatory environment which was tested in the final financial crises. Market data also indicates that the participation bank segment of the Turkish banking sector is growing at a faster rate

than conventional banks in terms of assets, and Kuveyt Türk believes that the participation banking sector has significant growth potential given its current low share of total banking assets in Turkey (approximately 5.1 per cent. as at 30 June 2016).

In addition, Senior Management believe that there is a growing demand for interest-free banking products not only in Turkey but also from the Turkish and other Muslim populations living outside Turkey. Senior Management believe that the breadth of its current and future product and service offerings, its experience and its significant and expanding branch network that is supported by Kuveyt Türk's alternative distribution channels and advanced Information Technology ("IT") systems, make it well positioned to take advantage of this growth and support in becoming the leading participation bank in Turkey.

*Strong balance sheet and extensive customer deposit base with well-functioning and diversified funding base:* Through the expansion of its branch network, Senior Management believe that Kuveyt Türk has a strong and diversified deposit base. Kuveyt Türk has a track record of increasing customer deposits and reducing the costs of deposits and actively endeavours to diversify its funding base through the establishment of international branches. Kuveyt Türk's access to foreign investors has allowed it to develop new ways to raise financing. For example, Kuveyt Türk was the first participation bank in Turkey to execute a Murabaha syndication in 2004 for a customer, was the first participation bank in Turkey to obtain financing through an internationally syndicated U.S.\$200 million commodity Murabaha facility in 2006 (which was renewed in the amount of U.S.\$115 million in 2009 and repaid in full in April 2010) and issued the first Sukuk originating from Turkey in 2010.

*A strong track record in innovation of interest-free products and services:* Kuveyt Türk provides a wide range of innovative and tailor-made products for both Retail Banking, Small Business Banking, Commercial Banking, Corporate Banking and International and Investment 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 Kuveyt Türk's growth. Kuveyt Türk had in individual credits of total individual credits issued by participation banks as at 30 June 2016.

Kuveyt Türk has also introduced a number of pioneering products in Turkey in the area of structured trade finance through its investment banking products. (See "*Business Activities—Retail Banking Gold savings and trading products and—silver and platinum trading*" for further details.)

Kuveyt Türk differentiates itself from its competitors by making extensive use of the latest technology to offer innovative products and services. For example, Kuveyt Türk enhanced its distribution capabilities through its XTM branches which are a direct result of its R&D Centre (see "*Strategy—Growing local customer base through expansion of branch network and alternative distribution channels*" and "*Research and Development*").

Recently, Kuveyt Türk introduced "Seninbankan" which is the first *Shari'a* compliant digital banking platform in Turkey. Through "Seninbankan" customers are able to obtain banking services without going to physical branches. Kuveyt Türk has gained more than 23,000 new customers since it went live in 2015.

Senior Management believe that Kuveyt Türk's strong position in the interest-free retail banking segment, combined with the loyalty of its customers and a culture of innovation provides it with a strong platform for future growth, particularly in retail banking.

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

collection and credit quality which, in turn, will assist Kuveyt Türk to achieve further growth, profitability and efficiency.

*Flexibility of Kuveyt Türk's operating model:* As a participation bank, Kuveyt Türk benefits from certain advantages with respect to risk management not generally experienced by conventional banks. For example, because of the profit sharing principles underlying its customer accounts, there is no promised rate of return to account holders. Instead, the performance of the return on the accounts is linked to the performance of Kuveyt Türk's investment pools. In this context, revenues are derived primarily from the income generated through utilising funds for various interest-free financing products, trade finance and service charges. Due to the short term nature of the funds collected in Turkey, Kuveyt Türk has generally opted for short term financing instruments such as Murabaha facilities to overcome any maturity mismatches. Finally, the monthly principal repayment structure of its credits gives Kuveyt Türk the opportunity to have more predictable month-to-month cash inflow than conventional banks. On the other hand, as part of its liquidity management policies, Kuveyt Türk places some of its unlisted funds in Murabaha investments in commodity markets or short-term swap facilities for the short term, through correspondent banks with which it has established business lines. In compliance with its well-established business strategies, Kuveyt Türk does not work with a speculative line in treasury transactions, preferring to keep a square position in foreign currencies. As a consequence, Kuveyt Türk tends to be less exposed to foreign currency risk than some conventional banks since its policy is to maintain a balanced position by matching foreign currency deposits and foreign currency credits. Senior Management believe that this access to funds affords it greater flexibility in fixing its mark-up rates to the market and channelling its resources into better performing sectors.

*Experienced management team with a proven track record:* Kuveyt Türk has a highly experienced management team with a clearly defined, long term focus on developing Kuveyt Türk's operations and a proven track record in growing Kuveyt Türk's operations and profitably in a competitive market. Kuveyt Türk's management team has about 150 years of combined experience in top managerial and operational positions in the interest-free banking sector. Senior Management believe that the combined experience of Kuveyt Türk's management team will support its ongoing strategy.

#### **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 six wholly-owned operating subsidiaries, two further subsidiaries that are not wholly-owned, one offshore branch and one financial services branch.

#### ***Subsidiaries***

##### ***Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. ("Körfez REIT")***

Körfez REIT (Real Estate Investment Trust), formerly known as Körfez Gayrimenkul İnşaat Taahhüt Turizm San. ve Tic. A.Ş., was incorporated in June 1996 as a joint stock company under the Turkish Commercial Code and was converted into a real estate investment trust on 29 December 2011. The investment strategy of the company is developing real estate projects and carrying out construction, marketing, management and finance activities within the real estate sector.

Körfez REIT made its initial public offering on 26 April 2014, increasing its issued capital from TRY49,500,000 to TRY66,000,000. Körfez Tatil (as defined below) which is a wholly owned subsidiary of Kuveyt Türk purchased 23.75 per cent. of the share capital pursuant to the initial public offering. 25 per cent. of the shares of Körfez REIT are now listed on the Istanbul Stock Exchange and trading commenced on 6 May 2014.

Körfez REIT is developing a commercial and residential real estate project in the Kartal area located on the Anatolian side of Istanbul. Körfez REIT is the landowner and developer of the Kartal Project. Construction and sales activities are being carried out by Dumankaya Construction Co. in line with a revenue sharing agreement. Construction is approximately 90 per cent. complete and approximately 14 per cent. of the units have been sold. Körfez REIT has collected 42 per cent. of the minimum agreed sales revenue share of the contract. The sales revenue of the Kartal Project are Körfez REIT's main sources of revenue.

Körfez REIT has no accrued net revenue for the year ended 31 December 2015 since the Kartal Project is still under construction. As at 30 June 2016, the revenue from the Kartal project was reflected in the Interim Accounts as TRY39,197.

*Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İşletmeciliği A.Ş. ("Körfez Tatil")*

Körfez Tatil was incorporated in 2001 in Edremit, Turkey. Körfez Tatil was established to operate the Güre Project, a thermal tourism facility developed by Körfez REIT in Edremit, Balıkesir, Turkey. The Güre Project was composed of 199 time-sharing apartment units and a hotel, both of which are currently being demolished to develop a larger and modern project in line with the urban regeneration law. Körfez Tatil is a wholly-owned subsidiary of Kuveyt Türk.

Körfez Tatil's profit for the year ended 31 December 2015 was TRY633,000 (in accordance with the relevant regulations on accounting framework and accounting standards as promulgated by the Turkish Commercial Code and relevant legislation) compared to a loss of TRY876,000 for the year ended 31 December 2014.

*KT Sukuk Varlık Kiralama A.Ş. ("KT Sukuk")- Wholly Owned Subsidiary*

KT Sukuk was incorporated on 23 September 2011 in Turkey and was established to issue sukuk securities amounting to U.S.\$350,000,000.

*KT Kira Sertifikaları Varlık Kiralama A.Ş. ("KT Kira")- Wholly Owned Subsidiary*

KT Kira was incorporated on 3 September 2013 in Turkey and was established to issue sukuk securities in U.S. dollars, Malaysian ringgit and Turkish lira.

*Private Pension Company ("PPC")*

PPC was incorporated in 2013 in collaboration with Albaraka Türk Katılım Bankası A.Ş. and commenced operations in late 2014. PPC offers customers private pension system plans featuring funds that comply with the interest-free pension system, such as sukuk, equities, participation accounts and gold and silver funds.

*Kuveyt Turkish Participation Bank Dubai Ltd ("KT Dubai")- Wholly Owned Subsidiary*

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

KT Dubai was established with a capital of U.S.\$12 million and is authorised by the Dubai International Financial Centre to operate as an Islamic Financial Institution. KT Dubai is anticipated to provide further opportunities to Kuveyt Türk to diversify its funding source, capture trade flow finances and other business opportunities that are not currently available to Kuveyt Türk through its Bahrain branch due to regulatory restrictions.

*KT Bank AG ("KT Bank") - Wholly Owned Subsidiary*

On 2 April 2015, Kuveyt Türk was granted a licence by BaFin to convert its branch in Germany to a fully-fledged bank to operate in accordance with participation banking principles out of Germany. Accordingly, KT Bank was established with a capital of Euro 45 million and commenced operations in July 2015.

*KT Portföy ("KT Portföy") Yönetim Anonim Şirketi - Wholly Owned Subsidiary*

KT Portföy was established on 26 May 2015 to operate as a portfolio management company within Turkey. The objective of KT Portföy is to provide a participation based portfolio management service to the Group's customers.

*Architect Bilişim ("Architect Bilişim") Sistemleri ve Pazarlama Anonim Şirketi - Wholly Owned Subsidiary*

Architect Bilişim was established to operate as an information technology company. The company provides information technology related services to the Group.

**International Branches**

In line with its strategy to expand its international network, Kuveyt Türk has established an offshore branch in Bahrain and three branches through its subsidiary KT Bank in Germany (see "*History*" for further details). Through the Bahrain branch, Kuveyt Türk is able to diversify its funding sources and accordingly enhance its product offerings and through the branches of the German subsidiary Kuveyt Türk is able to capture customers' requirements for interest-free banking facilities.

**Associates**

*Neova*

Neova was incorporated in İstanbul in 2008 and commenced operations in the second half of 2010. As at the date of this Prospectus, Kuveyt Türk holds 6.99 per cent. of the shares in Neova. Neova is the first insurance company providing *Sharia* compliant insurance products in Turkey.

*Islamic International Rating Agency ("IIRA")*

The IIRA is the sole rating agency established to provide a rating spectrum to the capital markets and banking sector in predominantly Islamic countries. The IIRA was incorporated in Manama, Bahrain and commenced operations in July 2005. The IIRA is sponsored by multilateral development institutions, leading banks and other financial institutions and rating agencies. The company's shareholders operate from eleven countries which constitute the agency's primary marketing focus. As at the date of this Prospectus, Kuveyt Türk owns 8.36 per cent. of the shares of the IIRA.

*Kredi Garanti Fonu A.Ş. ("KGF")*

KGF is a company recently incorporated in order to provide support to small businesses in Turkey and is predominantly owned by banks and associations in Turkey. As at 30 June 2016, Kuveyt Türk owns 1.69 per cent. of the shares of KGF.

*Borsa İstanbul A.Ş. ("Borsa")*

Borsa was established pursuant to Capital Markets Law no. 6362, for the purpose of serving as a securities exchange in Turkey. As at the date of this Prospectus, Kuveyt Türk owns 0.0035 per cent. of the shares of Borsa.

**Capital Adequacy**

Kuveyt Türk calculates its capital adequacy ratio in accordance with guidelines promulgated by the BRSA, which are based on the standards established for international settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposure. In accordance with these guidelines, Kuveyt Türk had to maintain a minimum capital adequacy ratio of 12 per cent. throughout 2015. Kuveyt Türk currently calculates its capital adequacy ratio requirements in accordance with Basel II.

As at 31 December 2015, Kuveyt Türk's total capital adequacy ratio was 14.23 per cent. (15.21 per cent. as at 31 December 2014) (in accordance with BRSA Accounts) (see "*Risk Factors—Risk factors relating to Kuveyt Türk's Business*" for further details).

The table below sets out Kuveyt Türk's regulatory capital as at 31 December 2015 and 2014.

	As of 31 December			
	2015		2014	
	<i>(Try in thousands)</i>			
Tier 1 capital.....	3,162,768		2,881,380	
Tier 2 capital.....	659,168		563,835	
Deductions from capital .....	(33,236)		(19,385)	
<b>Total capital .....</b>	<b>3,788,700</b>		<b>3,425,830</b>	
Risk weighted assets amount subject to market, operational and credit risk .....	26,620,510		22,525,507	
	<b>Actual</b>	<b>Required</b>	<b>Actual</b>	<b>Required</b>
Tier 1 capital ratio.....	11.88%	-	12.79%	-
Total capital ratio.....	14.23%	12%	15.21%	12%

### Information Technology

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

Kuveyt Türk's core banking systems run on Microsoft Windows Systems infrastructure and core databases are hosted on Microsoft SQL 2012 servers. The core banking system used within Kuveyt Türk was developed in-house. The system is continuously developed and enhanced in accordance with the business strategies and requirements of Kuveyt Türk. The system includes modules to support all main functions of Kuveyt Türk, such as accounting, customer relations, money transfers, deposits, loans, trade finance, treasury, etc. These systems also have the features to easily integrate with third party systems such as VISA, MasterCard, SWIFT and utility payment systems.

Kuveyt Türk relies on the availability of IT systems to continue its banking operations and maintain accessibility of IT systems during disaster situations. Thus, Kuveyt Türk makes significant investment in IT disaster recovery systems and maintains a Disaster Recovery Plan for ten years, which includes operating a Disaster Recovery Centre (the "DRC") for such a period.

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

Kuveyt Türk has initiated the Core Banking Systems Transformation Project ("**BOA-Business Oriented Architecture Project**") in order to support business strategies and continuous growth opportunities for Kuveyt Türk through utilising the most recent technologies. The BOA "Business Oriented Architecture" Project was completed in 2013 and includes a complete transformation of all banking systems.

Kuveyt Türk's IT systems are audited by an independent auditing firm that performs two different audits periodically, an application controls audit and an IT audit based on Control Objectives for Information and Related Technology ("**COBIT**") and the Communiqué on Principles to be considered in Information Systems Management in Banks (*Bilgi Sistemleri İlkeler Tebliği*) published by the BRSA. The application controls audit is performed once a year with the focus of ensuring that Kuveyt Türk's core banking system, consisting of different banking modules, has adequate application controls to produce reliable, accurate and consistent financial information on banking activities. The IT audit based on COBIT is carried out every two years. The purpose of this audit is to ensure that Kuveyt Türk's IT processes have appropriate controls to fulfil the requirements of COBIT. The audit for Communiqué on Principles to be considered in Information Systems Management in Banks is performed once a year with a focus on risk management in respect of information systems, establishment and follow-ups of the internal controls

concerning information systems, internet banking and ATMs. These audits are required to be carried out by the BRSA and audit results are reported to the BRSA by the independent auditing firm.

### **Intellectual Property**

Kuveyt Türk's operations are not, to any significant extent (other than for the purposes of brand recognition and value), dependent on any specific intellectual property right. Kuveyt Türk seeks to protect the trademarks and trade names that it deems necessary for its operations and it takes necessary measures to ensure that these rights are adequately protected. Kuveyt Türk owns a total of 39 trademarks in Turkey, including those relating to the "Kuveyt Türk Sağlam Bankacılık", "Kuveyt Türk Katılım Bankası A.S. Bankacılıkta Çözüm Ortakiniz", "Kuveyt Türk aile", "Kuveyt Türk Altın", "Kuveyt Türk Duyarlı Kazanç", "Kuveyt Türk Duyunet", "Kuveyt Türk Evkaf", "Kuveyt Türk Gold", "Gold Plus" and "Kuveyt Türk Gümü?" brands. In addition, Kuveyt Türk licences the "Visa®" mark from Visa International Service Association and the "MasterCard®", "Maestro®" and "Cirrus®" marks from MasterCard International Incorporated.

### **Research and Development**

Kuveyt Türk established a research and development centre accredited by the Ministry of Industry and Trade which has been operational since December 2011. The R&D Centre helps sustain Kuveyt Türk's competitiveness by contributing towards the development and production of new information technology products such as the XTM branches, which are a direct result of the R&D Centre.

### **Insurance**

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

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

### **Legal Proceedings**

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

### **Media Reports**

As disclosed by Kuveyt Türk in its public announcement on 15 June 2016 (the "**Press Release**"), it has been made aware, through media reports, that certain allegations have been made against it by persons based in the United States. It is alleged in such reports that persons holding accounts with Kuveyt Türk have raised funds for terrorist organisations. As stated in the Press Release, such allegations are entirely untrue and without merit, and, to date, Kuveyt Türk has received no formal notice of the commencement of legal proceedings against it in connection with such matters. Consequently, Kuveyt Türk considers that any such claims, if brought, would be entirely frivolous and would be vigorously defended by Kuveyt Türk in any court of competent jurisdiction.



## RISK MANAGEMENT

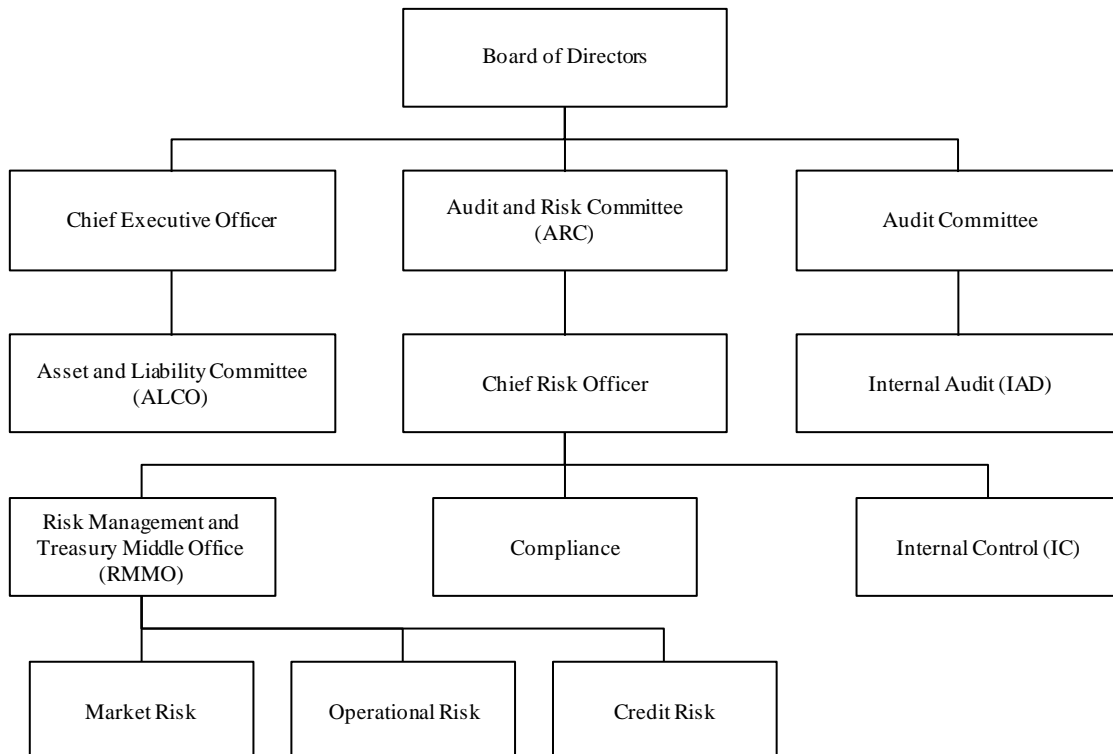
Kuveyt Türk's risk management philosophy is focused on identifying, measuring, monitoring, mitigating and managing various dimensions of business risks. It also aims to ensure that the key risks inherent in its business are minimised and asset values and income streams are protected so that the interests of Kuveyt Türk's depositors are protected, while still maximising returns for the shareholders. Kuveyt Türk continues to maintain and develop its risk management systems, both to meet Kuveyt Türk's on-going internal risk management needs and to comply with all legal and regulatory requirements in the banking sector, including the Basel II and Basel III criteria and the BRSA regulations (in each case as appropriate). 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 identify, control and manage risk. Kuveyt Türk's system of risk control and risk management is reviewed frequently and modified as necessary to ensure that all legal and regulatory requirements are complied with. Additionally, Kuveyt Türk's risk management function includes providing training to all employees and increasing their awareness of inherent risks and the importance of risk controls.

### Risk Management Structure

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



## **Risk Committees**

### ***Audit Committee***

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

### ***Asset and Liability Committee ("ALCO")***

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

The ALCO's responsibilities also include:

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

The ALCO has eleven members: Kuveyt Türk's CEO, the Chief Finance Officer ("**CFO**"), the Chief Operating Officer ("**COO**"), the Executive Vice Presidents of Corporate and International Banking, and Commercial Banking, Strategy, Credits, Retail and Small Business Banking, Legal and Risk Follow-up and the Head of Treasury.

### ***Internal Systems Committee ("ISC")***

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

Türk's external auditors. The ISC meets on the day prior to any Board meeting and as such meets at least six times a year and more frequently if required.

The ISC is responsible for the following four departments:

#### *Internal Control ("IC") Department*

Kuveyt Türk established the IC Department to design, implement, manage and monitor internal risk control activities and to report the results to the ISC and Audit Committee to ensure that Kuveyt Türk undertakes all its activities in compliance with all applicable internal and external regulations. The IC Department is located in the head office and comprises 40 employees.

The IC Department is structured in accordance with Kuveyt Türk's strategic objectives and policies, external and internal legislation and regulations, international standards and carries out its responsibilities through three different areas:

- *Branches and Regions Internal Control Unit:* domestic branches and their business processes and procedures are controlled, examined and followed-up on a regular basis in terms of internal control systems and activities.
- *Head Office and Subsidiaries Internal Control Service:* the activities, business processes, risk and control case studies, control designs and products and services of head office's business units as well as overseas branches and subsidiaries, are controlled, examined and monitored, in terms of their internal control systems.
- *Information Systems and Independent Audit Coordination Service:* activities such as coordination of external audit activities, follow-up of findings of the risk controls and audits and development of internal control systems and dissemination of the risk and control culture throughout Kuveyt Türk are performed. In addition, strategically important transactions and transactions considered to be higher risk and activities throughout Kuveyt Türk are examined and followed-up remotely via computer (ACL)-assisted auditing techniques.

#### *Compliance Department*

The Compliance Department is responsible for ensuring the effective, efficient and proper operation of Kuveyt Türk's compliance policy ("**Compliance Policy**") and to ensure that the head office, the branches, representative offices and subsidiaries conform to Kuveyt Türk's Compliance Policy. The department is also responsible for maintaining and improving Kuveyt Türk's Compliance Policy and for ensuring compliance controls issued by the BRSA are met. In accordance with Kuveyt Türk's internal anti-money laundering ("**AML**") policy and regulatory requirements, the head of the Compliance Department has been appointed as the Money Laundering Reporting Officer ("**MLRO**") (see "*— Anti-Money Laundering and Combating the Finance of Terrorism (AML/CFT) and Client Identification*" for further details).

In addition to the compliance function, the Compliance Department is also responsible for monitoring legal and regulatory changes and advising branches and head office on legal and regulatory issues. The Compliance Department reports directly to the Audit Committee and consists of 12 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 57 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 inquiries and investigation activities at the request of Kuveyt Türk's management in order to assess whether there are any deficiencies in Kuveyt Türk's control systems.

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

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

#### *Risk Management Group ("RMG")*

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

This risk assessment is performed by the credit risk, operational risk, IT risk and market risk groups. The credit risk, operational risk, IT risk and market risk groups all fall under the purview of the RMG (which consists of 11 employees) and is managed by the Group Head of the RMG. The RMG, Compliance Department and IC Department, are part of the ISC and are overseen by the Chief Risk Officer (who reports directly to the Audit Committee and coordinates all communications, reporting and monitoring between the Audit Committee and the RMG).

#### **Credit Risk**

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

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

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

### ***Credit Approval Policies and Procedures***

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

### ***Collateral***

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

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

Kuveyt Türk generally has a first charge over collateral on an event of default. Acceptable forms of collateral include (amongst other things) real estate, mortgages, vehicle pledges and other property pledges, cheques, bills of exchange, cash collateral, assignment of receivables, personal guarantees and similar items. Kuveyt Türk considers other forms of collateral on a case-by-case basis when supported by acceptable business reasons. Kuveyt Türk generally obtains collateral with a minimum value of 100 per cent. of the approved credit facility. Exceptions from standard collateral requirements are reviewed and sanctioned by the Board or the relevant credit committee in exceptional cases with respect to clients who have high creditworthiness.

As at 31 December 2015, the total gross maximum exposure of cash loan risk was TRY 38,863.61 million (including due from financing activities, net, minimum financial lease payments receivables, net, other assets and derivative financial instruments) and the total gross non-cash loan risk was TRY 11,749.79 million (including contingent liabilities and other guarantees) totalling TRY 50,613.40 million. As at 31 December 2014, the total gross maximum exposure of cash loan risk was TRY 31,008.95 million and the total gross non-cash loan risk was TRY 10,848.33 million, totalling TRY 41,857.29 million. Approximately 84 per cent. of credit risk was collateralised as at 31 December 2015 and the quality of such collateral is periodically monitored and assessed.

### ***Financing***

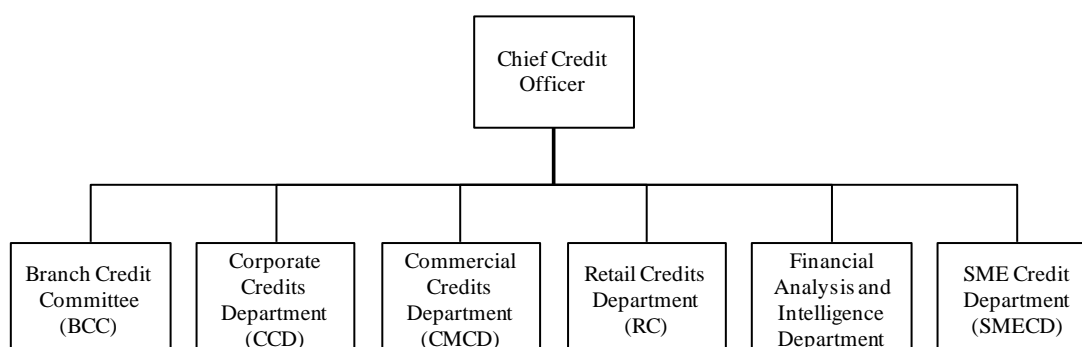
The main objectives of Kuveyt Türk's financing policies are ensuring:

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

In accordance with the Banking Law and Kuveyt Türk's internal policy, Kuveyt Türk has implemented a defined process of delegation of financing powers. Senior Management believe this tiered approval

system assists in effectively controlling Kuveyt Türk's credit exposure to individual counterparties or groups of counterparties.

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



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

The approval process consists of six stages:

- Stage 1:** The relevant business units within the branches solicit clients, prepare a financial analysis and intelligence report (see "— *Credit Risk—RCD, SMECD, CCD and CMCD*" for details).
- Stage 2:** The branch management provides an initial decision or requests further information. Once complete, the credit proposal is submitted to the Branch Credit Committee ("BCC"), the Retail Credits Department ("RCD"), Corporate Credits Department ("CCD") or Commercial Credits Department ("CMCD") (as applicable) for authorisation by the relevant credit committees.
- Stage 3:** The BCC, RCD, SMECD, CCD or CMCD independently reviews and evaluates the credit proposals and accordingly the relevant department decides whether or not to reject or submit the credit proposal to the relevant credit committees (see "— *Credit Risk—RCD, SMECD, CCD and CMCD* " for further details).
- Stage 4:** The relevant credit committee or the Board of Directors makes the final decision.
- Stage 5:** The BCC, RCD, SMECD, CMCD or CCD insert the agreed limits into the limits management system and notify the relevant branches.
- Stage 6:** The relevant branch completes the necessary documentation based on condition precedent documents and in accordance with the required and set collaterals, following which the operations team disburses the facility(ies) to the customer.

### **BCC**

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

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

- **A, B1, B2, C1, C2, D, E:** Branches have authority to grant limits for individual and Small Business. The below table sets out the maximum limits in TRY allocated to each branch class for product and collateral types.

#### Ceiling Limits and Branch Capacities:

*General Limit* (Level I) refers to the highest amount that can be applied to a customer or a group. It is described below by the branch class:

#### Circular Types:

- **Corporate Macro Circular:** If the customer is an SME and it or the group's turnover for the last full year or its assets exceeds TRY1,000,000, the limit can be allocated within the framework of the Macro Circular. For partners of an SME company, where the partners are subject to the macro circular, limit allocation is allowed within the framework of the Macro Circular.

BRANCH CAPACITY TABLE (TL) MACRO		Other*							Person		
		Company & Person		Other*		Bid Bond		Cheque Book	Consumer—Other**		Cheque Book
		MAX 1		MAX 2					MAX 3		
		Allocation Segment	Class	R. Estate	Vehicle	Mortgaged	With Cheque	Signature	Signature* ***	Signature* **	Signature ****
SME & SME GK	A			500.000	150.000	500.000	150.000	75.000	250.000	60.000	60.000
	B1			400.000	125.000	400.000	100.000	50.000	200.000	50.000	50.000
	B2			300.000	100.000	300.000	75.000	40.000	150.000	40.000	40.000
	C1			200.000	75.000	175.000	30.000	15.000	100.000	30.000	30.000
	C2			150.000	60.000	100.000	—	—	50.000	15.000	15.000
	D			100.000	50.000	—	—	—	—	30.000	30.000

\* For SME Banking/Other Loans:

1. Limits against signature are deducted from limits with cheque or mortgaged limits.
2. Limits guaranteed with cheques are deducted from mortgaged limits.
3. A pledge of rights and receivables can be applied by requiring a collateral for self-guaranteed transactions (consumer real estate and consumer real estate).

\*\* For Consumer \ Other Loans, limits against signature are deducted from limits with mortgage.

\*\*\* Utilisation with Cheque Book limit signature guarantee is deducted from other products issued with signature guarantee under corporate banking.

\*\*\*\* Upper limit allocation with signature for Bid Bond under SME banking.

- **Micro Circular:** If the customer is an SME and keeps books subject to the enterprise account statement, limit allocation is allowed for this customer and its partners within the framework of the Micro Circular. If the customer is an SME and it or the group's turnover for the last full year and its assets exceed TRY1,000,000, his limit can be allocated within the framework of the Micro Circular.

BRANCH CAPACITY TABLE (TL) MACRO		Other*							Person		
		Company & Person		Other*		Bid Bond		Cheque Book	Consumer—Other**		Cheque Book
		MAX 1		MAX 2					MAX 3		
		Allocation Segment	Class	R. Estate	Vehicle	Mortgaged	With Cheque	Signature	Signature* ***	Signature* **	Signature ****
SME & SME GK	A			250.000	100.000	150.000	50.000	10.000	100.000	50.000	50.000
	B1			200.000	100.000	125.000	40.000	7.500	75.000	40.000	40.000
	B2			150.000	75.000	100.000	30.000	5.000	50.000	30.000	30.000
	C1			100.000	50.000	75.000	20.000	3.000	50.000	30.000	30.000
	C2			100.000	50.000	50.000	—	—	50.000	15.000	15.000
	D			100.000	50.000	—	—	—	—	25.000	25.000

\* For SME Banking/Other Loans:

1. Limits against signature are deducted from limits with cheque or mortgaged limits.
2. Limits guaranteed with cheques are deducted from mortgaged limits.
3. A pledge of rights and receivables can be applied by requiring a collateral for self-guaranteed transactions (consumer real estate and consumer real estate).

\*\* For Consumer \ Other Loans, limits against signature are deducted from limits with mortgage.

\*\*\* Utilisation with Cheque Book limit signature guarantee is deducted from other products issued with signature guarantee under corporate banking.

\*\*\*\* Upper limit allocation with signature for Bid Bond under SME banking.

- **Personal Circular:** For all real persons considered personal customers and having a loan relationship with Kuveyt Türk, except for company partners, the following capacity table applies in connection with the automatic decision support system. The task rules to be used in the automatic decision support system are specified in the KSUE Annex-4c Code of Practice for Personal Loans Automatic Decision Support System.

SYSTEM CAPACITY TABLE (TL)		Person					
		Person		Consumer—Other*		Cheque Book	Letter of Guarantee
Allocation Segment	Class	R. Estate	Vehicle	Mortgaged	Signature****	Signature	Signature
Personal / Tradesman*	A	300,000	50,000	100,000	25,000	60,000	50,000
	B1	300,000	50,000	100,000	25,000	50,000	40,000
	B2	300,000	50,000	100,000	25,000	40,000	30,000
	C1	300,000	50,000	100,000	25,000	30,000	15,000
	C2	300,000	50,000	100,000	25,000	15,000	5,000
	D	300,000	50,000	100,000	25,000	30,000	5,000
	E	300,000	50,000	100,000	25,000	25,000	—

\* In BOA customer segment covers the following status: whether customers, who are tradesmen, are private company at the basis of personal information and/or corporate customer at the basis of group customers.

## RCD

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

If the credit limit of applicants exceeds the BCC's authority or conflicts with Kuveyt Türk's retail credit policy, applications are sent to the RCD. After the RCD finalises the credit evaluation process, credit files are presented to the "**Retail Credit Allocation**" committee to assess credit limits.

RCD's organisation structure consists of two units: the Credit Unit for Individual and Credit Cards and the Projects Unit for buildings under construction.

### *Credit Unit for Individual and Credit Cards*

The Credit Unit for Individual and Credit Cards is responsible for the appraisal process for credits provided to individuals up to TRY15 million and is made up of two sub-units: the Individual Credit Allocation Unit and the Credit Card Allocation Unit.

- *Individual Credit Allocation Unit*

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

Kuveyt Türk's main sources of information are:

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

As part of the review process, Kuveyt Türk also analyses the value and ownership history of the product or real estate the applicant is planning to purchase, and the value of the available security.

Additionally, Kuveyt Türk uses data obtained from *Sosyal Güvenlik Kurumu* ("**SGK**") (the national social security agency) to compare the income information given by the applicant to the



income registered in the SGK system. Kuveyt Türk also calculates the applicant's debt versus income ratio to assess the applicant's ability to repay the credit. The loan to value ratios ("LTVs") are set out as follows:

Product	LTVs expressed as a percentage
Real Estate.....	75
New Vehicles.....	80
Used Vehicles <sup>(1)(2)</sup> .....	70

<sup>(1)</sup> If the invoice value (for used cars) is less than or equal to TRY50,000, LTV is limited by 70%.

<sup>(2)</sup> If the invoice value (for used cars) is above TRY50,000; LTV is limited by 70% up to TRY50,000, and LTV is limited by 50% exceeding TRY50,000.

- **Credit Card Allocation Unit**

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

### **Projects Unit for Buildings Under Construction**

Some consumers buy real estate from ongoing construction projects in Turkey. The Projects Unit for Buildings Under Construction is responsible for the evaluation of the constructors of the real estate to be purchased. According to the Turkish consumer law, banks are responsible for the principal amount of credit advanced to customers until construction of the property is completed. Therefore, constructors and their projects are evaluated by civil engineers within this unit before applicants are able to obtain credit from Kuveyt Türk. As at 31 December 2015, 30 per cent. of total housing loans were made to such ongoing construction projects.

### **SMECD**

Small Business with annual revenues of under TRY40,000,000 fall under the supervision of the SMECD **provided that** the credit that has been applied for is under U.S.\$10,000,000. As with individual credits, applications for small business 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 small businesses, this information comprises the applicant's financial statements, records held by the central chamber of commerce and the shareholder structure of the applicant. Kuveyt Türk uses this information to assess the applicant's ability to repay the credit. Kuveyt Türk also expects the applicant to have at least three years of business experience within the industry sector.

Kuveyt Türk's main sources of information are:

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

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

### **CCD and CMCD**

Credit applications by Kuveyt Türk's corporate and commercial customers must be submitted to branches on standard forms with the related ancillary documents, including audited financial statements. A credit

file is established by the branch office for each applicant which includes publicly available information from the CBT, such as dishonoured cheques and protested bills.

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

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

### **CRMD**

The CRMD reports to the Executive Vice President of the Legal & Risk Follow-Up department, and monitors performing loans based on regular review of customer's loan files. The monitoring of the loans is based on various risk related circumstances as stated in the early warning signals. This allows the CRMD to anticipate the bad debts before the defaults occur and coordinate with the relevant departments and branches in order to take the necessary actions. This allows Kuveyt Türk to minimise the credit risk of Kuveyt Türk by increasing the asset quality.

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

- monitoring the repayment performance of standard loans and ensuring that appropriate monitoring activities are performed by the relevant branches. It also performs the activities related to the collection and recovery of loans for retail, small business and corporate credits that are up to 30 days overdue. Branches and regional offices are responsible for the close monitoring of principal, profit share, commission and other related payments, financial status, Central Bank records, operations, intra-group relations and collaterals against the loans. Branches and regional offices are required to take the necessary actions based on the early warning signals and inform the relevant departments to undertake the necessary actions;
- sending reports to the CBT including limits and risks Kuveyt Türk is exposed to in relation to its customers. The CBT makes consolidated reports by collecting limits and risks in relation to the relevant borrower from all banks, leasing and factoring companies. The CRMD reviews and monitors the consolidated reports of the CBT and determines Kuveyt Türk's level of risk exposure to the particular customer. This monitoring allows Kuveyt Türk to review customers whose credit exposure are increasing or limits are fully used or where existing limits are substantially decreasing as well as ascertaining any defaults and sharp interest reductions if debts are being granted to the customer;
- preparing a collateral gap report or disparity report by monitoring limits, outstanding risks and collaterals of the customer. Companies are watched closely according to the monthly collateral gap reports in case of a substantial mismatch;
- tracing the firms according to the reports of internal control and auditing and reviewing where limits are misused or collaterals are insufficient;

- close examination in case an inquiry is made about present customers' written out cheques, execution records, tax liabilities, negative market intelligence and news in the press and any infirmity caused by reasons;
- all types of requests of the branches about to release the collaterals of the active all corporate and commercial, small business and retail credits are evaluated in order to approve or reject them;
- all retail, small business and corporate and commercial credits are classified on a quarterly basis based on risk related circumstances as stated in the early warning signals and according to guidelines of the BRSA; and
- obtains the latest financial analysis and bank and market enquiries from the Financial Analysis and Intelligence Department for Kuveyt Türk's riskier customers.

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

### ***Credit Classification and Provisioning Policy General***

Senior Management is responsible for establishing allowances and provisions in relation to Kuveyt Türk's credit portfolio. In order to establish adequate allowances and provisions, Kuveyt Türk classifies credits by their perceived risk criteria in accordance with the requirements of IFRS and also the provisioning guidelines under the Banking Law.

### ***Classification and Provisioning Guidelines***

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

The following table sets out an analysis of Kuveyt Türk's provisions for cash loans in arrears for the periods indicated.

	<b>Year ended 31 December</b>	
	<b>2015</b>	<b>2014</b>
	<i>(TRY in thousands)</i>	
Balance at beginning of period.....	432,191	369,850
Additions in the current period/year .....	451,225	360,661
Recoveries .....	(169,322)	(250,054)
Write-offs .....	(323,815)	(48,266)
Impairment allowance .....	390,279	432,191
Collective Reserve .....	111,456	83,138
Non-performing loans as percentage of gross cash loans .....	1.66%	2.42%

The following table sets out certain information relating to Kuveyt Türk's cash loans in arrears and related provisions as per IFRS (in accordance with BRSA Accounts).

	As at 31 December					
	2015			2014		
	Credits in arrears	Total provision	% Reserved	Credits in arrears	Total provision	% Reserved
<i>(TRY in thousands, except percentages)</i>						
<b>Risk Category</b>						
Provisional rates:						
Doubtful .....	112,863	70,918	62.8	80,435	36,472	45.3
Substantial .....	174,025	96,198	55.3	116,318	55,729	47.9
Loss .....	169,427	114,647	67.7	314,903	265,014	84.2
<b>Total credits classified as credits in arrears .....</b>	<b>456,315</b>	<b>281,763</b>	<b>61.7</b>	<b>511,656</b>	<b>357,215</b>	<b>69.8</b>

#### *IFRS/BRSA Provisioning*

The provisioning policy used in the preparation of Kuveyt Türk's IFRS financial statements (including the IFRS Accounts) differs from that required by the Banking Law. Under Turkish GAAP, provisioning is based on the length of the period of default whereas, under IFRS, provisioning is based on an evaluation made by management. BRSA regulations require that credits that have been in default for 90 days are classified as non-performing credits. After 90 days, 20 per cent. of the total credit of the defaulting customer (after deducting collateral, if any) must be provisioned. After 180 days, the required provision must be 50 per cent. (after deducting collateral, if any) and, after 360 days, the required provision must be 100 per cent. of the total credit of the defaulting customer (after deducting collateral, if any). Kuveyt Türk also makes allowance at a special rate specified in the provisioning guidelines for non-cash loans such as letter of guarantees, bill of guarantee and sureties, each cheque leaf of the cheque books and other non-cash loans.

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

These allowances involve accounts and are regularly evaluated by Kuveyt Türk for adequacy. The allowances are based on Kuveyt Türk's own loss experiences and management's judgement of the level of losses that will most likely be recognised from assets in each credit risk category, by reference to both the debt service capability and repayment history of the customer. The allowances for possible cash credit losses in Kuveyt Türk's IFRS accounts have been determined on the basis of existing economic and political conditions at the time. Accordingly, Kuveyt Türk classifies credits as non-performing if:

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

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

In compliance with BRSA regulations, non-performing loans may be transferred to "Account of Loans Restructured and Tied to a Redemption Plan" at the end of the period provided that at least 15 per cent. of the total sum of receivables has been repaid, they have been monitored by the Group for a period of six months and there have been no default problems. As at the date of this Prospectus, approximately 0.29 per cent. of the current performing loans were previously non-performing.

### ***Portfolio Concentrations***

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

Kuveyt Türk's credit policies are structured to ensure that Kuveyt Türk is not over-exposed to a given client, industry or geographic area through diversification of financing and investment activities. Kuveyt Türk periodically monitors credit exposure limits by geographic region, country grade class, country, economical sector and top customers concentration. Accordingly, Kuveyt Türk actively tries to reduce the credit risk caused by customer concentration by expanding its customer base of Small Business and broadening its industry diversification. Kuveyt Türk has focused its efforts primarily on Small Business.

Concentration of risk is managed by counterparty and by industry sector. The maximum cash loan exposure to any counterparty other than the Central Bank as at 31 December 2015 was TRY287,069 thousand (as compared to TRY102,267 thousand as at 31 December 2014) and the maximum non-cash loan exposure to any counterparty as at 31 December 2015 was TRY196,518 thousand (as compared to TRY176,177 thousand as at 31 December 2014), before taking account of collateral or other credit enhancements.

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

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2014</b>
	<b>Gross exposure</b>	<b>Gross exposure</b>
	<i>(TRY in thousands)</i>	
Financial services.....	15,575,944	12,787,793
Construction and materials .....	11,599,349	9,838,050
General retailers.....	7,294,418	6,079,455
Manufacturing .....	4,782,495	3,901,379
Electricity .....	1,774,953	1,169,057
Health care and social services.....	1,380,532	1,119,171
Food and beverages.....	1,159,869	1,051,112
Mining Operations .....	413,582	447,244
Forestry .....	203,021	148,379
Telecommunications .....	214,553	180,592
Real estate .....	374,796	229,124
Other.....	5,839,887	4,905,929
<b>Total.....</b>	<b>50,613,399</b>	<b>41,857,285</b>

The following table sets out Kuveyt Türk's retail cash loans as at the dates indicated (in accordance with BRSA Accounts).

	As at 31 December			
	2015		2014	
	Amount	% of total	Amount	% of total
<i>(TRY in thousands, except percentages)</i>				
Real estate .....	4,436,525	88	3,696,383	88
Credit cards .....	148,499	3	119,663	3
Vehicles .....	233,586	5	162,616	4
Other (Retail outstanding cash loans) .....	213,247	4	201,698	5
<b>Total .....</b>	<b>5,031,857</b>	<b>100</b>	<b>4,180,360</b>	<b>100</b>

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

	As at 31 December							
	2015				2014			
	Cash loans		Non-cash loans		Cash loans		Non-cash loans	
	Amount	%	Amount	%	Amount	%	Amount	%
<i>(TRY in thousands)</i>								
Agriculture .....	314,681	1.2	60,288	0.7	307,938	1.5	57,110	0.7
Industry .....	6,552,314	25.2	2,055,989	23.0	5,245,458	25.4	1,566,757	19.0
Construction .....	3,985,188	15.3	3,206,002	35.8	3,042,086	14.7	3,165,142	38.4
Services .....	9,020,471	34.7	2,700,695	30.2	6,806,107	32.9	2,470,217	29.9
Other .....	6,116,387	23.5	933,905	10.4	5,254,705	25.5	989,486	12.0
Commitments .....	—	—	2,792,914	—	—	—	2,599,619	—
<b>Total .....</b>	<b>25,989,041</b>	<b>100</b>	<b>11,749,792</b>	<b>100</b>	<b>20,656,294</b>	<b>100</b>	<b>10,848,331</b>	<b>100</b>

### Proprietary Investments

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

### Loan Provisions

Kuveyt Türk has improved its asset quality through the years. The non-performing loans ("NPL") ratio is the first bank in the top 19 banks of the Turkish Banking Sector in 2015. Kuveyt Türk's NPL ratio realised 1.66 per cent. as at 31 December 2015.

Provisions ("Provisions") ratio is over Turkish Participation Banking Sector average provision ratio and among the first 9 banks in the top 19 banks of the Turkish Banking Sector in 2015.

<b>NPL Ratio</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Kuveyt Türk .....	2.22%	2.24%	2.21%	1.66%
Participation Banking Sector .....	3.01%	3.42%	4.54%	5.40%
Banking Sector .....	2.86%	2.69%	2.85%	3.09%
<b>Provisions Ratio</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Kuveyt Türk .....	88.37%	88.08%	85.04%	74.59%
Participation Banking Sector .....	75.12%	63.19%	62.41%	59.06%
Banking Sector .....	75.19%	76.59%	74.00%	74.59%

Close Monitoring Loans ratio (restructuring loans and 30 days and more overdue days) is 4.48 per cent. as at 31 December 2015. Kuveyt Türk's Close Monitoring Loans is under 3.40 per cent. of the Turkish Banking Sector average and under 4.07 per cent. of the Participation Banking Sector average.

<b>Close Monitoring Loans Ratio</b>	<b>As of December 2015</b>
Kuveyt Türk .....	4.48%
Participation Banking Sector .....	4.07%
Banking Sector .....	3.40%

The restructuring ratio of Kuveyt Türk is 3.91 per cent. as at 31 December 2015. In 2015 Kuveyt Türk was ranked twelfth among the top 19 banks in the Turkish Banking Sector and has shown better performance than some of the major banks in the Turkish Banking Sector and all other participation banks in the Turkish Banking Sector.

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

The bank calculates the probability of delinquency and internal rating notes for the portfolio of business loans based on statistical methods up to TRY850,000 (full amount) for all types of limits and up to TRY3,000,000 (full amount) for real estate transactions of Turkish Commercial Code. Ratings which are calculated since 1 February 2014 are shown in the table below as of 31 December 2015

	<b>Cash Loans</b>	<b>Non-cash loans</b>	<b>Total</b>
High Quality .....	31%	64%	39%
Medium Quality .....	22%	13%	20%
Average .....	17%	10%	15%
Below Average .....	3%	1%	3%
Unrated .....	27%	12%	23%

The following table sets out the aging analysis of past due but not impaired loans by class of financial asset (in accordance with BRSA Accounts):

<b>Due from financing activities:</b>	<b>As at 31 December 2015</b>				
	<b>Less than 30 Days</b>	<b>30 to 60 days</b>	<b>61 to 90 days</b>	<b>More than 91 days</b>	<b>Total</b>
	<i>(TRY in thousands)</i>				
Corporate lending .....	695,566	204,218	178,290	—	1,078,074
Consumer lending .....	26,109	69,528	38,873	—	134,510
Credit cards .....	4,337	1,154	476	—	5,967
<b>Total .....</b>	<b>726,012</b>	<b>274,900</b>	<b>217,639</b>	<b>—</b>	<b>1,218,551</b>

<b>Due from financing activities:</b>	<b>As at 31 December 2014</b>				
	<b>Less than 30 Days</b>	<b>30 to 60 days</b>	<b>61 to 90 days</b>	<b>More than 91 days</b>	<b>Total</b>
	<i>(TRY in thousands)</i>				
Corporate lending .....	266,044	177,078	104,971	—	488,053
Consumer lending .....	32,398	44,882	29,793	—	107,073
Credit cards .....	3,587	836	369	—	4,792
<b>Total .....</b>	<b>301,989</b>	<b>162,796</b>	<b>135,133</b>	<b>—</b>	<b>599,918</b>

## Operational Risk

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

Kuveyt Türk's operational risk issues are actively managed by regular monitoring of Kuveyt Türk's activities. This allows Kuveyt Türk to quickly detect and correct deficiencies in its policies and

procedures for managing operational risks. By promptly detecting and addressing these deficiencies, Kuveyt Türk can substantially reduce the frequency or severity of a loss (or potential loss) event. The RMG makes specific proposals to the Head of the Audit Committee whenever it determines that existing operational risks warrant changes to Kuveyt Türk's existing Internal Systems Regulations and Risk Management Policies. The operational risk reports are periodically submitted to Kuveyt Türk's Senior Management.

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

## Funding

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

	As at 31 December			
	2015	%	2014	%
<i>(TRY in thousands, except for percentages)</i>				
Current and profit/loss sharing investors' accounts .....	28,145,291	69.93	22,215,843	68.51
Due to other financial institutions and banks.....	4,261,643	10.59	4,399,347	13.57
Total equity attributable to equity holders of the parent .....	3,700,724	9.20	3,236,703	9.98
Sukuk securities issued.....	3,636,119	9.03	2,193,590	6.76
Other liabilities and provisions .....	502,024	1.25	380,872	1.17
<b>Total.....</b>	<b>40,245,801</b>	<b>100.00</b>	<b>32,426,355</b>	<b>100.00</b>

## Customer Deposits

Retail deposits were the major source of funding for Kuveyt Türk for the year ended 31 December 2015. As at 31 December 2015, deposits comprised 43.52 per cent. of Kuveyt Türk's total liabilities and shareholders' equity which is higher than the sector average (at 31.54 per cent.). As at 31 December 2015, deposits increased by 26.69 per cent. to TRY28,145.29 million, from TRY22,215.84 million as at 31 December 2014. Kuveyt Türk has a broad and diversified source of depositors and is not reliant on any key anchor depositors with 6.46 per cent. of its total deposits come from retail depositors.

The following table sets out the total liabilities which are substantially dominated by deposits, for the core business segments for the years ended 31 December 2015 and 2014.

For the year ended December 31, 2015	Retail Banking	SME	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
<i>(TRY in thousands audited)</i>						
<b>Total liabilities .....</b>	<b>18,216,751</b>	<b>6,585,526</b>	<b>3,766,099</b>	<b>9,591,528</b>	<b>3,700,724</b>	<b>41,860,627</b>
For the year ended December 31, 2014	Retail Banking	SME	Corporate and Commercial Banking	International and Investment Banking and Treasury	Unallocated	Total
<i>(TRY in thousands audited)</i>						
<b>Total liabilities .....</b>	<b>15,119,728</b>	<b>2,444,620</b>	<b>5,321,547</b>	<b>7,628,148</b>	<b>3,236,703</b>	<b>33,750,746</b>



### ***Credits from banks and other international financial institutions***

Kuveyt Türk has a number of utilised credit facilities with domestic and international banks in both Turkish lira and foreign currencies, predominantly euro and U.S. dollars, along with borrowings from the international and domestic debt capital markets. Kuveyt Türk's borrowings from other financial institutions and banks as of 31 December 2015 and 2014 are as follows:

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2014</b>
	<i>(TRY in thousands)</i>	
U.S.\$ .....	4,000,516	4,163,680
Euro .....	165,498	228,200
TL .....	56,454	8,112
Other .....	39,175	—
<b>Total .....</b>	<b>4,261,643</b>	<b>4,399,347</b>

As at 31 December 2015, Kuveyt Türk's total U.S. dollar borrowing was equivalent to TRY4,000.52 million, its total Euro borrowing was equivalent to TRY165,498 and its total borrowing in Turkish lira and other was TRY95,629 as at 31 December 2015 (total U.S. dollar borrowing was equivalent to TRY4,163.68 million as at 31 December 2014). Kuveyt Türk's foreign currency borrowing represents 98.68 per cent. of its total borrowing as of 31 December 2015.

Kuveyt Türk also aims to secure longer-term sources of funding in order to further improve the management of the liability side of its balance sheet so as to increase the average maturity of its Turkish lira funding facilities, which at 238 days are close to the sector average. Kuveyt Türk will diversify the financial instruments it makes use of and strengthen its balance sheet. The average maturity of deposits as at 31 December 2015 was 48 days for Turkish lira, deposits which were close to the market average. As at 31 December 2015, 5.63 per cent. of Kuveyt Türk's total deposits mature in more than one year and most of its deposits are typically rolled over on maturity.

The availability of funds from banks and other financial institutions, as well as from customer accounts, is influenced by factors such as prevailing interest rates, market conditions and levels of competition (see *"Risk Factors — Risk factors relating to Kuveyt Türk's Business—Kuveyt Türk's business, financial condition, results of operations and prospects have been affected by liquidity risks in the Turkish market and may be further affected by liquidity risks, particularly if Turkish or international financial market conditions deteriorate"* for further details).

### **Legal Risk**

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

### **Market Risk**

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

The RMG measures and monitors the market risk exposure to the value of the financial instruments held by Kuveyt Türk that may result from any number of market pressures. To measure market risk, Kuveyt Türk has adopted globally accepted and widely implemented risk management techniques. Kuveyt Türk calculates and reports market risk according to a standardised methodology. It manages market risk on the

basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends, and management's estimate of long-and short-term changes in fair value.

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

### Interest Rate Risk

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

The table below sets out Kuveyt Türk's analysis of financial liabilities by contractual maturities on an undiscounted basis as at 31 December 2015.

As at 31 December 2015						
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
(TRY in thousands)						
Due to other financial institutions and banks.....	—	30,680	330,059	3,952,974	688	4,314,401
Subordinated loan .....	—	16,258	16,258	129,800	613,859	776,176
Sukuk issued .....	—	100,812	696,605	302,621	2,998,124	4,098,162
Money market balances .....	—	712,538	—	—	—	712,538
Derivative financial instruments <sup>(*)</sup> .....	—	4,829,392	1,266,025	193,326	630,582	6,919,324
Current accounts .....	9,400,730	—	—	—	—	9,400,730
Profit and loss sharing accounts <sup>(**)</sup> .....	—	14,959,304	3,094,227	595,882	95,149	18,744,561
Other financial liabilities .....	—	—	—	—	—	—
<b>Total undiscounted financial liabilities .....</b>	<b>9,430,730</b>	<b>20,648,984</b>	<b>5,403,173</b>	<b>5,174,604</b>	<b>4,338,402</b>	<b>44,965,892</b>

As at 31 December 2014						
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
(TRY in thousands)						
Due to other financial institutions and banks.....	—	228,253	1,797,888	2,457,043	—	4,483,184
Subordinated loan .....	—	—	—	—	644,886	644,886
Sukuk issued .....	—	50,000	294,541	257,168	1,938,760	2,540,470
Money market balances .....	—	709,392	—	—	—	709,392
Derivative financial instruments <sup>(*)</sup> .....	—	4,288,256	178,108	94,123	—	4,560,487
Current accounts .....	6,647,014	—	—	—	—	6,647,014
Profit and loss sharing accounts <sup>(**)</sup> .....	—	3,086,353	6,368,729	5,596,762	516,985	15,568,829
Other financial liabilities .....	—	—	—	—	—	—
<b>Total undiscounted financial liabilities .....</b>	<b>6,647,014</b>	<b>8,362,254</b>	<b>8,639,266</b>	<b>8,405,096</b>	<b>3,100,631</b>	<b>35,154,262</b>

<sup>(\*)</sup> As such derivatives will be settled in gross amounts, notional amounts have been disclosed.

<sup>(\*\*)</sup> Customers have choice of demanding their accounts anytime by abandoning profit share income.

### Foreign Exchange Rate Risk

As a participation bank, Senior Management believe its foreign currency risks are somewhat lower than many conventional banks, because its foreign currency participation and investment accounts are generally matched directly to its foreign currency credits. Kuveyt Türk is, however, subject to foreign exchange rate risk due to adverse movements in currency exchange rates in the currencies in which it maintains assets and liabilities. Changes in foreign exchange rates have an impact on Kuveyt Türk's

income and expenses in line with the magnitude of such changes and the current volume of its foreign exchange position. The TMO monitors the foreign exchange rates closely and ensures that cash and non-cash foreign currency commitments can be covered by foreign currency denominated assets to the extent possible. Kuveyt Türk seeks to maintain an even foreign exchange position policy to minimise its currency risk. Kuveyt Türk however, experiences from time to time net short positions in foreign currencies, which may require it to convert Turkish lira at times at unfavourable exchange rates (see "*Risk Factors — Risk factors relating to Kuveyt Türk's Business*" for further details).

The table below sets out Kuveyt Türk's exposure to foreign currency exchange rate risk for the years set out below.

As at 31 December 2015	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank .....	737,087	507,266	50,029	18,381	1,312,763
Deposits with other banks and financial institutions .....	1,732,093	2,748,895	105,715	137,965	4,724,668
Reserve deposits at the Central Bank .....	317,760	3,801,098	—	1,022,437	5,141,295
Financial assets – available-for-sale .....	—	780,171	—	—	780,171
Financial assets – held for trading .....	—	77,693	333	—	78,026
Due from financing activities, net .....	2,334,643	6,515,428	—	154,034	9,004,105
Minimum finance lease payments receivable, net .....	390,615	447,525	—	—	838,140
Precious metals .....	—	—	—	471,703	471,703
Other assets .....	13,844	116,585	3,268	119	133,816
Construction projects, net .....	—	—	—	—	—
Joint venture .....	—	—	—	—	—
Investment properties, net .....	—	—	—	—	—
Assets held for sale and disposal of group, net .....	—	—	—	—	—
Property and equipment, net .....	4,173	473	—	—	4,646
Intangible assets, net .....	41,204	—	—	—	41,204
Deferred tax assets .....	—	—	—	—	—
<b>Total assets .....</b>	<b>5,571,419</b>	<b>14,995,135</b>	<b>159,345</b>	<b>1,804,639</b>	<b>22,530,538</b>
Due to other financial institutions and banks .....	165,498	4,000,516	39,175	—	4,205,189
Sukuk issued .....	61	2,481,897	551,720	—	3,033,678
Subordinated loans .....	—	589,734	—	—	589,734
Money market balances .....	—	—	—	—	—
Current and profit / loss sharing investors' accounts .....	2,691,742	9,227,971	121,746	1,345,135	13,386,594
Other liabilities & provisions .....	28,146	98,986	16,881	291	144,304
Employee benefit obligations .....	—	86	—	—	86
Income taxes payable .....	—	—	—	—	—
Derivative financial instruments .....	—	159,744	467	—	160,211
Equity .....	—	—	—	—	—
<b>Total liabilities and equity .....</b>	<b>2,885,447</b>	<b>16,558,934</b>	<b>729,989</b>	<b>1,345,426</b>	<b>21,519,796</b>
<b>Net balance sheet position .....</b>	<b>2,685,972</b>	<b>(1,563,799)</b>	<b>(570,644)</b>	<b>459,213</b>	<b>1,010,742</b>
<b>Net off-balance sheet position .....</b>	<b>(2,627,455)</b>	<b>1,632,270</b>	<b>15,622</b>	<b>80,257</b>	<b>(899,306)</b>

As at 31 December 2014	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank .....	120,445	391,654	21,574	—	533,673
Deposits with other banks and financial institutions .....	421,436	2,427,653	199,187	126,978	3,175,254
Reserve deposits at the Central Bank .....	310,277	2,913,825	—	931,507	4,155,609
Financial assets – available-for-sale .....	—	609,889	—	—	609,889
Financial assets – held for trading .....	—	7,841	405	—	8,246
Due from financing activities, net .....	1,633,950	5,527,792	—	174,324	7,336,066
Minimum finance lease payments receivable, net .....	189,336	197,153	—	—	386,489
Precious metals .....	—	—	—	1,301,466	1,301,466
Other assets .....	69,432	48,254	422	97	118,205
Construction projects, net .....	—	—	—	—	—
Joint venture .....	—	—	—	—	—
Investment properties, net .....	—	—	—	—	—
Assets held for sale and disposal of group, net .....	—	—	—	—	—
Property and equipment, net .....	783	201	—	—	984
Intangible assets, net .....	2949	46	—	—	2,995
Deferred tax assets .....	—	—	—	—	—
<b>Total assets .....</b>	<b>2,748,608</b>	<b>12,124,308</b>	<b>221,588</b>	<b>2,534,372</b>	<b>17,628,877</b>
Due to other financial institutions and banks .....	228,200	4,163,035	—	—	4,391,235
Sukuk issued .....	—	1,953,221	—	—	1,953,221
Subordinated loans .....	—	464,592	—	—	464,592
Money market balances .....	—	—	—	—	—
Current and profit / loss sharing investors' accounts .....	2,337,490	5,618,869	120,129	1,910,986	9,987,474
Other liabilities & provisions .....	17,040	74,458	808	402	92,708
Employee benefit obligations .....	—	—	—	—	—
Income taxes payable .....	—	—	—	—	—
Derivative financial instruments .....	—	11,675	122	—	11,797
Equity .....	—	—	—	—	—
<b>Total liabilities and equity .....</b>	<b>2,582,730</b>	<b>12,285,850</b>	<b>121,059</b>	<b>1,911,388</b>	<b>16,901,027</b>
<b>Net balance sheet position .....</b>	<b>165,878</b>	<b>(161,542)</b>	<b>100,530</b>	<b>622,984</b>	<b>727,850</b>
<b>Net off-balance sheet position .....</b>	<b>(150,334)</b>	<b>257,303</b>	<b>(101,235)</b>	<b>(627,349)</b>	<b>(621,615)</b>

## Profit Rate Risk

Profit rate risk arises from the possibility that changes in conventional interest rates will affect the future profitability or the fair value of financial instruments. Kuveyt Türk is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities and off-balance sheet instruments that mature or re-price during a given period. The impact of possible changes in the profit rates is measured and the profit rate gaps are reviewed to initiate corrective action in Kuveyt Türk's funding profile to ensure that the overall profit rate risk remains within acceptable tolerances. By taking such action Kuveyt Türk seeks to match profit-related assets and liabilities and, accordingly, minimise the effect of profit rate risk on its net profit (see "*Risk Factors – Risk factors 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 economic conditions, Kuveyt Türk maintains sufficient funds to meet its operational needs (including maturing liabilities), and to ensure compliance with BRSA regulations. Funding and liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments and the risk of being unable to liquidate a position in a timely manner and at a reasonable price. The risk arises in the general funding of Kuveyt Türk's financing activities and in the management of its positions.

To meet its funding needs, Kuveyt Türk has principally relied on current accounts and participation accounts. Historically, when growth in cash credits has been greater than Kuveyt Türk's growth in participation accounts, it has bridged most of this gap through use of some current accounts and shareholders' equity and by increasing capital or retaining profits. Kuveyt Türk also utilised the U.S.\$200 million syndicated interest-free commodity Murabaha facility obtained in 2006 to balance its liquidity needs. In 2011, Kuveyt Türk also issued, through KT Sukuk, U.S.\$350 million lease certificates due 2016 as part of managing its funding requirements. In 2013 Kuveyt Türk issued, through KT Kira, TRY150 million Lease Certificates due 18 November 2014 and Kuveyt Türk also raised U.S.\$275 million and EUR83 million syndicated murabaha financing from international markets on 27 December 2013. In addition, in 2014 Kuveyt Türk issued, through KT Kira, U.S.\$500 million Certificates due 2019. In April 2015, Kuveyt Türk issued MYR 300 million Certificates due 2020 through its MYR 2 billion programme.

Most recently, Kuveyt Türk issued, on 17 February 2016 through KT Sukuk, U.S.\$350 million Fixed Rate Resettable Tier 2 Certificates due 2026.

In order to manage funding and liquidity risk, the RMG 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 RMG 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 RMG reports on a monthly basis to the Audit Committee.

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

	As at 31 December	
	2015	2014
	(%)	
Cash loans/total assets .....	61.8	61.3
Cash loans/deposits .....	91.9	93.1
Cash loans/ total equity attributable to equity holders of the parent .....	698.6	639.2
Liquid assets <sup>(1)</sup> /total assets .....	16.1	12.9
Liquid assets/deposits <sup>(2)</sup> .....	20.7	16.3

(1) Liquid assets comprise cash and cash equivalents and balances with other financial institutions (not including Kuveyt Türk's reserves with the Central Bank).

(2) Also includes due to other financial institutions and banks.

The following tables summarise Kuveyt Türk's estimated maturity analysis for certain assets and liabilities as at 31 December 2015 and 31 December 2014, and contains certain information regarding Kuveyt Türk's funding and liquidity risk.

31 December 2015	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank .....	1,970,359	-	-	-	-	1,970,359
Balances with other banks and financial institutions .....	4,721,373	10,156	21,807	-	-	4,753,336
Reserve deposits at the Central Bank .....	5,141,295	-	-	-	-	5,141,295
Financial assets – held for trading .....	65,102	24,328	-	390	-	89,820
Derivative financial instruments .....	20,278	24,328	-	-	-	44,606
Share Certificates .....	-	-	-	390	-	390
Precious Metal Fund .....	207	-	-	-	-	207
Sukuk held for trading .....	44,617	-	-	-	-	44,617
Financial assets – available-for-sale .....	1,400,586	73,131	713,999	96,921	69,559	2,354,196
Due from financing activities, net .....	7,071,967	8,704,635	8,724,171	1,225,785	125,908	25,852,466
Precious Metals .....	471,703	-	-	-	-	471,703
Other assets .....	-	-	-	-	456,682	456,682
Construction projects, net .....	-	-	-	-	52,904	52,904
Joint venture .....	-	-	-	-	8,378	8,378
Investment properties, net .....	-	-	33,807	-	-	33,807
Property and equipment, net .....	-	-	-	-	430,428	430,428
Intangible assets, net .....	-	-	-	-	119,452	119,452
Deferred tax assets .....	-	-	-	-	98,469	98,469
Assets and a disposal group held for sale .....	27,332	-	-	-	-	27,332
<b>Total assets .....</b>	<b>20,869,717</b>	<b>8,812,250</b>	<b>9,493,784</b>	<b>1,323,096</b>	<b>1,361,780</b>	<b>41,860,627</b>
Due to other financial institutions and banks .....	982,171	2,175,171	1,114,137	-	-	4,261,643
Sukuk securities issued .....	415,511	1,230,616	2,005,929	-	-	3,636,119
Subordinated Loans .....	-	-	-	589,734	-	589,734
Money market balances .....	711,542	-	-	-	-	711,542
Current and profit / loss sharing investors' accounts .....	27,064,925	1,032,361	9,236	-	38,769	28,145,291
Derivative financial instruments .....	24,233	47,269	98,671	-	-	170,173
Employee benefit obligations .....	-	48,481	-	-	58,424	106,905
Income taxes payable .....	-	36,472	-	-	-	36,472
Other liabilities and provisions .....	-	-	-	-	476,251	502,024
<b>Liabilities .....</b>	<b>29,172,609</b>	<b>4,570,370</b>	<b>3,227,973</b>	<b>589,734</b>	<b>599,217</b>	<b>38,159,903</b>
<b>Net .....</b>	<b>(8,302,892)</b>	<b>4,241,880</b>	<b>6,265,811</b>	<b>733,362</b>	<b>762,563</b>	<b>3,700,724</b>

31 December 2014	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank .....	1,127,568	-	-	-	-	1,127,568
Balances with other banks and financial institutions .....	3,187,412	24,463	6,957	-	-	3,218,932
Reserve deposits at the Central Bank .....	4,155,609	-	-	-	-	4,155,609
Financial assets – held for trading .....	42,495	5,419	-	181	-	48,095
Derivative financial instruments .....	37,696	5,419	-	-	-	43,115
Share Certificates .....	-	-	-	181	-	181
Gold Fund .....	4,799	-	-	-	-	4,799
Financial assets – available-for-sale .....	1,007,693	303,917	795,489	42,035	53,993	2,203,127
Due from financing activities, net * .....	5,250,536	7,338,870	7,108,899	918,891	71,977	20,689,173
Precious metals .....	1,301,466	-	-	-	-	1,301,466
Other assets .....	-	-	-	-	406,269	406,269
Construction projects, net .....	-	-	-	-	50,020	50,020
Joint Venture .....	-	-	-	-	6,306	6,306
Investment properties, net .....	-	-	26,136	-	-	26,136
Property and equipment, net .....	-	-	-	-	377,753	377,753
Intangible assets, net .....	-	-	-	-	70,331	70,331
Deferred tax assets .....	-	-	-	-	43,953	43,953
Assets and a disposal group held for sale .....	26,008	-	-	-	-	26,008
<b>Total assets .....</b>	<b>16,098,787</b>	<b>7,672,769</b>	<b>7,937,481</b>	<b>961,107</b>	<b>1,080,602</b>	<b>33,750,746</b>
Due to other financial institutions and banks .....	1,383,915	1,852,414	1,163,018	-	-	4,399,347
Sukuk securities issued .....	152,520	87,849	1,953,221	-	-	2,193,590
Subordinated Loans .....	-	-	-	464,592	-	464,592
Money market balances .....	708,743	-	-	-	-	708,743
Current and profit / loss sharing investors' accounts .....	20,966,585	1,092,441	85,047	-	71,770	22,215,843
Derivative financial instruments .....	16,381	2,364	7,140	-	-	25,885
Employee benefit obligations .....	-	48,599	-	-	44,257	92,856
Income taxes payable .....	-	32,315	-	-	-	32,315
Other liabilities and provisions .....	-	-	-	-	380,872	380,872
<b>Liabilities .....</b>	<b>23,228,144</b>	<b>3,115,983</b>	<b>3,208,425</b>	<b>464,592</b>	<b>496,899</b>	<b>30,514,043</b>
<b>Net .....</b>	<b>(7,129,357)</b>	<b>4,556,786</b>	<b>4,729,056</b>	<b>496,515</b>	<b>583,703</b>	<b>3,236,703</b>

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

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

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

As the Financial Intelligence Unit of Turkey, the Financial Crimes Investigation Board laws and regulations with respect to AML/CFT are applicable to Kuveyt Türk. Kuveyt Türk is committed to

ensuring adherence to AML/CFT regulations at all times. Kuveyt Türk has strict client identification policies and procedures 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 and approved. Furthermore, Kuveyt Türk is committed to preventing the provision of its financial services for the purposes of money laundering or terrorist financing activity. In line with Kuveyt Türk's AML/CFT Policy, all employees regardless of their role in Kuveyt Türk, are trained in Kuveyt Türk's AML/CFT and anti-terrorism financing policies on an annual basis.

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

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

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

## MANAGEMENT

### Board of Directors

The board of directors of Kuveyt Türk (the "**Board**") is comprised of nine directors ("**Directors**"), (see table below). Members of the Board are appointed by Kuveyt Türk's shareholders, five of which are appointed by KFH, with one such Director being the chairman. Kuveyt Türk's chief executive officer also sits as a member of the Board as required by the Banking Law. Each Director is appointed for a term of three years and the Board meets at least six times annually. The business address of each member of the Board is Büyükdere Caddesi, No: 129/1, 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.

The Board members together with senior managers of Kuveyt Türk own 0.11 per cent. of Kuveyt Türk's share capital.

As at the date of this Prospectus, the members of the Board are:

Name	Year of birth	Position	Year first elected to position
Hamad Abdulmohsen AlMarzouq.....	1962	Chairman	2014
Dr. Adnan Ertem.....	1965	Vice Chairman	2002
Mazin Saad Al Nahedh.....	1968	Director	2015
Fawaz KHE Al Saleh .....	1963	Director	2006
Nadir Alpaslan.....	1966	Director	2011
Khaled Nasser Abdulaziz Al Fouzan .....	1954	Director	2006
Ahmad S Al Kharji .....	1972	Director	2014
Mohammed Al Midani .....	1965	Director	2015
Ufuk Uyan.....	1958	Director, Chief Executive Officer	1999

#### ***Hamad Abdulmohsen Al Marzouq—Chairman***

Mr. Al Marzouq graduated from Claremont Graduate School in 1985 and received an MBA degree from the University of Southern California, United States of America. Prior positions include working at senior management level at each of Kuwait Investment Corporation until 1990, the Kuwait Central Bank between 1990-1998 and Ahli United Bank Bahrain until 2014. Mr. Al Marzouq was appointed as Chairman of the Board of Directors of Kuveyt Türk in 2014. Mr. Al Marzouq is also a member of Kuveyt Türk's Corporate Governance Committee, Executive Committee and Credit Committee.

#### ***Dr. Adnan Ertem—Vice Chairman***

Dr. Ertem received a bachelor's degree from the School of Political Science, Public Administration Department of Istanbul University, Turkey in 1987. In 1990, he received his master's degree from the Institute of Social Sciences of Political Science Department of Istanbul University, Turkey. He was awarded a doctor of philosophy degree in Social Sciences from the same university in 1998.

Dr. Ertem has been a member of the Board 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 also currently serves as deputy secretary at the Prime Ministry of Turkey.

#### ***Mazin Saad Al-Nahedh—Director***

Mr. Al-Nahedh has received a bachelor's degree from California State University and he has also completed a Financial Management Program at Stanford University. He has also completed a Senior Executive Program, General Management Program and Leadership Program at Harvard University.

Prior to this Mr. Al-Nahedh has been the Chief Executive Officer of Kuwait Finance House K.S.C.P. since October 2014. He served as Group General Manager of Consumer Banking at National Bank of Kuwait S.A.K.P, Kuwait from 2011 to 2014. He has also served as General Manager of the Corporate Banking Group, the Retail Banking Group and the Treasury Group at the National Bank of Kuwait, Kuwait. Mr. Al-Nahedh has also served as a member of the board of directors at Saffar Capital Ltd.



***Fawaz KH E Al Saleh—Director***

Mr. Al Saleh received his bachelor's degree from the Business Administration and Economics Department of Macalester College in the United States in 1987.

Mr. Al Saleh has been a member of the Board since 2006. He currently also heads the Turkish office of KFH. Prior to this 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 also the chairman of the board of directors of Auto Land and the vice chairman of the board of directors of Körfez and Baytik Capital Holding.

***Nadir Alpaslan—Director***

Mr. Alpaslan received a bachelor's degree from the Faculty of Political Sciences in Istanbul University, Turkey in 1987. Mr. Alpaslan has been a member of the Board since April 2011. His career started at the Ministry of Tourism as ministerial adviser from 1999 and subsequently at the Ministry of Education as human resources director and thereafter he joined the Ministry of Culture and Tourism until 2007. From 2007 to May 2011 he served at the general secretariat of the Turkish President.

***Khaled Nasser Abdulaziz Al Fouzan—Director***

Mr. Al Fouzan received a bachelor's degree from the Business Administration Department of Kuwait University in 1978.

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

***Ahmad S Al Kharji—Director***

Mr. Al Kharji received a bachelor's degree in Finance and Banking from Kuwait University, Kuwait in 1994. In 1998, he received his master's degree in Business Administration from the University of San Diego, California, USA.

Mr. Al Kharji was appointed as a member of Kuveyt Türk's board of directors in 2014. He previously served as Head of the Investment Banking Department at Kuveyt Türk from June 2006 until November 2008. Mr. Al Kharji currently heads the International Banking Sector department KFH, which oversees and monitors the bank's subsidiaries, namely Kuveyt Türk, Kuwait Finance House Bahrain B.S.C. and Kuwait Finance House (Malaysia) Berhad, as well as managing the activity of the Financial Institutions and Structured Finance functions.

***Mohammed Al Midani—Director***

Mr. Al Midani received his bachelor's degree from Beirut University, Lebanon Business Administration in 1988 and his graduate degree from Canada Concordia University Accounting Department. Starting his career at Solinor S.A.R.L. in 1988, Mr. Al Midani worked at Moore Stephens Hyde Hughton Canada between 1997-1998 and Ernst & Young Saudi Arabia between 1998-2000 as Senior Auditor. He continued his career at Shareek Co.(Dallah Group) between 2000-2001 as Finance Manager. Between 2001-2010, he was a Lead Internal Auditor at Islamic Development Bank, Saudi Arabia. Since 2010 he has been working as Manager of Equity Investments Department at Islamic Development Bank, Saudi Arabia. In May 2015, Mr. Al Midani became a member of Kuveyt Türk's board of directors, the Audit Committee, the Internal Systems Committee and the Corporate Governance Committee.

***Ufuk Uyan—Director and Chief Executive Officer***

Mr. Uyan received his bachelor's degree in Economics from Bosphorus University, Turkey in 1981 and obtained a master's degree from the same university in 1983.

Mr. Uyan has been a member of Kuveyt Türk's board of directors since 1999. He also serves as a member of Kuveyt Türk's Executive Committee. He worked as a research assistant at Bosphorus University between 1981 and 1982, and, in 1982, he joined Türkiye Sinai Kalkınma Bankası A.Ş., as a research analyst in the department of private investigations. In 1985, he became an assistant project manager at Albaraka Türk Katılım Bankası A.Ş. He was appointed as the manager of projects and investments at Kuveyt Türk in 1989. In 1993, he was promoted to deputy general manager and in 1999 he was appointed as Kuveyt Türk's Chief Executive Officer.

### **Senior Management**

Kuveyt Türk's Senior Management is responsible for the day-to-day management of Kuveyt Türk in accordance with the instructions, policies and operating guidelines set by the Board.

The business address of each member of Kuveyt Türk's Senior Management is Büyükdere Caddesi, No: 129/1, 34394 Esentepe, İstanbul, Turkey. No officer or senior manager of Kuveyt Türk has any actual or potential conflict of interest between his duties to Kuveyt Türk and his private interests and/or other duties.

The names and title of each member of Kuveyt Türk's Senior Management are set out in the table below:

<b>Name</b>	<b>Year of birth</b>	<b>Position</b>	<b>Year first elected to position</b>
Ufuk Uyan.....	1958	Chief Executive Officer	1999
Ahmet Karaca.....	1970	Chief Financial Officer (Financial Affairs)	2006
Ahmet Süleyman Karakaya .....	1953	Executive Vice President (Corporate and Commercial Banking)	2003
Bilal Sayın.....	1966	Executive Vice President (Credits)	2003
Hüseyin Cevdet Yılmaz.....	1966	President (Risk, Control and Compliance Group)	2002
İrfan Yılmaz .....	1970	Executive Vice President (Banking Services)	2005
Nurettin Kolaç .....	1966	Executive Vice President (Legal Affairs and Risk Follow Up)	2010
Mehmet Oral .....	1967	Executive Vice President (Retail Banking)	2012
Dr. Rusen Ahmet Albayrak.....	1966	Executive Vice President (International Banking and Treasury)	2005
Aslan Demir .....	1971	Executive Vice President (Strategy)	2012
Abdurrahman Delipoyraz .....	1968	Executive Vice President (SME Banking)	2015

### ***Ufuk Uyan—Director and Chief Executive Officer***

*See "Management—Board of Directors—Ufuk Uyan".*

### ***Ahmet Karaca—Chief Financial Officer (Financial Affairs)***

Mr. Karaca received a bachelor's degree from the Department of Public Administration of Ankara University, Turkey in 1990. He completed his master's degree in Economics at the State University of New York, United States of America in 2006.

Mr Karaca has been Executive Vice President in charge of Kuveyt Türk's Financial Affairs since 2006. Between 2002 and 2003, he worked as the vice chairman of the board of directors of Sworn Bank Auditors. From 1992, he was an on-site bank examiner at the Treasury Ministry of Turkey and was appointed as a sworn bank auditor in 1995.

### ***Ahmet Süleyman Karakaya—Executive Vice President (Corporate and Commercial Banking)***

Mr. Karakaya received a bachelor's degree in Business and Finance from İstanbul, Turkey University in 1979.

Mr. Karakaya has been the Executive Vice President in charge of Kuveyt Türk's Commercial Banking Group since 2003. Before joining Kuveyt Türk, he worked at the Risk Management, Credits and District

Management departments of Türkiye Garanti Bankası A.Ş. in Turkey between 1981 and 2003. Prior to this Mr. Karakaya also served as an inspector at Türkiye Garanti Bankası A.Ş. between 1981 and 1985.

***Bilal Sayın—Executive Vice President (Credits)***

Mr. Sayın received a bachelor's degree in Public Administration from Orta Dogu Teknik Üniversitesi in 1990.

Mr Sayın has been the Executive Vice President in charge of Kuveyt Türk's Credits since 2003. In 1999, he was appointed as manager of Kuveyt Türk's Commercial Fund Allotment department. Mr. Sayın joined Kuveyt Türk in 1995 as specialist of the Projects and Investment department. He began his banking career in 1990 at Albaraka Türk Katılım Bankası A.Ş.

***Hüseyin Cevdet Yılmaz—President (Risk, Control and Compliance Group)***

Mr. Yılmaz received a bachelor's degree from the Business School of Bosphorus University, Turkey in 1989.

Mr Yılmaz has been the President in charge of Kuveyt Türk's Risk Control and Compliance Group 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—Executive Vice President (Banking Services)***

Mr. Yılmaz received a bachelor's degree in Business Engineering from Istanbul Technical University, Turkey in 1989.

Mr. Yılmaz has been the Executive Vice President in charge of Kuveyt Türk's Banking Services since 2005. Prior to this, he served as a manager in the Retail Banking department in 2000. In 1996, he joined Kuveyt Türk's Inspection Board and became its chairman in 1998. He began his banking career in 1990 at Kuveyt Türk spending six years as an officer in the Financial Control department as officer.

***Nurettin Kolaç—Executive Vice President (Legal Affairs and Risk Follow Up)***

Mr. Kolaç received a bachelor's degree in Law from Marmara University, Turkey in 1988.

Prior to this Mr. Kolaç worked for Türkiye Halk Bank A.Ş. and its subsidiaries as an attorney at law between 1989 and 2004. He started his career at the BRSA in 2007 where he was the Head of Legal Affairs. Mr. Kolaç joined Kuveyt Türk in April 2010 and has been appointed as the Executive Vice President responsible for legal affairs and collection.

***Mehmet Oral—Executive Vice President (Retail Banking)***

Mr. Oral is a graduate of Uludağ University, Department of Business Administration, Turkey. He started his career at Kuveyt Türk as a Central Branch Officer in 1992. After working for eight years at the Central Branch, he was appointed as Director of the İMES Branch in 2000. Mr. Oral went on to serve as Director of the Bursa Branch from 2001 to 2004 and Director of Merter Branch from 2004 to 2005. After Kuveyt Türk's transition to regional offices, he was appointed Regional Director of the Istanbul European Side Region Office in 2005. After serving in this position for four years, Mr. Oral became the Director of the HR, Training and Quality Group in 2009. Since October 2012, he has been serving as Executive Vice President - Retail Banking.

***Dr. Rusen Ahmet Albayrak—Executive Vice President (International Banking and Treasury)***

Dr. Albayrak received a bachelor's degree in Industrial Engineering from Istanbul Technical University, Turkey in 1988 and completed his doctor of philosophy degree at Istanbul Technical University in Business Management in 2007. He received his master's degree in Organisational Leadership and the Management from University, USA of North Carolina in 1993.

Dr. Albayrak has been the Executive Vice President in charge of Kuveyt Türk's Corporate and International Banking Department since 2012. Prior to this, Dr. Albayrak acted as Executive Vice President in charge of Kuveyt Türk's Banking Services Group from 2005 to 2012. 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, Turkey between 1996 and 1997. He began his banking career at Albaraka Türk Katılım Bankası A.S. in 1988.

***Aslan Demir—Executive Vice President (Strategy)***

Mr. Demir is a graduate of Marmara University, Department of International Relations, Turkey, and is currently enrolled in the MBA program at the University of Sheffield, United Kingdom. Having started his banking career as an officer in the Treasury Department of Kuveyt Türk in 1995, Mr. Demir worked for six years in the department before serving in the Project Management and Quality Department of Kuveyt Türk from 2001 to 2004. In 2005, he was appointed Director of Project Management and Quality and in 2007, Mr. Demir was appointed as Head of Information Technologies at Kuveyt Türk. Since October 2012, Mr. Demir has been serving as Executive Vice President - Strategy.

***Abdurrahman Delipoyraz—Executive Vice President (SME Banking)***

Mr. Delipoyraz graduated from Istanbul Technical University, Department of Industrial Engineering, Turkey in 1992. He started his professional career at Kuveyt Türk, in the Financial Analysis and Intelligence Department. Later, he went on to work in the Corporate and Commercial Banking Sales Department, before serving as Branch Manager at the Beşyüzevler and Bakırköy branches. In December 2004, he was appointed a Regional Director and served as the Istanbul Europe-1 and Istanbul Anatolia Regional Directors. Since January 2015, Mr. Delipoyraz has been serving as Executive Vice President – SME Banking.

**Board and Management Committees**

Kuveyt Türk has established several Board and management committees responsible for various aspects of Kuveyt Türk's operations. The committees are the Internal Audit Committee, the Internal Systems Committee, the Credit Committee (see "*Risk Management*" for further details), the Executive Committee and the Basel II Steering Committee.

**Executive Committee**

The Executive Committee is responsible for exercising the powers of the Board (save for those which the Board expressly reserves for itself) in the management of the business and affairs of Kuveyt Türk as directed by the Board.

**Basel II Steering Committee**

The Basel II Steering Committee closely monitors Kuveyt Türk's compliance with Basel II developments. The committee also communicates and meets with the BRSA in connection with BRSA's monitoring of the implementation of Basel II by the Turkish banking industry in general.

**Corporate Governance**

There are no mandatory corporate governance rules in Turkey. However, in 2003, the CMB issued a set of recommended principles for public companies (the "**Corporate Governance Principles**"). The Corporate Governance Principles can be categorised into four groups: (i) principles relating to investor relations; (ii) principles relating to public disclosure and transparency; (iii) principles relating to shareholders; and (iv) principles relating to management. Although implementation of the Corporate Governance Principles is not currently mandatory, the CMB requires public companies to disclose the extent to which they have been implemented and, if they have not been fully implemented, to explain the reasons therefore. The CMB may decide to make such principles mandatory for public companies in the future. Annual reports filed by public companies must disclose contingency plans for dealing with any conflicts that may arise in the future and the implementation of the Corporate Governance Principles. In order to support implementation of the new Corporate Governance Principles, the CMB issued a rating communiqué which enables rating agencies to rate companies on the basis of their compliance with the principles.

Kuveyt Türk introduced its Code of Ethics guidelines in 2003 and established its Corporate Governance Committee in July 2007 which ensures that Kuveyt Türk operates within the Corporate Governance Principles.

### Employees

As at 31 December 2015, Kuveyt Türk employed 5,542 full-time employees. As at 31 December 2015, the average age of Kuveyt Türk's employees was approximately 30 years of age and approximately 95 per cent. of Kuveyt Türk's professional staff were university graduates. The following table sets forth the average number of employees of Kuveyt Türk and its subsidiaries for the periods indicated.

	For the years ended 31 December	
	2015	2014
Kuveyt Türk .....	5,542	5,082
Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. ....	13	9
Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İşletmeciliği A.Ş. ....	5	5
KT Sukuk Varlık Kiralama A.Ş. ....	0	0
KT Kira Sertifikaları Varlık Kiralama A.Ş. ....	1	1
Kuveyt Turkish Participation Bank Dubai Ltd .....	13	11
<b>Total</b> .....	<b>5,574</b>	<b>5,108</b>

### Training

Kuveyt Türk believes that its interests are aligned with the interests of its employees in terms of training and career development. Accordingly Kuveyt Türk has developed a carefully devised training and career development strategy for its personnel, which also takes into account its growth plans and continuous need for new qualified employees. Kuveyt Türk offers its employees a comprehensive training framework that covers core banking training, career development training and executive development programs. In addition to the centralised training, at local branch levels Kuveyt Türk offers selected employees training opportunities abroad. Kuveyt Türk was the first Turkish participation bank to develop an on-line training programme for employees. Kuveyt Türk currently provides approximately 60 per cent. of all training in-house and each employee attends on average 7 days of training each year.

### Compensation

Kuveyt Türk's strategy is to offer its employees a comprehensive and competitive compensation package. Kuveyt Türk provides private health insurance for its employees at no cost and a private group pension plan for employees. If the employee pays 2 per cent. (minimum TRY60) of monthly gross salary into the pension plan, Kuveyt Türk matches that payment. Kuveyt Türk offers its employees a selection of other benefits based on their seniority including car allowances, cell phone allowances, lunch benefits, clothing allowances, education allowances, language allowances, transportation and other social contributions such as health, marriage, birth and death contributions. In addition to their base salaries, Kuveyt Türk also pays employees annual performance bonuses based on the individual employee's performance as well as Kuveyt Türk's overall financial performance. The total bonus pool is 6 per cent. of Kuveyt Türk's annual net profit in the event that at least 80 per cent. of the targeted annual net profit is reached or a bonus pool of 8 per cent. of Kuveyt Türk's annual net profit in the event that at least 90 per cent. of the targeted annual net profit is reached. On average, these performance bonuses have been approximately two and a half times the employee's monthly salary.

### Shariah Advisory Board

The Shariah Advisory Board comprises Islamic scholars of good repute and with extensive experience in law, economics and banking systems. The Shariah 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 the individual 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 Shariah Advisory Board:

<b>Name</b>	<b>Position</b>
Associate Professor Anwar Shuaib Abdulsalam .....	Chairman
Dr. İsmail Halitoğlu .....	Executive Member
Associate Professor Yusuf Bayindir .....	Member
Dr. Abdullah Durmus .....	Member
Mehmet Odabaşı .....	Member
Sheikh Halil Gönenç .....	Member

There are no potential conflicts of interest between the private interests or other duties of the Shariah Advisory Board members listed above and their duties to Kuveyt Türk.

## SELECTED FINANCIAL OVERVIEW

The following tables set forth, for the periods indicated, selected consolidated financial information of Kuveyt Türk derived from the audited consolidated annual financial statements of Kuveyt Türk for the year ended 2015 incorporated by reference in this Prospectus. Prospective investors should read the following information in conjunction with the "Financial Review" section and the IFRS Accounts.

### Income Statement Data

The table below sets out selected consolidated income statement data for Kuveyt Türk and its consolidated subsidiaries (together, the "Group") for the periods indicated.

	<b>For the year ending 31 December</b>	
	<b>2015</b>	<b>2014</b>
	<i>(TRY in thousands)</i>	
<b>Income from financing activities:</b>		
Profit on originated loans from profit / loss sharing accounts .....	1,006,260	873,316
Profit on originated loans from current accounts and equity .....	1,332,032	971,439
Profit on deposits with other banks and financial institutions .....	22,542	9,952
Profit on finance leases .....	75,182	43,157
<b>Total income from financing activities .....</b>	<b>2,436,016</b>	<b>1,897,864</b>
Profit shares distributed to participation accounts .....	(732,444)	(570,009)
Profit shares distributed to other banks and financial institutions .....	(396,294)	(245,574)
<b>Net financing income .....</b>	<b>1,307,278</b>	<b>1,082,281</b>
Provision for impairment of amounts due from financing activities and lease receivables .....	(360,725)	(182,272)
<b>Net financing income after provision for impairment in due from financing activities and lease receivables .....</b>	<b>946,553</b>	<b>900,009</b>
Foreign exchange gain, net .....	153,992	119,892
<b>Net financing income after net foreign exchange gain / (loss) .....</b>	<b>1,100,545</b>	<b>1,019,901</b>
Fees and commission income .....	413,140	367,754
Net trading income .....	49,049	27,764
Other income .....	141,206	46,273
<b>Total other operating income .....</b>	<b>603,395</b>	<b>441,791</b>
Fees and commission expense .....	(145,137)	(99,820)
Staff costs .....	(529,000)	(438,790)
Depreciation and amortization expense .....	(103,739)	(52,781)
Withholdings and other taxes .....	(36,030)	(28,509)
Rent expense .....	(87,921)	(73,109)
Other expenses .....	(183,308)	(207,105)
Share of (loss) of a joint venture .....	(2,227)	(3,758)
<b>Total other operating expense .....</b>	<b>(1,087,362)</b>	<b>(903,952)</b>
Income before taxation .....	616,578	557,740
Current tax charge .....	(159,394)	(114,821)
Deferred tax (charge)/credit .....	43,062	15,117
<b>Net income for the year .....</b>	<b>500,246</b>	<b>458,036</b>
<b>Attributable to:</b>		
Owners of the equity .....	500,143	458,104
Non-controlling interests .....	103	(68)
<b>Other comprehensive income</b>		
<b>Items that are or may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translation of the foreign subsidiary .....	15,891	7,969
Available-for-sale investments reserve .....	(15,675)	19,044
Net change in fair value .....	(19,594)	23,805
Deferred tax relating to component of other comprehensive income .....	3,919	(4,761)
<b>Items that will not be reclassified to profit or loss</b>		
Employee termination benefits reserve .....	2,521	(5,161)
Net change in fair value .....	3,151	(6,451)
Deferred tax relating to component of other comprehensive income .....	(630)	1,290
Other comprehensive income for the year .....	2,737	21,852
<b>Total comprehensive income for the year .....</b>	<b>502,983</b>	<b>479,888</b>

	For the year ending 31 December	
	2015	2014
	(TRY in thousands)	
<b>Attributable to:</b>		
Owners of the equity .....	502,880	479,956
Non-controlling interests .....	103	(68)
<b>Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TRY per share) .....</b>	<b>0.203</b>	<b>0.229</b>

## Balance Sheet Data

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

	As at 31 December	
	2015	2014
	(TRY in thousands)	
<b>Assets</b>		
Cash and balances with the Central Bank .....	1,970,359	1,127,568
Balances with other banks and financial institutions .....	4,753,336	3,218,932
Reserve deposits at the Central Bank .....	5,141,295	4,155,609
Financial assets – held for trading .....	89,820	48,095
<i>Derivative financial instruments</i> .....	44,606	43,115
<i>Share Certificates</i> .....	390	181
<i>Precious Metal Fund</i> .....	207	4,799
<i>Sukuk held for trading</i> .....	44,617	-
Financial assets – available-for-sale .....	2,354,196	2,203,127
Due from financing activities, net .....	24,669,042	19,978,321
Minimum finance lease payments receivable, net .....	1,183,424	710,852
Precious metals .....	471,703	1,301,466
Construction projects, net .....	52,904	50,020
Joint ventures .....	8,378	6,306
Investment properties, net .....	33,807	26,136
Property and equipment, net .....	430,428	377,753
Intangible assets, net .....	119,452	70,331
Deferred tax assets .....	98,469	43,953
Other assets .....	456,682	406,269
	<b>41,833,295</b>	<b>33,724,738</b>
<b>Assets and a disposal group held for sale .....</b>	<b>27,332</b>	<b>26,008</b>
<b>Total assets .....</b>	<b>41,860,627</b>	<b>33,750,746</b>
<b>Liabilities and equity</b>		
Due to other financial institutions and banks .....	4,261,643	4,399,347
Sukuk securities issued .....	3,636,119	2,193,590
Subordinated loans .....	589,734	464,592
Money market balances .....	711,542	708,743
Current and profit / loss sharing investors' accounts .....	28,145,291	22,215,843
Derivative financial instruments .....	170,173	25,885
Employee benefit obligations .....	106,905	92,856
Income taxes payable .....	36,472	32,315
Other liabilities and provisions .....	502,024	380,872
<b>Total liabilities .....</b>	<b>38,159,903</b>	<b>30,514,043</b>
Share capital .....	2,527,322	2,287,005
Share premium .....	22,933	23,250
Available for sale investments reserve, net of tax .....	5,394	21,069
Employee termination benefits reserve, net of tax .....	(14,916)	(17,437)
Legal reserves and retained earnings .....	1,142,532	921,312
Currency translation differences .....	38,301	22,410
Other reserve .....	(22,162)	(22,123)
Non-controlling interest .....	1,320	1,217
<b>Total equity attributable to equity holders of the parent .....</b>	<b>3,700,724</b>	<b>3,236,703</b>
<b>Total liabilities and equity .....</b>	<b>41,860,627</b>	<b>33,750,746</b>



## FINANCIAL REVIEW

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

*As used herein, all references to 2014 and 2015 are references to the years ended 31 December 2014 and 31 December 2015, respectively.*

*This discussion of Kuveyt Türk's financial condition and results of operations is based on the IFRS Accounts and, unless otherwise specified, the financial information presented in this discussion has been extracted or derived without material adjustment from the IFRS Accounts, see "Presentation of Financial and Other Information"*

*This discussion contains forward-looking statements that involve risks and uncertainties. Kuveyt Türk's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the headings "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors"*

### Overview

Kuveyt Türk's core business segments are Retail Banking, Small Business Banking, Commercial Banking, Corporate and Treasury International and Investment Banking. Kuveyt Türk operates primarily in Turkey but also has an international presence in Bahrain, Dubai and Germany. However, BRSA regulations prescribe a common segment reporting requirement with respect to financial statements by all banks in Turkey. Accordingly, Kuveyt Türk reports its financial statements on the basis of BRSA segments which are Retail Banking, Corporate and Commercial Banking and International and Investment Banking and Treasury.

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

Despite challenging global economic conditions, Turkey has continued to demonstrate growth with GDP increasing by 4.0 in 2015, 2.9 per cent. in 2014 and 4 per cent. in 2013 (*source: TürkStat*). This economic growth has stimulated demand for banking services and led to increased competition in the banking sector from both private sector and public sector banks in Turkey as well as greater participation of foreign banks.

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

### Significant Factors Affecting Results of Operations

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

#### *Turkey's Economic Condition*

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

In 2010, Turkey's economy experienced real GDP growth of 9.2 per cent., a significant recovery from the contraction of 4.8 per cent. experienced in 2009. The inflation rate in 2010 was 6.4 per cent. and the CBT's one week repo rate at the end of the year was 6.5 per cent., the same level as at the start of that year. In 2011, real GDP growth was 8.8 per cent. and inflation was 10.5 per cent. The CBT's one week repo rate reduced slightly during 2011 and stood at 5.8 per cent. at the end of the year. During 2011, the

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

Global uncertainties continued during 2012, driven by the European sovereign debt crisis, U.S. monetary policies and high inflation risk in emerging markets. In Turkey, growth slowed with real GDP increasing by 2.1 per cent. for 2012. Inflation also fell in 2012 reflecting reduced domestic demand and a more stable exchange rate and was 6.2 per cent. in 2012. According to BRSA data, moderate credit growth in the Turkish banking sector continued in 2012 with loans increasing by 16.4 per cent. during 2012 and the NPL ratio for the banking sector was 2.9 per cent.

With improved global economic conditions, real GDP growth recovered to 4 per cent in 2013. Inflation increased in 2013 to 7.4 per cent. According to BRSA data, a strong credit growth in the Turkish banking sector was observed in 2013 with loans increasing by 31.8 per cent. during 2013 and the NPL ratio for the banking sector was 2.7 per cent. In 2014, the real GDP growth was 2.9 per cent. with inflation increasing to 8.2 per cent. According to BRSA data, loans in the Turkish banking sector increased by 18.5 per cent. during 2014 and the NPL for the banking sector was 2.75 per cent.

In 2015, real GDP growth was 4.0 per cent. with inflation increasing to 8.8 per cent. According to BRSA data, loans in the Turkish banking sector increased by 5.1 per cent. during 2015 and the NPL for the banking sector was 3.1 per cent.

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

	For the year ending 31 December	
	2015	2014
Nominal GDP at current prices (TRY millions) .....	1,953,561	1,749,782
Real GDP growth.....	4.0%	2.9%
GDP per capita (in U.S. dollars).....	9,261	10,404
Unemployment .....	10.3%	10.4%
Turkish Central Bank policy rate (year-end) .....	7.50%	8.25%
Inflation .....	8.81%	8.17%
Exports (in billion U.S. dollars) .....	143.8	157.6
Imports (in billion U.S. dollars) .....	207.2	242.2
Trade deficit (in billion U.S. dollars).....	63.39	84.56
Current account deficit (in billion U.S. Dollars) .....	32.19	45.99
Budget deficit (in billion Turkish Lira).....	22.6	22.7

<sup>(1)</sup> (Sources of macro-economic data: CBT, Turkish Statistical Institute General Directorate of Public Accounts, Turkish Treasury, Turkish State Planning Organisation (DPT), IMF and other public sources).

Kuveyt Türk's net cash loans increased from TRY20,689.17 million as at 31 December 2014 to TRY25,852.47 million as at 31 December 2015 representing an increase of 24.96 per cent. Whilst the Turkish economy recovered rapidly from the global economic crisis, more recently the economy has witnessed some challenging macro-economic conditions; for example, the unemployment rate has been increasing year on year from 2012 to 2015.

### **Declining Interest Rate Environment in Turkey**

Kuveyt Türk's income from its loans and leasing receivables is a significant component of its total income. A significant factor affecting Kuveyt Türk's net financing income margin and loans and leasing receivables is the fluctuation in interest rates in Turkey. In general, increases in interest rates in Turkey allow Kuveyt Türk to increase its revenue from loans due to the higher margins that Kuveyt Türk receives and the corresponding higher return on its excess capital. However, such an increase may adversely affect Kuveyt Türk's results of operations as a result of reduced overall demand for loans and greater risk of default by Kuveyt Türk's customers. In addition, increased interest rates affect Kuveyt Türk's funding costs and can adversely affect Kuveyt Türk's net income if Kuveyt Türk is unable to pass on any

increased funding costs to its customers. On the other hand, a decrease in interest rates can reduce Kuveyt Türk's revenue from loans as a result of lower rates on Kuveyt Türk's loans. This reduction of revenue may, however, be offset by an increase in the volume of Kuveyt Türk's loans and leasing receivables resulting from increased demand for loans and by a decrease in Kuveyt Türk's funding costs.

The table below sets out Kuveyt Türk's total income from financing activities, expense from profit sharing accounts and the resulting net profit margin for the periods indicated.

	For the year ending 31 December	
	2015	2014
	<i>(TRY in thousands)</i>	
<b>Total income from financing activities</b> .....	<b>2,436,016</b>	<b>1,897,864</b>
Profit shares distributed to participation accounts.....	(732,444)	(570,009)
Profit shares distributed to other banks and financial institutions .....	(396,294)	(245,574)
<b>Expense from profit sharing accounts</b> .....	<b>(1,128,738)</b>	<b>(815,583)</b>
<b>Net financing income</b> .....	<b>1,307,278</b>	<b>1,082,281</b>
Average net cash loans <sup>(1)</sup> .....	23,270,820	18,509,541
<b>Net profit margin (per cent)</b> <sup>(2)</sup> .....	<b>5.62%</b>	<b>5.85%</b>

- <sup>(1)</sup> Kuveyt Türk considers that average net cash loans is an alternative performance measure within the meaning of guidelines issued by the European Securities and Markets Authority on the use of APMs by issuers when publishing regulated information or prospectuses on or after 3 July 2016 ("**APM**"). Average net cash loans is the sum of profit shares distributed to participation accounts and profit shares distributed to other banks and financial institutions (each as stated in the IFRS Accounts) at the beginning and the end of the relevant period divided by two.

Average net cash loans is not a financial measure established by either IFRS or BRSA standards. However, Kuveyt Türk considers that average net cash loans allows Kuveyt Türk's to assess the size of its net cash loan portfolio on a median basis for a particular period, and can be used to compare the size of its current period cash loan portfolio against previous periods.

- <sup>(2)</sup> Kuveyt Türk considers that net profit margin is an APM. Net profit margin is calculated as net financing income (as stated in the IFRS Accounts) divided by average net cash loans (which is calculated as set out in the footnote above).

Net profit margin is not a financial measure established by either IFRS or BRSA standards. However, Kuveyt Türk considers that net profit margin represents an accurate indicator of how efficiently Kuveyt Türk generates net profit from its top-line revenues, effectively allowing Kuveyt Türk's performance to be measured by analysing the percentage of its net cash loans which are converted into net profit. Net profit margin is also used to compare current period operating performance to operating performance from previous periods.

The CBT reference overnight interest rate was 6.5 per cent. as at 31 December 2009. In May 2010, the CBT policy rate changed to the one week lending reference rate, which was 6.5 per cent. as of 31 December 2010 and 6.3 per cent. as of 30 June 2011. On 4 August 2011, the CBT reduced its policy rate by 50 basis points to 5.8 per cent. in response to concerns regarding European sovereign debt levels and anticipated lower levels of global growth while at the same time increasing the overnight borrowing rate significantly from 1.5 per cent. to 5 per cent. to narrow the interest rate gap from the overnight lending rate of 9 per cent. The overnight lending rate was later increased to 12.5 per cent. on 20 October 2011 in order to widen the interest rate corridor to protect mid-term inflation expectations in light of a decline in the Turkish lira exchange rate. During 2012, the CBT kept the policy rate stable at 5.75 per cent. In February 2012, the CBT reduced the overnight lending rate to 11.5 per cent., and, on 18 September 2012, the CBT reduced the overnight lending rate to 10 per cent. On 18 October 2012, the CBT reduced the overnight lending interest rate to 9.5 per cent. On 21 November 2012, the CBT reduced the overnight lending rate again to 9.0 per cent. whilst maintaining a stable overnight borrowing rate at 5 per cent. During 2013, the CBT consistently reduced the overnight rate of borrowing and lending with the overnight rate of lending being reduced to 7.8 per cent. and the overnight borrowing rate being retained at the reduced rate of 3.5 per cent. on 21 August 2013. In order to stop a decline in the Turkish lira, on 29 January 2014, the CBT increased the overnight rate of borrowing to 8.0 per cent. and increased the overnight rate of lending to 12.00 per cent. On 22 May 2014, the CBT decreased the one week repo rate from 10.0 per cent. to 9.5 per cent. and kept the overnight rate of lending to 12.0 per cent. As at the date of this Prospectus, the CBT overnight rate of borrowing is 7.25 per cent. and the overnight lending rate is 8.25 percent.

The recent higher interest rate environment in Turkey has helped support Kuveyt Türk's asset growth as it has been able to grow. The higher interest rate environment contributed to an increase in customer deposits from TRY 15,449.79 million in 2014 to TRY 18,748.39 million in 2015, representing an increase of 21.35 per cent in 2015 compared to 2014. This was achieved due to Kuveyt Türk's flexibility in being

able to offer attractive profit share rates to its depositors which resulted in a substantial increase in Kuveyt Türk's deposits for the period ended 31 December 2015 compared to the same period in 2014.

### ***Exchange Rates***

A portion of Kuveyt Türk's assets and liabilities are denominated in foreign currencies. As at 31 December 2015, 54 per cent. of Kuveyt Türk's total assets and 51 per cent. of Kuveyt Türk's total liabilities were denominated in foreign currencies. Kuveyt Türk follows a square foreign exchange position policy (which is designed to ensure that foreign exchange assets are matched by foreign exchange liabilities denominated in the same currency after taking into account the effect of derivative instruments) to minimise its currency risk. Nevertheless, the overall effect of exchange rate movements on Kuveyt Türk's results of operations depends on the rate of depreciation or appreciation of the Turkish lira against its principal trading and financing currencies, as well as the successful implementation of Kuveyt Türk's exchange rate risk mitigation policy.

### ***Significant Accounting Policies, Judgments and Estimates***

For a discussion of the accounting policies applied by Kuveyt Türk generally in preparing its IFRS Accounts, see note 2 to the audited consolidated annual financial statements for the year ended 31 December 2014 and the audited consolidated financial statements for the year ended 31 December 2015.

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

### **Results of operations for the years ended 31 December 2015 and 2014**

#### ***Net financing income***

Net financing income increased by 20.79 per cent from TRY1,082.28 million in 2014 to TRY1,307.28 million in 2015. This resulted from a general increase in income from financing activities, particularly from profit on originated loans from profit/loss sharing accounts and profit on originated loans from current accounts and equity.

Kuveyt Türk's profit share distributed to participation accounts and to other banks and financial institutions (expenses on financing activities) increased between 2015 and 2014 due to a higher participation ratio being paid to customers on their deposits. Total income from financing activities increased from TRY1,897.85 million in 2014 to TRY2,436.02 million in 2015, representing an increase of 28.36 per cent. during the same period due to Kuveyt Türk retaining a greater proportion of the profit ratio on customer deposits.

### *Income from financing activities*

The following table sets out the principal components of Kuveyt Türk's income for the years ended 31 December 2015 and 2014.

	For the year ending 31 December	
	2015	2014
	<i>(TRY in thousands)</i>	
<b>Income from financing activities:</b>		
Profit on originated loans from profit / loss sharing accounts .....	1,006,260	873,316
Profit on originated loans from current accounts and equity .....	1,332,032	971,439
Profit on deposits with other banks and financial institutions .....	22,542	9,952
Profit on finance leases.....	75,182	43,157
<b>Total income from financing activities .....</b>	<b>2,436,016</b>	<b>1,897,864</b>

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

### *2015 and 2014 compared*

Kuveyt Türk's primary sources of income from financing activities are returns on loans originated from profit and loss sharing accounts and returns on loans originated from current accounts and equity. Income from loans originated from profit and loss sharing accounts increased by 15.22 per cent. in 2015 from TRY873.32 million in 2014 to TRY1,006.26 million in 2015. This increase was a direct result of the increase in Kuveyt Türk's volume of loans funded from current accounts and equity in respect of which income increased by 37.12 per cent in 2015 from TRY971.44 million in 2014 to TRY1,332.03 million in 2015. The increase in loans originated from current accounts and equity in 2015 was due to an increase of TRY240.00 million in share capital on 6 April 2015. In addition, the increase in income on originated loans from profit and loss sharing accounts is also attributable to Kuveyt Türk's ability to retain a greater share of the returns payable on the profit/loss sharing accounts as well as an increase in deposits.

Profit on deposits with other banks and financial institutions increased by 126.51 per cent., from TRY9.95 million in 2014 to TRY22.54 million in 2015. This increase was due to a commensurate increase in transaction volumes and profit rates in 2015.

Whilst the balance of minimum finance lease payments receivable (net) increased by 66.48 per cent. from TRY710.85 million in 2014 to TRY1,183.42 million in 2015, income from minimum finance lease payments receivable, net increased by 74.21 per cent. in 2015, from TRY43.16 million in 2014 to TRY75.18 million in 2015. The increase was primarily due to an increase in interest rates in Turkey.

The overall increase in Kuveyt Türk's total income from financing activities in 2015 was primarily due to an increase in cash loans of 24.96 per cent. from TRY20,689.17 million in 2014 to TRY25,852.47 million in 2015.

### *Financing expenses*

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

The following table sets out the components of Kuveyt Türk's financing expenses for the years ended 31 December 2015 and 2014.

	For the year ending 31 December	
	2015	2014
	<i>(TRY in thousands)</i>	
Profit shares distributed to participation accounts.....	(732,444)	(570,009)
Profit shares distributed to other banks and financial institutions .....	(396,294)	(245,574)

#### ***2015 and 2014 compared***

Profit shares distributed to participation accounts increased by 28.50 per cent. to TRY732.44 million in 2015 from TRY570.01 million in 2014 as a result of rising interest rates.

Profit shares distributed to other banks and financial institutions increased by 61.37 per cent. to TRY396.29 million in 2015 from TRY245.57 million in 2014. This increase was as a result of an increase in total liabilities due to other financial institutions and banks.

The increase in profit shares distributed to participation accounts in 2015 was mainly due to an overall decrease in average returns paid by Kuveyt Türk on profit sharing accounts. The increase was also attributable to the lower income derived from the profit sharing pools for those accounts as a result of lower interest rates which meant that Kuveyt Türk's profit distribution on these accounts also increases.

#### ***Provision for Loan Losses***

Kuveyt Türk's provisions for impairments due from financing activities and lease receivables increased by 97.90 per cent. to TRY360.73 million in 2015 from TRY182.27 million in 2014, primarily due to an increase in provisions for impairments due to non-performing loans in the SME segment. Such increase in non-performing loans in the SME segment was principally attributable to the growth in customers in that segment as well as the wider macro-economic environment.

#### ***Net fees and commission income***

Kuveyt Türk generates fees and commission income from both its cash and non-cash businesses. The following table sets out Kuveyt Türk's net fees and commission income for the years ended 31 December 2015 and 2014.

	For the year ending 31 December	
	2015	2014
	<i>(TRY in thousands)</i>	
Fees and Commission Income.....	413,140	367,754
Fees and Commission Expense .....	(145,137)	(99,820)
<b>Net Fees and Commission Income.....</b>	<b>268,003</b>	<b>267,934</b>

### ***Fees and commission income***

The table below sets out the breakdown of fees and commission income for the years ended 31 December 2015 and 2014.

	<b>For the year ending 31 December</b>	
	<b>2015</b>	<b>2014</b>
	<i>(TRY in thousands)</i>	
Commission on loans .....	153,966	136,341
Commission income from commitments .....	88,364	79,323
POS commission income .....	36,962	30,582
Credit card fees and commissions .....	31,284	24,213
Money transfer commissions .....	25,011	20,748
Income from agency activities .....	19,769	16,281
Commissions from checks and notes .....	12,371	12,123
Import letter of credit commissions .....	6,443	5,515
Communication expense charges .....	429	584
Other .....	38,541	42,044
<b>Total .....</b>	<b>413,140</b>	<b>367,754</b>

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

### ***2015 and 2014 compared***

Total fees and commission income increased by 12.34 per cent. from TRY367.75 million in 2014 to TRY413.14 million in 2015. Fees and commission income is primarily derived from commissions received on loans and from commitments, which includes letter of guarantee issuance commission and letter of credit confirmations. Fees and commissions received on loans increased by 12.93 per cent. from TRY136.34 million in 2014 to TRY153.97 million in 2015. This was principally as a result of an increase in loan volumes due to increased customer demand. Communication expense charges (which are comprised of customer teller and transfer fees) decreased by 26.54 per cent from TRY0.58 million in 2014 to TRY0.43 million in 2015. Communication expense charges decreased due to an increase in the volume of funds cleared by customer accounts which in turn resulted in an increase in fees charged to customers. POS commission income increased by 20.86 per cent. from TRY30.58 million in 2014 to TRY36.96 million in 2015, which was as a result of decreased costs from the reimbursement of merchants for charges on credit or debit cards as well as an increase in volume usage of credit cards in Turkey.

Credit card fees and commissions increased by 29.20 per cent from TRY24.21 million in 2014 to TRY31.28 million in 2015. The increase in credit card fees and commissions was attributable to the general increase in the volume of credit cards issued by Kuveyt Türk in 2015.

Import letter of credit commissions increased by 16.83 per cent. from TRY5.52 million in 2014 to TRY 6.44 million in 2015. This was primarily due to the increasingly competitive nature of the non-cash loan sector within Turkey which has resulted in a decrease in the rate of commission charged.

### ***Fees and commission expenses***

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

The following table sets out the breakdown of fees and commission expenses for the years ended 31 December 2015 and 2014.

	For the year ending 31 December	
	2015	2014
	<i>(TRY in thousands)</i>	
Credit card machine charges and fees paid for credit cards .....	47,861	41,412
Brokerage fees on borrowings.....	23,511	20,840
Correspondent bank fees .....	11,974	8,677
Fees for fund borrowed from banks and OFI.....	23,912	13,692
Money transfer commissions .....	7,249	6,062
Other.....	30,630	9,137
<b>Total.....</b>	<b>145,137</b>	<b>99,820</b>

#### ***2015 and 2014 compared***

Total fees and commission expenses increased by 45.40 per cent. in 2015 from TRY99.82 million in 2014 to TRY145.14 million in 2015. The increase was primarily due to the increase in the volume of usage of Kuveyt Türk's credit cards. Brokerage fees on borrowings also increased by 12.82 per cent. in 2015 from TRY20.84 million in 2014 to TRY23.51 million in 2015.

#### ***Other operating income (net)***

Kuveyt Türk's other operating income (net) is principally derived from: (a) income/(loss) from construction projects (net); (b) net trading income; and (c) other income.

The table below sets out the breakdown of other operating income for the years ended 31 December 2015 and 2014.

	For the year ending 31 December	
	2015	2014
	<i>(TRY in thousands)</i>	
Net trading income.....	49,049	27,764
Other income .....	141,206	46,273
<b>Total.....</b>	<b>190,255</b>	<b>74,037</b>

#### ***2015 and 2014 compared***

Net trading income increased by 76.66 per cent. in 2015 from TRY27.76 million in 2014 to TRY49.05 million in 2015. This increase of income is the result of an increase in the volume of derivative transactions, composed mostly of forward and swap transactions.

Other income increased by 205.16 per cent. in 2015 from TRY46.27 million in 2014 to TRY141.21 million in 2015. This increase in other income is the result of an increase in the volume of secondary market transactions, principally comprising sukuk trades.



### ***Other operating expense***

The table below sets out the breakdown of other operating expenses for the years ended 31 December 2015 and 2014.

	<b>For the year ending 31 December</b>	
	<b>2015</b>	<b>2014</b>
	<i>(TRY in thousands)</i>	
Fees and commission expense.....	(145,137)	(99,820)
Staff costs.....	(529,000)	(438,790)
Depreciation and amortization expense .....	(103,739)	(52,781)
Withholdings and other taxes.....	(36,030)	(28,509)
Rent expense .....	(87,921)	(73,109)
Other expenses.....	(183,308)	(207,185)
Share of (loss) of a joint venture .....	(2,227)	(3,758)
<b>Total other operating expense .....</b>	<b>(1,087,362)</b>	<b>(903,952)</b>

### ***2015 and 2014 compared***

Other operating expenses increased by 20.29 per cent. in 2015 from TRY903.95 million in 2014 to TRY1,087.36 million in 2015. The main contributor to the increase was salary and employee benefits primarily driven by an increase in the total number of employees from 5,102 in 2014 to 5,542 in 2015. The increase in the number of employees reflects the increase in the number of branches opened by Kuveyt Türk in 2015.

Additionally, the increase in Kuveyt Türk's branch network also contributed to an increase in rent expenses from TRY73.11 million in 2014 to TRY87.92 million in 2015, reflecting an increase of 20.26 per cent.

### ***Net foreign exchange gain, net***

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

### ***2015 and 2014 compared***

In 2015, Kuveyt Türk experienced foreign exchange gains of TRY153.99 million compared to a gain in 2014 of TRY119.89 million, representing an increase of 28.44 per cent. Such gains resulted from foreign exchange rate fluctuations.

### **Taxation**

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

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

The statutory corporate tax rate in Turkey for the years 2015 and 2014 was 20 per cent and advance tax returns are filed on a quarterly basis in Turkey.

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

### ***2015 and 2014 compared***

Kuveyt Türk's tax expenses increased from TRY114.82 million in 2014 to TRY159.39 million in 2015 reflecting an increase of 38.82 per cent. This increase in corporate tax payable by Kuveyt Türk was a result of an increase in Kuveyt Türk's taxable profit from TRY557.74 million in 2014 to TRY616.58 million in 2015.

### ***Net income for the year***

Reflecting the various factors discussed above, Kuveyt Türk's net income for 2015 was TRY500.25 million compared to TRY458.05 million in 2014, reflecting an increase of 9.22 per cent. This increase is principally attributed to an increase in total income from financing activities and an increase in total operating income.

### **Financial Condition**

#### ***Total Assets***

Kuveyt Türk's total assets grew in 2015 by 24.03 per cent. from TRY33,750.75 million in 2014 to TRY41,860.63 million in 2015.

#### ***Cash and balances with the CBT***

As at 31 December 2015, cash and balances with the CBT was TRY1,970.36 million compared to TRY1,127.57 million as at 31 December 2014, representing an increase of 74.74 per cent., primarily as a result of an increase in funds placed as reserves with the CBT.

#### ***Due from financing activities, net***

As at 31 December 2015, due from financing activities, net accounted for 58.93 per cent. of Kuveyt Türk's total assets compared to 59.19 per cent. as at 31 December 2014. Due from financing activities, net increased from TRY19,978.32 million as at 31 December 2014 to TRY24,669.04 million as at 31 December 2015, representing an increase of 23.48 per cent. These increases were primarily as a result of increased financing by Kuveyt Türk in conjunction with its branch growth, and the improving Turkish economy.

#### ***Minimum finance lease payments receivable, net***

As at 31 December 2015, minimum finance lease payments receivables, net contributed 2.83 per cent. of Kuveyt Türk's total assets compared to 2.11 per cent. of total assets as at 31 December 2014. Net minimum finance lease payments receivables increased by 66.48 per cent. from TRY710.85 million as at 31 December 2014 to TRY1,183.42 million as at 31 December 2015. The increase was as a result of the volume of Kuveyt Türk's finance lease transactions due to the improving Turkish economy as well as an increase in the number of branches.

#### ***Financial assets***

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

#### ***Financial assets held for trading***

Financial assets held for trading increased by 86.76 per cent. from TRY48.10 million as at 31 December 2014 to TRY89.82 million as at 31 December 2015.

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

#### ***Derivative financial instruments***

Kuveyt Türk's investments in derivative financial instruments forward contracts in relation to asset sales and purchases predominantly relate to swap agreements entered into to manage Kuveyt Türk's currency

fluctuation risk as well as profit share amounts to be paid or to be received. Kuveyt Türk aims to maintain a net even position.

Notional amount of derivative financial instruments increased by 50.15 per cent. from TRY9,137.16 million as at 31 December 2014 to TRY13,719.37 million as at 31 December 2015.

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

	As at 31 December					
	2015			2014		
	Fair value asset	Fair value liabilities	Notional amount in TRY equivalent	Fair value asset	Fair value liabilities	Notional amount in TRY equivalent
	(TRY in thousands)					
Inflows .....	44,606	-	6,800,047	43,115	--	4,576,673
Outflows .....	-	170,173	6,919,324	--	25,885	4,560,487
<b>Total .....</b>	<b>44,606</b>	<b>170,173</b>	<b>13,719,371</b>	<b>43,115</b>	<b>25,885</b>	<b>9,137,160</b>

### *Share certificates*

In 2015, share certificates increased by 115.47 per cent. from TRY181 thousand as at 31 December 2014 to TRY390 thousand in 2015. This increase value was as a result of non-paid capital increase in "SWIFT SCRL".

### *Precious Metal Fund*

In 2015, Kuveyt Türk's investment in the B Type Gold Fund listed on the Istanbul stock exchange decreased by 95.69 per cent from TRY4,799 thousand as at 31 December 2014 to TRY207 thousand as at 31 December 2015. This decrease was as a result of low demand in the market.

### *Sukuk held for trading*

As at 31 December 2015, Kuveyt Türk had acquired the following financial sukuk held for trading with an aggregate face value of TRY44,617 million:

REFERENCE	CURRENCY	COUPON FREQUENCY	ISSUER	PURCHASE DATE	MATURITY DATE	COST VALUE	RATE
XS1325093877 .....	USD	3	ILMH	25/11/2015	24/02/2016	145,380	3.08
XS1307862513 .....	USD	3	ILMH	15/10/2015	19/01/2016	87,228	0.25
XS1082151868 .....	USD	6	ALBARAKA TURK	30/06/2014	30/06/2019	116,304	6.25

### *Available-for-sale Financial Assets*

Available-for-sale financial assets, which consist of unlisted shares and financial sukuk, increased by 6.86 per cent. in 2015 to TRY2,354.20 million from TRY2,203.13 million in 2014. This increase was primarily as a result of an increase in investments by Kuveyt Türk in the KFH Global Sukuk Fund and in financial sukuk. In 2015, Kuveyt Türk's investments in financial sukuk increased by 6.45 per cent. from TRY2,150.36 million as at 31 December 2014 to TRY2,289.60 million as at 31 December 2015.

As at 31 December 2015 and 2014, Kuveyt Türk's holdings of unlisted shares comprised TRY65.14 million and TRY52.77 million, respectively. The breakdown of Kuveyt Türk's holdings of unlisted shares is as follows:

As at 31 December					
Nature of Business	2015		2014		
	%	Amount	%	Amount	
KFH Global Sukuk Fund .....	Mutual Fund	19	55,244	19	44,080
Kredi Garanti Fonu A.Ş. ("KGF") .....	Financial institution	1.75	4,210	1.75	4,211
Neova Sigorta A.Ş. ....	Insurance company	6.99	4,956	6.99	3,752
Islamic International Rating Agency ("IRA") .....	Financial institution	8.36	714	8.36	714
Borsa İstanbul A.Ş. ....	Exchange entity	0.0035	15	0.0035	15
<b>Total .....</b>		<b>65,139</b>		<b>52,771</b>	

### Funding and Liquidity

Kuveyt Türk's principal sources of funding are described under "*Risk Management - Funding*". The table below summarises Kuveyt Türk's cash flows for each of 2015 and 2014.

	For the year ending 31 December	
	2015	2014
	(TRY in thousands)	
Net cash used in operating activities .....	1,979,646	(81,144)
Net cash used in investing activities .....	(349,306)	(953,523)
Net cash provided in financing activities .....	857,886	2,370,965
Net foreign exchange difference on cash and cash equivalents .....	(121,283)	17,067
Cash and cash equivalents at 1 January .....	4,198,100	2,844,735
Cash and cash equivalents at period end .....	6,565,043	4,198,100

The principal factor impacting Kuveyt Türk's operating cash flows between 2014 and 2015 was changes in cash from financing activities. In 2015, cash inflows from the sale of Kuveyt Türk's precious metal portfolio was the principal reason for its positive operating cash flows.

The principal factor impacting Kuveyt Türk's investing cash flows between 2014 and 2015 was sales of investment securities (predominantly comprising of sukuk), which exceeded its purchases of investment securities.

Kuveyt Türk's cash flow from financing activities reflects the redemption during the period of sukuk issued by Kuveyt Türk.

Sukuk issued by Kuveyt Türk as of 31 December 2015 and 2014 is as follows:

	For the year ending 31 December	
	2015	2014
	(TRY in thousands)	
Sukuk certificates issued USD .....	2,481,958	1,953,221
Sukuk certificates issued TRY .....	602,441	240,369
Sukuk certificates issued MYR .....	551,720	-
<b>Total .....</b>	<b>3,636,119</b>	<b>2,193,590</b>

### Off-balance sheet commitments

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

The following table analyses Kuveyt Türk's significant contingencies and commitments as at 31 December 2015 and 2014.

	For the year ending 31 December	
	2015	2014
	<i>(TRY in thousands)</i>	
Letters of guarantee issued by Kuveyt Türk.....	7,340,216	6,893,972
Letters of credit.....	1,029,264	922,530
Commitments .....	2,792,914	2,599,619
Acceptance credits .....	84,108	59,790
Other guarantees .....	503,290	372,420
<b>Total.....</b>	<b>11,749,792</b>	<b>10,848,183</b>

### Related Party Transaction

Kuveyt Türk entered into various banking transactions with related parties in its normal course of business including balances with financial institutions due from financing activities, due to other financial institutions and banks and profit/loss sharing investors' and current accounts. Details of related party transactions are set out in note 24 of the IFRS Accounts for the years ended 31 December 2015 and 31 December 2014.

### Recent Developments

On 24 August 2016 Kuveyt Türk released its Interim BRSA Accounts. The Interim BRSA Accounts reflect an increase in net profit from TRY191.68 million in the six month period ended 30 June 2015 to TRY278.90 million in the six month period ended 30 June 2016, representing an increase of 45.50 per cent. The Interim BRSA Accounts disclosed an increase in assets from TRY42,094.99 million as at 31 December 2015 to TRY44,209.92 million as at 30 June 2016, representing an increase of 5.02 per cent. Shareholders' equity increased from TRY3,448.13 million as at 31 December 2015 to TRY3,744.00 million as at 30 June 2016, representing an increase of 8.58 per cent. The Interim BRSA Accounts also demonstrated an increase in financing activities from TRY25,989.04 million as at 31 December 2015 to TRY27,633.44 million as at 30 June 2016, representing an increase of 6.33 per cent. Finally, the Interim BRSA Accounts revealed an increase in customers' deposits from TRY28,125.30 million as at 31 December 2015 to TRY28,901.12 million as at 30 June 2016, representing an increase of 2.76 per cent.

## OVERVIEW OF THE TURKISH BANKING SECTOR AND REGULATIONS

### Summary

The Turkish financial sector has gone through major structural changes as a result of the financial liberalisation programme that started in the early 1980s. The abolition of directed credit policies, the liberalisation of deposit and credit interest rates and liberal exchange rate policies as well as the adoption of international best standard banking regulations have accelerated the structural transformation of the Turkish banking sector. Since the 1980s, the Turkish banking sector has experienced a significant expansion and development in the number of banks, employment in the sector, diversification of services and technological infrastructure. The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001 this resulted in the collapse of several institutions, including a participation bank. The banking sector also experienced a sharp reduction in shareholders' equity in 2001, with the capital of the 22 private sector banks declining to U.S.\$4,916 million at the end of 2001 from U.S.\$8,056 million for 28 banks at the end of 2000, according to the Banks Association of Turkey.

The Turkish money markets and foreign exchange markets have stabilised since 2001, in large part due to regulatory reform and other governmental actions (including a three-part audit undertaken in 2001 and the first half of 2002, after which all private commercial banks were either found to be in compliance with the 8.0 per cent. minimum capital requirement, transferred to the SDIF, or asked to increase their capital level). The transparency of the system was improved along with the establishment of an independent supervisory and regulatory framework and new disclosure requirements. Unfair competition from state banks was reduced while the efficiency of the banking system increased in general as a result of consolidation. According to the SDIF's official data, since 1994, a total of 25 private banks have been transferred to the SDIF due to, among other things, weakened financial stability and liquidity and efforts are continuing on the resolution of the SDIF banks while restructuring and privatisation of the state banks is progressing.

In August 2004, in an attempt to reduce the regulatory costs inherent in the Turkish banking system, the government reduced the rate of the Resource Utilisation Support Fund ("**RUSF**") applicable on short-term foreign currency commercial loans lent by banks domiciled in Turkey to zero. However, the 3.0 per cent. RUSF charge for some types of loans provided by banks outside of Turkey with an average repayment term of less than one year remains valid. Pursuant to recent changes in the RUSF charges in accordance with the Council of Ministers decision numbered 2012/4116 (published on 1 January 2013), loans provided by banks outside of Turkey with an average repayment term of one year (including one year) to two years are subject to a 1.0 per cent. RUSF charge, those with an average repayment term of two years (including two years) to three years are subject to a 0.5 per cent. RUSF charge and those with an average repayment term of above 3 years (including 3 years) are subject to a 0 per cent. RUSF charge. In 2010, the government also increased the RUSF charge on interest on foreign currency-denominated retail loans from 10 per cent. to 15 per cent. in order to curb domestic demand fuelled by credit, which was in turn perceived to be adversely affecting Turkey's current account balance. The RUSF charge applied to consumer credits to be utilised by real persons (for non-commercial utilisation) is 15 per cent. in accordance with the Council of Ministers' decision numbered 2010/974 (published on 28 October 2010).

In addition, there have been significant changes to Turkish banking legislation over the last few years.

The Banks Act No. 4389 (as amended by Laws No. 4491, 4672, 4684, 4743, 4842, 5020, 5189 and 5228) was replaced by the Banking Law No. 5411 on 1 November 2005 (the "**Banking Law**"). The Banking Law (as amended by Laws No. 5472, 5667, 5754, 5766, 6111, 6300, 6327, 6352, 6362, 6456, 6462, 6487, 6493 and 6495 and Decree No. 662) governs the activities conducted by, among others, commercial banks as well as participation banks. For further details please see "*Types of Banks in Turkey*" below.

### Regulatory Environment

Regulatory responsibility in the Turkish banking sector is split between the BRSA, the CBT and the SDIF. The BRSA regulates and monitors the application of the Banking Law and other relevant regulations to ensure a disciplined and efficient banking sector within Turkey. The CBT is the entity responsible for the Government's fiscal and monetary policies. The SDIF's role is to insure the savings

deposits and participation funds held with banks. In the event of financial instability within a bank, the SDIF may take measures to restructure such a bank to strengthen its fiscal structure.

### **The Role of the BRSA**

The BRSA is an independent body authorised under Articles 82 to 110 of the Banking Law and has the status of a public legal entity with administrative and financial autonomy. It is the sole regulatory and supervisory authority for the Turkish banking sector. The BRSA's role is to protect the rights and benefits of depositors and to establish a competitive, disciplined and efficient banking and financial sector within Turkey. Accordingly, the BRSA is authorised to undertake all necessary steps, within the limits of the autonomy granted to it by the Banking Law, to ensure it effectively monitors and regulates the Turkish banking sector.

The BRSA has responsibility for all banks operating in Turkey, including foreign and participation banks. The BRSA sets various mandatory ratios such as capital adequacy and liquidity ratios. In addition, all banks operating in Turkey must provide the BRSA, on a regular and timely basis, with information adequate to permit off-site analysis by the BRSA of such bank's financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and annual basis, depending upon the nature of the information to be reported.

The BRSA conducts both on-site and off-site audits and supervises implementation of the provisions of the Banking Law and other legislation, examines all banking operations and analyses the relationship and balance between assets, receivables, equity capital, liabilities, profit and loss accounts and all other factors affecting a bank's financial structure. The BRSA's on-site supervision is conducted through a team of sworn bank auditors and other experts who are employed by the BRSA. In addition, the chairman of the BRSA has the authority to commission independent audit teams to examine specific matters within any bank that the chairman deems appropriate.

In addition to the above-mentioned requirements, pursuant to the regulation regarding the Internal Systems of Banks (as issued by the BRSA and published in the Official Gazette dated 11 July 2014 and numbered 29057), banks in Turkey are required to establish, manage and develop (for themselves, and all of their branches, regional directorates and units and all of their consolidated affiliates) internal audit and risk management systems in line with the scope and structure of their organisations, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. Furthermore, pursuant to Article 20 of the regulation, internal control personnel cannot have any other duties.

### **The Participation Banks Association of Turkey**

The Participation Banks Association of Turkey ("PBAT"), established in accordance with the Banking Law, acts as an organisation with limited supervision and coordination in respect of participation banks. All participation banks in Turkey are obliged to become members of this association. As the representative body of the participation banking sector, the association aims to examine, protect and promote its members' professional interests.

Pursuant to Article 79 of the Banking Law, deposit banks and investment banks are obliged to become members of the Banks Association of Turkey and participation banks are obliged to become members of the PBAT within one month of obtaining their operation permit. Both of the Banks Association of Turkey and the PBAT are professional organisations which have the same status. As the representative bodies of the banking sector, the associations aim to examine, protect and promote its members' professional interests.

However, despite its regulatory and disciplinary functions, it does not possess any of the powers to regulate banking as the BRSA does.

### **The Role of the CBT**

The CBT was founded in 1930 and performs the traditional functions of a central bank, including the issuance of bank notes, provision of price stability and its continuity, regulation of the money supply, management of official gold and foreign exchange reserves, monitoring of the financial system and

advising the government on financial matters. The CBT exercises its powers independently of the Government and is responsible for its affairs within the boundaries of the Government's defined policies.

Currently, the CBT is the sole regulator of the volume and circulation of the national currency. It has responsibility for developing and implementing the Government's monetary policy, as well as managing and controlling official gold and foreign exchange reserves. The CBT also acts as the Government's treasurer, financial agent and economic adviser. The CBT uses various monetary tools to implement its functions, including open market operations, setting reserve and liquidity ratios, determining discount rates and controlling short term interest rates. The CBT monitors a centralised risk valuation system in an effort to better supervise the banking system in collaboration with the Undersecretariat of Treasury for Turkey (the "**Treasury**").

### **The Role of the SDIF**

The SDIF is a public legal entity, set up to insure savings deposits and participation funds held with banks. The SDIF is responsible for, and authorised to take measures in relation to restructuring, transfer of title to third parties and strengthening the fiscal structures of banks **provided that** the management and control of the bank have been transferred to the SDIF in accordance with Article 71 of the Banking Law.

Pursuant to Article 63 of the Banking Law, the savings deposits and participation funds belonging to real persons in credit institutions are insured by the SDIF. The coverage and amount of the savings deposits and participation funds belonging to real persons which will be subject to insurance is set by the SDIF upon the approval of the CBT, the BRSA and the Treasury. According to the Banking Law, the risk-based insurance premium rate cannot exceed 20/1000 of the deposits and participation funds subject to insurance on an annual basis. The tariff, collection time, method and other conditions of the risk-based insurance premium is set by the SDIF after consultation with the BRSA. Pursuant to the Regulation on Saving Deposits and Participation Funds subject to Insurance and Premiums to be collected by the SDIF, the insurance premium rate to be paid by Kuveyt Türk as of the date of this Prospectus is 5.2/1000 per cent. of the deposits and participation funds subject to insurance. The SDIF may borrow with the authorisation of the Treasury and/or if necessary, the Treasury can issue government securities, the proceeds of which shall be allocated to the SDIF. The principles and procedures regarding government securities including their interest rates and terms and conditions of repayments to the Treasury are determined collectively by the Treasury and the SDIF.

In extraordinary circumstances, where the resources of the SDIF do not match its needs, the CBT may advance funds to the SDIF upon a request by the SDIF. The maturity, amounts, repayment conditions, interest rates and other conditions of the advance will be determined by the CBT upon consultation with the SDIF.

If the assets of the SDIF do not meet the demands on it and the resources of the SDIF are insufficient, then banks may be required to make advances of up to the total insurance premiums paid by them in the previous year to be set-off against their future premium obligations.

Deposits held in a bank by controlling shareholders, the chairman and members of the board of directors or board of managers, general manager and assistant general managers, auditors and by the parents, spouses and children of the above, and deposits, participation funds and other accounts within the scope of criminally-related assets set forth in Article 282 of the Turkish Criminal Code and other deposits, participation funds and accounts as determined by the BRSA are not covered by the SDIF's insurance.

Premiums paid by a bank into the SDIF are to be treated as an expense in the calculation of that bank's corporate tax.

In the event of the bankruptcy of a bank, the SDIF is a privileged creditor and may liquidate the bank under the provisions of the Execution and Bankruptcy Act (1932), exercising the duties and powers of the bankruptcy office and creditors' meeting and the bankruptcy administration. Also in such event, holders of savings deposits will have a first-degree privileged claim in respect of the part of their deposit that is not covered by the SDIF.

As of the date of this Prospectus, Adabank A.Ş. and Birleşik Fon Bankası A.Ş. ("**BFB**") and Bank Asya are the only banks which are under the supervision and administration of the SDIF. BFB has been incorporated by the SDIF by merging the assets of Etibank A.Ş., İktisat Bankası T.A.Ş., Interbank A.Ş.,



Esbank A.S., EGSBank A.S., Kentbank A.S. and Toprakbank A.S. into Bayindirbank A.S. and by converting the latter into BFB. In February 2015 Bank Asya came under the supervision of the SDIF as a result of a determination by the BRSA that Bank Asya had failed to submit information and documents concerning 132 of 185 of its privileged shareholders. On 22 July 2016, Bank Asya's banking permissions were cancelled by the BRSA.

### Types of Banks in Turkey

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

The following table sets out certain statistical information for the Turkish banking sector as at 30 June 2016 (the latest date for which such figures are available) under BRSA accounting principles.

	Public Sector Banks	Private Sector Banks	Foreign Banks	Developmen t and Investment Bank	Participati on Banks	Total
<i>(TRY in millions, where applicable)</i>						
Total assets.....	811,984.31	929,544.70	735,729.82	119,642.19	125,929.52	2,722,830.54
Total loans.....	526,710.96	586,671.07	457,041.43	82,241.76	75,912.43	1,728,577.65
Total deposits .....	408,887.90	493,466.08	409,352.69	0	74,705.44	1,386,412.11
Total shareholders' equity .....	97,271.85	105,502.54	81,718.98	24,900.97	11,684.20	321,078.54
Net income .....	7,004.85	6,971.10	5,057.25	1,272.50	257.23	20,562.93
Number of domestic branches	3,733	4,437	3,897	40	1,122	13,229
Number of domestic employees	62,699	77,428	74,516	5,374	16,183	236,200
Number of banks.....	9	14	28	13	6	70

Source: BRSA.

Note: Banks controlled by the SDIF are not included in these figures.

The public and private sector commercial banks form the majority of the Turkish banking sector in terms of assets and operations. T.C. Ziraat Bankası A.Ş., Türkiye Halk Bankası A.Ş. and Türkiye Vakıflar Bankası T.A.O., which all have large branch networks, were originally established with social rather than profit objectives, principally to provide services to certain sectors of the working population. Private sector commercial banks are comprised of full-service banks and corporate/trade finance-orientated banks. The four largest private commercial banks are Türkiye İş Bankası A.Ş., Türkiye Garanti Bankası A.Ş. ("**Garanti Bankası**"), Akbank T.A.Ş. ("**Akbank**") and Yapı ve Kredi Bankası A.Ş. These banks provide a large proportion of retail banking services and related financial products to the Turkish population in addition to providing large Turkish corporations and Turkish subsidiaries of large foreign companies with corporate and foreign trade related banking services.

In recent years, the liberalisation of the Turkish economy has resulted in an increase in the number of foreign-banks operating in Turkey, either as locally incorporated banks, branches or joint ventures with domestic banks. The following are examples of notable merger and acquisition activities by foreign banks in recent years. In February 2005, BNP Paribas acquired 50 per cent. of the shares of TEB Mali Yatırımlar A.Ş. which owns 84.3 per cent. of the shares of TEB A.Ş. In October 2006, Denizbank was acquired from the Zorlu Group by Dexia for U.S.\$2.4 billion. In September 2012, Sberbank acquired 99.85 per cent. of Denizbank from Dexia for U.S.\$3.6 billion (subject to post-closing adjustments). In January 2007, Citigroup acquired a 20 per cent. stake in Akbank and later in the same year ING acquired 100 per cent. of Oyakbank for U.S.\$2.7 billion. More recently, in March 2011, General Electric Co. and Doğuş Holding A.Ş. sold their 18.6 per cent. and 6.3 per cent. stakes, respectively, in Garanti Bankası to Banco Bilbao Vizcaya Argentaria S.A. ("**BBVA**") for U.S.\$3.8 billion and U.S.\$2 billion, respectively. In July 2015, BBVA purchased 14.8 per cent. of Garanti Bankası, A.Ş. eventually rendering BBVA the majority shareholder by holding a total of 39.9 per cent. of the shares. In December 2012, Burgan Bank SAK purchased 99.3 per cent. of Eurobank Tekfen A.Ş. for US \$355 million. The Commercial Bank of Qatar (Q.S.C.) acquired 70.84 per cent. of Alternatif Bank A.Ş. in July 2013 by paying two times book value at 30 June 2013.

In October 2011, the BRSA approved the application of Bank Audi s.a.l-Audi Saradar Group to establish a new deposit bank in Turkey, Odea Bank A.S., which was later granted an operation permit in September 2012. This was the BRSA's first authorisation to establish a deposit bank in Turkey since 1997. Later in

2012, the BRSA also approved The Bank of Tokyo-Mitsubishi UFJ's application to establish a deposit bank and The Bank of Tokyo-Mitsubishi UFJ was granted an operation permit in September 2013. In August 2013, Rabobank International Holding B.V. was granted an authorisation to establish a deposit bank in Turkey. In April 2014 Industrial and Commercial Bank of China Ltd. announced that it had signed an agreement to acquire 75.5 per cent. of Tekstilbank from GSD Holding A.Ş. On 22 May 2015, the contemplated transfer of shares was completed rendering the Industrial and Commercial Bank of China Ltd. the majority shareholder by holding a total of 92.812 per cent. of the shares.

Development banks are funded by international banks and institutions such as the World Bank. Their objective is to provide medium and long-term financing to Turkish companies that cannot raise such funding easily through the market. These banks do not accept customer deposits.

In October 2014, one of Turkey's largest state-owned banks, T.C. Ziraat Bankası, was given permission by the BRSA to establish a participation bank with U.S.\$300 million capital. T.C. Ziraat Bankası received approval on 12 May 2015 and launched its participation bank in May 2015. Additionally, Türkiye Halk Bankası, another state-owned bank, received approval in January 2015 to establish a participation bank. Furthermore on 27 February 2015, Vakıflar Bankası T.A.O. received regulatory approval to establish a participation bank and Vakıf Katılım Bankası A.Ş. became a legal entity following its registration at the trade registry on 25 June 2015. Vakıf Katılım Bankası A.Ş. obtained official authorisation from the BRSA to operate as a participation bank on 11 February 2016 and started its participation banking activities as of 24 February 2016.

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

### Public Sector Commercial Banks

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

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

The following table sets out the three state-owned commercial banks in Turkey, ranked for size of assets (non-consolidated basis) under Turkish GAAP accounting principles as at the dates presented.

Bank	Total Assets as at 30 June 2016	Number of branches as at 30 June 2016
	<i>(TRY in millions)</i>	
T.C. Ziraat Bankası A.Ş. ....	321,759	1,811
Türkiye Halk Bankası A.Ş. ....	200,377	961
Türkiye Vakıflar Bankası T.A.O. ....	193,640	922

Source: The Banks Association of Turkey.

### Private Sector Commercial Banks

Private sector commercial banks comprise full-service banks and corporate/trade finance-oriented banks. Private sector commercial banks can be divided into large and small branch network commercial banks. Most private sector banks belong to large industrial groups, which may provide additional support to the banks.

The following table ranks the larger branch network private sector commercial banks by asset size (non-consolidated basis) under BRSA accounting principles as at the dates presented.

Bank	Ownership	Total Assets as at 30 June 2016	Number of branches as at 30 June 2016
<i>(TRY in millions)</i>			
Türkiye İş Bankası A.Ş. ....	Bank Pension Fund and Republican People's Party	288,282	1,377
Akbank T.A.Ş. ....	Sabancı Group	247,353	897
Yapı ve Kredi Bankası A.Ş. ....	Koç Financial Services and TEB Holding A.Ş.	229,653	982
Türk Ekonomi Bankası A.Ş. ....	BNP Yatırımlar Holding A.Ş. and BNP Paribas	77,241	536
Şekerbank T.A.Ş. ....	Employee Pension Funds, Samruk Kazyna and BTA Securities JSC	23,150	273

Source: The Banks Association of Turkey.

The following table ranks the small branch network private sector commercial banks by asset size (non-consolidated basis) as at the dates presented.

Bank	Ownership	Total Assets as at 30 June 2016	Number of branches as at 30 June 2016
<i>(TRY in millions)</i>			
Fibabanka A.Ş. ....	Fiba Holding A.Ş. and Özyol	12,816	70
Anadolubank A.Ş. ....	Habas Group	11,405	106
Turkish Bank A.Ş. ....	Mehmet Tanju Özyol	1,325	13
Adabank ....	Transferred to SDIF	54	1

Source: The Banks Association of Turkey.

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 8 privately owned commercial banks, apart from the three largest banks, there are two medium sized privately owned commercial banks. Two private sector commercial banks are smaller banks, which have, in aggregate, relatively negligible banking market share (i.e. having less than U.S.\$ 1 billion in total assets).

### Foreign Commercial Banks

The strengthening of regulations and the transparency of the Turkish economy over the past decade has resulted in an increase in the number of foreign commercial banks operating in Turkey. As at the date of this Prospectus there are 21 foreign banks in total, 15 of which are locally incorporated banks and six of which are Turkish branches of foreign banks.

The table below indicates certain information regarding foreign commercial banks in Turkey, together with their asset size (non-consolidated basis), under Turkish GAAP accounting principles as at the dates presented.

Locally Incorporated Banks	Ownership	Total Assets as at 30 June 2016	Number of branches as at 30 June 2016
<i>(TRY in millions)</i>			
Türkiye Garanti Bankası A.Ş. ....	Doğu Group and BBVA	261,529	980
Finansbank A.Ş. ....	The Commercial Bank (Q.S.C.)	92,647	630
Denizbank A.Ş. ....	Sberbank of Russia	89,326	689
ING Bank A.Ş. ....	ING Bank N.V.	48,265	282
	Bank Audi Sal and Audi Saradar Private		
Odea Bank A.Ş. ....	Bank Sal	31,014	56
HSBC Bank A.Ş. ....	HSBC Bank plc	28,244	191
	Commercial Bank of Qatar and Anadolu		
Alternatif Bank A.Ş. ....	Endüstri Group	13,989	54
Burgan Bank A.Ş. ....	Burgan Bank S.A.K	11,948	51
Citibank A.Ş. ....	Citi Group	8,135	8
ICBC Turkey Bank A.Ş. ....	ICBC	7,017	44
The Bank of Tokyo-Mitsubishi UFJ Turkey A.Ş. ....	The Bank of Tokyo-Mitsubishi UFJ Ltd	6,446	1
Türkland Bank A.Ş. ....	Arab Bank Suisse, Arab Bank and BankMed	5,677	34
Arap Türk Bankası A.Ş. ....	Libyan Arab Foreign Bank Tripoli Libya	4,076	7
Deutsche Bank A.Ş. ....	Deutsche Bank AG	3,009	1
Rabobank A.Ş. ....	Rabobank NV	953	1

Branches of Foreign Bank Incorporation	Country of Incorporation	Total Assets as at 30 June 2016	Number of branches as at 30 June 2016
<i>(TRY in millions)</i>			
Intesa Sanpaolo S.p.A. ....	Italy	4,961	1
The Royal Bank of Scotland ....	Scotland	691	1
JP Morgan Chase Bank N.A. ....	United States	428	1
Bank Mellat ....	Iran	386	3
Société Générale ....	France	337	1
Habib Bank Limited ....	Pakistan	127	1

Source: The Banks Association of Turkey.

### Development and Investment Banks

Development banks are funded by the CBT, international banks and institutions such as the World Bank, the European Investment Bank and various export credit agencies. Their objective is to provide medium and long-term financing to large and medium sized companies on a project basis. Development banks do not accept deposits and are also active in foreign exchange and securities transactions. These banks are not subject to the Banking Law.

As at the date of this Prospectus there are four state-owned, six privately-owned and three foreign development and investment banks in Turkey. The following table sets out these banks and their assets (non-consolidated basis) and number of branches as at the dates presented.

Bank	Total Assets as at 30 June 2016	Number of branches as at 30 June 2016
(TRY in millions)		
<b>State-owned Development Banks</b>		
Türk Eximbank .....	53,180	3
İller Bankası A.Ş. ....	19,578	19
İstanbul Takas ve Saklama Bankası A.Ş. ....	7,429	1
Türkiye Kalkınma Bankası A.Ş. ....	5,222	1
<b>Privately-owned Development and Investment Banks</b>		
Türkiye Sınayi Kalkınma Bankası A.Ş. ....	21,791	3
Aktif Yatırım Bankası A.Ş. ....	8,502	8
Nurol Yatırım Bankası A.Ş. ....	1,103	1
Pasha Yatırım Bankası A.Ş. ....	399	1
GSD Yatırım Bankası A.Ş. ....	283	1
Diler Yatırım Bankası A.Ş. ....	130	1
<b>Foreign Development and Investment Banks</b>		
Bank Pozitif Kredi ve Kalkınma Bankası .....	1,591	1
Merrill Lynch Yatırım Bankası .....	335	1
Standard Chartered Yatırım Bankası Türk A.Ş. ....	74	1

Source: The Banks Association of Turkey.

## 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 are six participation banks operating in Turkey noting that on 22 July 2016 the BRSA cancelled the banking permissions of one participation bank, namely Bank Asya. Each of the participation banks is a member of PBAT.

The table below sets out the remaining five participation banks in Turkey, ranked by size of assets (non-consolidated basis) under Turkish GAAP accounting principles as at the dates presented.

Bank	Total Assets as at 30 June 2016	Number of branches as at 30 June 2016
(TRY in millions)		
Kuveyt Türk .....	44,210	379
Türkiye Finans .....	40,355	286
Al Baraka Türk .....	29,363	212
Ziraat Katılım .....	4,850	37
Vakıf Katılım Bankası A.Ş. ....	1,554	13

Source: Participation Banks Association of Turkey.

## Key Regulatory Characteristics of the Turkish Banking System

### Collection of Funds and Financing Activities of Participating Banks

Participation banks may collect funds in two ways:

- 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
- participation accounts* - an account that consists of funds that yield a participation in the loss or profit arising from their investment by the relevant financial institutions. Such accounts do not require payments of pre-determined return.

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

## ***Shareholding***

The direct or indirect acquisition by a person of shares that represent 10 per cent. or more of the share capital of any bank, or the direct or indirect acquisition or disposal of such shares by a person if the total number of shares held by such shareholder increases above or falls below 10 per cent., 20 per cent., 33 per cent. or 50 per cent. of the share capital in that bank, requires the permission of the BRSA in order to preserve full voting and other shareholders' rights associated with such shares. In addition, irrespective of the above thresholds, an issuance, assignment and transfer of: (i) preference shares attached with the right to nominate a member to the board of directors or audit committee; or (ii) an issuance of new shares with such preferences is also subject to the authorisation of the BRSA. In the absence of such authorisation, a holder of such thresholds of shares cannot be registered in the share register, which effectively deprives such shareholder of the ability to participate in shareholder meetings or to exercise voting or other shareholders' rights with respect to the shares, but not of the right to collect dividends declared on such shares. Registrations made in the share register in the absence of such authorisation are invalid.

The board of directors of a bank is responsible for ensuring that shareholders attending general assemblies have obtained the applicable authorisations from the BRSA. If the BRSA determines that a shareholder has exercised voting or other shareholder's rights (other than the right to collect dividends) without due authorisation as described in the preceding paragraph, then it is authorised to direct the board of directors of a bank to cancel any applicable general assembly resolutions (including by way of taking any necessary precautions concerning such banks within its authority under the Banking Law if such procedure has not been started yet). If the shares are obtained on the stock exchange, then the BRSA may also impose administrative fines on shareholders who exercise their rights or acquire or transfer shares as described in the preceding paragraph without BRSA authorisation. Unless and until a shareholder obtains the necessary share transfer approvals from the BRSA, the SDIF has the authority to exercise such voting and other shareholders' rights (other than the right to collect dividends and priority rights) attributable to such shareholder.

## ***Lending Limits***

Turkish law sets out certain limits on the asset profile of banks and other financial institutions which are designed to protect those institutions from excessive exposure to any one counterparty (or group of related counterparties). In particular:

- Cash credits and non-cash credits such as letters of guarantee, counter-guarantees, sureties, avals, endorsements and acceptances extended by a bank and undertakings having the same quality, bonds and similar capital market instruments purchased by it, loans (whether deposits or otherwise), receivables arising from the future sales of assets, overdue cash receivables, accrued but uncollected interest, amounts of non-cash credits converted into cash, receivables arising from reverse repo transactions and risks undertaken due to the futures and options contracts and other similar contracts, partnership interests and shareholding interests are considered as a credit irrespective of the account through which they are traced. Credits directly or indirectly extended to, a real person or legal entity in excess of 10 per cent. of the bank's equity capital are to be considered major credits and the total of such major credits, cannot exceed eight times its equity capital.
- The Banking Law restricts the total financial exposure (including extension of credits, issuance of guarantees, etc.) that a bank may have to any one customer or a risk group, directly or indirectly, to 25 per cent. of its equity capital. In calculating such limit, a credit extended to an unincorporated partnership is deemed to be extended to the partners in proportion to their liabilities. A risk group is defined as an individual, his or her spouse and children and partnership(s) in which any one of such persons is a director or general manager, as well as partnerships that are directly or indirectly controlled by any one of such persons, either individually or jointly with third parties, or in which anyone of such persons participate with unlimited liability. Furthermore, a bank, its shareholders holding 10 per cent. or more of the bank's voting rights or the right to nominate board members, its board members, its general manager and partnerships directly or indirectly, individually or jointly, controlled by any of these persons or a partnership in which these persons participate with unlimited liability, constitute a risk group, for which the lending limits are reduced to 20 per cent. of a bank's equity capital, subject to the BRSA's discretion to increase such lending limits up to 25 per cent. Real and legal persons having surety, guarantee or similar relationships where the insolvency of one is likely to

lead to the insolvency of the other are included in the applicable risk groups. Lending limits shall be applied as 20 per cent. for the risk group consisting of a bank together with its qualified shareholders (as defined in the Banking Law), members of board of directors and general managers as well as the partnerships controlled by the same individually or jointly, directly or indirectly.

- Loans made available to a bank's or other registered shareholders holding more than 1 per cent. of the share capital of the bank irrespective of whether these are controlling shareholders or qualified shareholders and their risk groups may not exceed 50 per cent. of the bank's equity capital.

Banks are obliged to regularly report to the BRSA any loans extended to persons who are in their risk groups. The banks are obliged to liquidate loans that are made in violation of applicable regulations by no later than six months after being so requested by the BRSA.

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

Pursuant to Article 55 of the Banking Law, the following transactions are exempt from the above-mentioned lending limits:

- transactions collateralised with cash, cash-like assets and accounts and precious metals;
- transactions carried out with the Treasury, the CBT, the Privatisation Administration and the Mass Housing Administration, as well as the transactions carried out against bills, bonds and similar securities issued or guaranteed by these institutions;
- transactions carried out with the CBT and in legally organised money markets;
- in case of new credit allocations to the same person or risk group, increases prompted by the changes in currency rates in credits denominated or indexed to foreign currencies (other than credit card and cheque extensions), and interests, profit shares and other such issues accrued on overdue credits **provided that** subsequently allocated credits in a foreign currency are taken into consideration at the exchange rate applied on the date of utilisation thereof;
- bonus shares (scrip issues) received as a result of capital increases, and any increase in the value of shares not requiring any fund outflow; interbank operations within the framework of the principles set out by the BRSA;
- shares acquired within the framework of underwriting services for public offering activities **provided that** such shares are disposed of in the time and manner determined by the BRSA;
- transactions considered as "deductibles" when calculating the shareholders' equity; and
- other transactions to be determined by the board of the BRSA (the "**BRSB**").

### ***Loan Loss Reserves***

Pursuant to Article 53 of the Banking Law, banks must formulate, implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans and other receivables and to reserve an adequate level of provisions against impairment in the value of other assets, for qualification and classification of assets, receipt of guarantees and securities and measurement of their value and reliability. In addition, such policies must address issues such as monitoring the loans, follow-up procedures and the repayment of overdue loans. Banks must also establish and operate systems to perform these functions. All special provisions set aside for loans and other receivables in accordance with Article 53 are considered as expenditures deductible from the corporate tax base in the year they are set aside.

Procedures relating to loan loss reserves for non-performing loans are set out in Article 53 of the Banking Law and in regulations issued by the BRSA. Pursuant to the Regulation on the Principles and Procedures Related to the Determination of Qualifications of the Loans and other Receivables by Banks and the Reserves to be Set Aside (as amended) (the "**Regulation**"), banks are required to classify their loans and receivables into one of the following five groups:

1. *Standard Loans and Other Receivables*: this group involves loans and other receivables:
  - (a) that have been disbursed to natural persons and legal entities with financial creditworthiness;
  - (b) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor;
  - (c) the reimbursement of which has been made within specified periods, for which no reimbursement problems are expected in the future and which can be fully collected; or
  - (d) for which no weakening of the creditworthiness of the debtor concerned has been found.

The terms of a bank's loans and receivables which have been classified into this group may be modified provided they continue to meet the classification requirements for this group. However, in the event that such modification relates to the extension of the initial payment plan under the loan or receivable, a general loan provision, not being less than five times the sum of 1 per cent. of the cash loan portfolio plus 0.2 per cent. of the non-cash loan portfolio (for example, letters of guarantee, acceptance credits, letters of credit undertakings and endorsements) (these rates may be applied by banks for loans relating to transit trade, export sales and deliveries and services and activities resulting in gains of foreign currency as 0 per cent., for cash loan portfolio extended to small and medium sized enterprises as 0.5 per cent. and for non-cash loan portfolio of small and medium sized enterprises as 0.1 per cent.) is required to be set aside and such modifications are required to be disclosed in the financial reports which are disclosed to the public. This ratio is required to be at least 2.5 times the Consumer Loans Provisions (as defined below in the second paragraph of the section titled "*General Provisions*") for amended consumer loan agreements (other than auto and housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof are made in a timely manner and **provided that** the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

2. *Closely Monitored Loans and Other Receivables*: This group involves loans and other receivables:
  - (a) that have been disbursed to natural persons and legal entities with financial creditworthiness and for the principal and interest payments of which there is no problem at present, but which need to be monitored closely due to reasons such as negative changes in the solvency or cash flow of the debtor, probable materialisation of the latter or significant financial risk carried by the person utilising the loan;
  - (b) whose principal and interest payments according to the conditions of the loan agreement are not likely to be repaid according to the terms of the loan agreement and where the persistence of such problems might result in partial or full non- reimbursement risk;
  - (c) which are very likely to be repaid but where the collection of principal and interest have not been made for justifiable reasons and are delayed for more than 30 days but do not fall within the scope of loans or other receivables with limited recovery as grouped in the Group 3 below; or
  - (d) although the credit standing of the debtor has not weakened, there is a high likelihood of it weakening due to the debtor's irregular cash flow which is difficult to control.

If a loan customer has multiple loans and any of these loans is classified in Group 2 and others are classified in Group 1, then all of such customer's loans are required to be classified in Group 2. The terms of a bank's loans and receivables which fall within the classification requirements of



this group may be modified provided they continue to meet the classification requirements for this group. However, in the event that such modification relates to the extension of the initial payment plan under the loan or receivable, a general loan provision, not being less than 2.5 times the sum of 2 per cent. of the cash loan portfolio plus 0.4 per cent. of the non-cash loan portfolio for closely-monitored loans will be set aside and such modifications are required to be disclosed in the financial reports which are disclosed to the public. This ratio is required to be at least 1.25 times the Consumer Loans Provisions (as defined below) for amended consumer loan agreements (other than auto and housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof are made in a timely manner and **provided that** the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

3. *Loans and Other Receivables with Limited Collection Ability:* This group involves loans and other receivables:
  - (a) with limited collectability due to the resources of, or the securities furnished by, the debtor being found insufficient to meet the debt on the due date, and where if the problems observed are not eliminated, they are likely to give rise to loss;
  - (b) the credibility of whose debtor has weakened and where the loan is deemed to have weakened;
  - (c) collection of whose principal and interest or both has been delayed for more than 90 days but not more than 180 days from the due date; or
  - (d) in connection with which the bank is of the opinion the principal or interest of the loan or both will be delayed for more than 90 days from the due date owing to reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity.
4. *Loans and Other Receivables with Remote Collection Ability:* This group involves loans and other receivables:
  - (a) that seem unlikely to be repaid or liquidated under existing conditions;
  - (b) in connection with which there is a strong likelihood that the bank will not be able to collect the full loan amount that has become due or payable under the terms stated in the loan agreement;
  - (c) where the debtor's creditworthiness is deemed to have significantly weakened but which are not considered as an actual loss, yet due to such factors as a merger, the possibility of finding new financing or a capital increase; or
  - (d) there is a delay of more than 180 days but not more than one year from the date on which credit amount has become due or payable in the collection of the principal or interest or both.
5. *Loans and Other Receivables Considered as Losses:* This group involves loans and other receivables:
  - (a) that are deemed to be uncollectable;
  - (b) collection of whose principal or interest or both has been delayed by one year or more from the date on which they have become due or payable; or
  - (c) for which, although carrying the characteristics stated in Groups 3 or 4 above, the bank is of the opinion that they have become weakened and that the debtor has lost his creditworthiness due to the strong possibility that it will not be possible to fully collect the amounts that have become due and payable within a period of over one year.

### *General Provisions*

Turkish law also requires Turkish banks to provide a general reserve calculated at 1 per cent. of the cash loan portfolio plus 0.2 per cent. of the non-cash loan portfolio (letters of guarantee, acceptance credits, letters of credit undertakings and endorsements) for standard loans; and a general reserve calculated at 2 per cent. of the cash loan portfolio plus 0.4 per cent. of the non-cash loan portfolio for closely-monitored loans. In addition, 25 per cent. of the above-mentioned rates will be applied for each cheque that remains uncollected for a period of five years after issuance.

Pursuant to Article 7/2 of the Regulation, banks which have a consumer loan ratio which exceeds 25 per cent. of its total loans and banks which have a non-performing consumer loan ratio (non-performing consumer loans being consumer loans which are classified as frozen receivables, excluding housing loans) greater than eight per cent. of their total consumer loans (excluding housing loans) (as calculated pursuant to the unconsolidated financial data prepared as of the general reserve calculation period) are required to set aside a four per cent. general provision for outstanding but not yet due consumer loans (excluding housing loans) under Group 1 above and an 8 per cent. general provision for outstanding but not yet due consumer loans (excluding housing loans) under Group 2 above (the "**Consumer Loans Provisions**").

Pursuant to Article 7/3 of the Regulation, if the sum of the letters of guarantee, acceptance credits, letters of credit undertakings, endorsements, purchase guarantees in security issuances, factoring guarantees or other guarantees and sureties and unsecured pre-financing loans of a bank is higher than ten times its equity calculated pursuant to the Regulation on Equity of Banks, a 0.3 per cent. general provision ratio is required to be applied by such bank for all of its standard non-cash loans. Notwithstanding the above ratio, and by taking into consideration the standard capital adequacy ratio, the BRSA may apply the same ratio or a higher ratio as the general reserve requirement ratio.

### *Special Provisions*

The banks should also set aside general provisions for the amounts monitored under the accounts of "Receivables from Derivative Financial Instruments" on the basis of the sums to be computed by multiplying them by the rates of conversion into credit indicated in Article 12 of the Regulation on Loan Transactions of Banks by applying the general provision rate applicable for cash loans. Apart from the general provisions, special provisions must be set aside for the loans and receivables classified as belonging to Groups 3, 4 and 5 described above in the minimum amounts of 20 per cent., 50 per cent. and 100 per cent, respectively, starting from the date on which they will be classified as falling under these groups. An amount equal to 25 per cent. of the specific provisions set forth in the preceding sentence is required to be set aside for each check slip of customers who have loans under Groups 3, 4 and 5, which checks were delivered by Kuveyt Türk at least five years previously; however, if a bank sets aside specific provisions at a rate of 100 per cent. for non-performing loans, then it does not need to set aside specific provisions for check slips that were delivered by such bank at least two years previously; **provided that** a registered letter has been sent to the relevant customer requiring it to return the check slips to the bank in no later than 15 days. Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, the BRSA is entitled to increase these provision rates taking into account the sector and country risk status of the customer.

Pursuant to these regulations, all loans and receivables in Groups 3, 4 and 5 above, irrespective of whether any interest or other similar obligations of the debtor are applicable on the principal or whether the receivables have been refinanced, are defined as "**frozen receivables**." If several loans have been extended to a loan customer by the same bank and if any of these loans is considered as a frozen receivable, then all outstanding risks of such loan customer are classified in the same group as the frozen receivable even if such loans would not otherwise fall under the same group as such frozen receivable. If the loan which became a frozen receivable is repaid in full, then the other loans of the loan customer may be re-classified into the applicable group as if there were no related frozen receivable.

Pursuant to Article 14/4 of the Regulation, the term "**interest**" refers to "share of profit" in respect of the funds extended by the participation banks.

Pursuant to Articles 14/1, 2 and 3 of the Regulation, the general and special provisions set aside for the funds and other receivables extended from participation accounts are required to be reflected in the expense accounts and participation accounts according to the rate of participation in loss to be determined

in accordance with the relevant regulation. The participation banks are entitled to reflect the portion corresponding to the participation accounts, in their expense accounts **provided that** they obtain the approval of their shareholders' general assembly. Additionally, **provided that** the participation account agreements permit them, the participation banks are also entitled to set aside: (i) a portion of up to 5 per cent. of the profit amount to be distributed to participation accounts, (ii) collections from the written off loans arising from participation accounts; and (iii) cancellations of participation share of the general and special provisions, as provisions to be utilised to meet the general and special provisions and the SDIF premium.

Banks must also monitor the following types of security based upon their classification:

*Category I Collateral:* Cash, deposits, participation funds and gold deposit accounts that are secured by pledge or assignment agreements; repurchase agreement proceeds secured by promissory notes, debenture bonds and similar securities issued directly or guaranteed by the CBT, the Treasury, the Mass Housing Administration or the Privatisation Administration and B-type investment participation funds; member firm receivables arising out of credit cards and gold reserved within the Bank; transactions entered into with the Treasury, the CBT, the Mass Housing Administration or the Privatisation Administration and transactions secured by promissory notes, debenture bonds, lease certificates (issued within the scope of the Law on Public Financing and Debt Management dated 28 March 2002 and numbered 4749) and similar securities issued directly or guaranteed by such administrations; securities issued directly or guaranteed by the central governments or central banks of countries that are members of the Organisation for Economic Co-operation and Development ("OECD") and guarantees and sureties issued by such authorities; guarantees and sureties issued by banks operating in OECD member countries and securities issued directly or guaranteed by the European Central Bank and guarantees and sureties issued by it; sureties and letters of guarantee, avals, acceptances and endorsements issued by banks operating in Turkey in compliance with their maximum lending limits; and bonds and debentures issued by banks operating in Turkey, lease certificates funds of which are utilised by banks operating in Turkey and mortgage backed and asset backed securities issued by such banks.

*Category II Collateral:* Precious metals other than gold; shares quoted on a stock exchange; A-type investment fund participation certificates; asset-backed securities and private sector bonds except ones issued by the customer; credit derivatives agreements providing protection against credit risk; the assignment or pledge of accrued allowance entitlements of real or legal persons from public agencies; liquid securities, negotiable instruments representing commodities, other types of commodities and movables pledged at a value not higher than market value; mortgages on property registered with the land registry and mortgages on real property built on allocated real estate **provided that** their appraised value is sufficient; export documents based on marine bill of lading or transport bills, or insured within the scope of an exportation loan insurance policy, and bills of exchange stemming from actual trading relations, which are received from natural persons and legal entities.

*Category III Collateral:* Commercial enterprise pledges, other export documents, vehicle pledges, commercial vehicle live pledges and commercial vehicle number plate pledge, mortgages on aircraft or ships, suretyships of natural persons or legal entities whose creditworthiness is higher than the customer and other client promissory notes of natural persons and legal entities.

*Category IV Collateral:* Any other security not otherwise included in Categories I, II or III.

While calculating the special provision requirements for non-performing loans, the value of collateral received from the customer will be deducted from the frozen receivables in Groups 3, 4 and 5 above in the following proportions in order to determine the amount that will be subject to special provisioning:

Discount Ratio	Discount Rate
Category I Collateral.....	100%
Category II Collateral.....	75%
Category III Collateral.....	50%
Category IV Collateral .....	25%

The value of the collateral should not exceed the non-performing loan. In case the value of the collateral exceeds the amount of the non-performing loan, the above-mentioned rates of consideration are applied only to the portion of the collateral that is equal to the amount of the non-performing loan. The amount to be found after applying these rates on this portion will be equal to the amount to be deducted.

According to Article 11 of the Regulation, in the event of a customer's failure to repay loans or any other receivables due to a temporary lack of liquidity that the customer is facing, a bank is allowed to refinance the customer with additional funding through extension of new loans, if required, and structure a new repayment plan in order to strengthen the customer's liquidity position and to collect its receivables. Despite such refinancing or new repayment plan, such loans and other receivables are required to be monitored in their current loan groups (whether 3, 4 or 5) for at least the following six-month period and within this six month period, special provisions for such receivables will be set aside at the relevant loan group provisioning level. After this six- month period of monitoring, if total collections reach at least 15 per cent. of the total receivables for restructured loans and the payments are made on their due dates, then the remaining receivables may be transferred to the "Refinanced/Restructured Loans and Receivables" account. The bank may refinance the customer for a second time if the customer fails to repay the refinanced loan; **provided that** 20 per cent. of the outstanding principal of the refinanced loans and of other receivables are collected on a yearly basis.

The Regulation has been subject to a series of amendments. Pursuant to the amendment dated 21 September 2012, the BRSA is entitled to increase the provision rates for general and special reserves, taking into consideration the sector and country risks of the customer, and banks are required to reserve adequate provisions for loans and other receivables until the end of the month on which the payments of such loans and receivables has been delayed.

Furthermore, according to the same amendment, the dates and ratios for compliance with general reserves requirement have been revised and banks are required to set aside general reserve amounts indicated under the general reserve provision of at least 40 per cent. by 31 December 2012, at least 60 per cent. by 31 December 2013, at least 80 per cent. by 31 December 2014, 100 per cent. by 31 December 2015.

The Regulation was further amended on 7 February 2014. According to Provisional Article 5 of the Regulation, which will be effective until 31 December 2014, loans and other receivables classified as Closely Monitored Loans and Other Receivables (Group 2) granted to persons or legal entities residing in Libya or engaged in activities relating to Libya can be restructured twice. Furthermore, such loans and other receivables subject to a new redemption plan may be classified as Standard Loans and Other Receivables; **provided that** at least 10 per cent. of the total sum of receivables has been repaid. If such loans and other receivables become subject to a redemption plan for a second time as a result of new loans having been utilised, then such loans and receivables shall be classified as Loans and Other Receivables with Limited Collection Ability until 5 per cent. of the total sum of receivables has been repaid. As long as such percentage of payments foreseen in the redemption plan are made within the payment periods envisaged for Loans and Other Receivables with Limited Collection Ability, it is in the bank's discretion to set aside special provisions for such loans and receivables.

Pursuant to Provisional Article 5(b), if there are loans or any other receivables that are classified in Groups 3, 4 and 5, then the receivables relating to Libya shall be classified in the same group with such loans and/or other receivables. Until 31 December 2014, and so long as the classification methods set out in the Regulation are complied with, if a customer fails to repay such loans or any other receivables, then a bank is allowed to refinance the customer with additional funding through extension of new loans, if required, and structure a new repayment plan in order to strengthen the customer's liquidity position and to collect its receivables up to three times.

According to Provisional Article 6 of the Regulation, which was effective until 31 December 2015, loans and receivables classified as Closely Monitored Loans and Other Receivables (Group 2) that were granted to be used in the maritime sector can be restructured twice. Furthermore, such loans and other receivables subject to a new redemption plan may be classified as Standard Loans and Other Receivables (Group 1) **provided that** at least 10 per cent. of the total debt has been repaid. Any such debt classified under Group 1 that is reclassified as Group 2 debt or that is restructured or is continued to be monitored under Group 2 as the agreed conditions for reclassification were not adhered to and are restructured once again may be reclassified as Group 1; **provided that** at least 15 per cent. of the total debt has been repaid. If such loans and receivables become subject to a redemption plan for a second time by granting new loans, then such loans and receivables shall be classified as Group 3 until 5 per cent. of the total debt has been repaid. As long as such percentage of payments foreseen in the redemption plan are made within the payment periods envisaged for Group 3, it is in the bank's discretion to set aside special provisions for such loans and receivables.

In addition, pursuant to Provisional Article 6(b) described above, if there are any loans and receivables that are classified in Groups 3, 4 and 5, other than those relating to the maritime sector shall be reclassified in the same group as such debt. However, setting aside special provisions in the ratio foreseen by the related group for these loans is in the discretion of banks. So long as the classification methods as set out in the regulation are complied with, if a customer fails to repay such loans or receivables due to a temporary lack of liquidity, then the bank is allowed to refinance the customer with additional funding through extension of new loans, if required, and structure a new repayment plan in order to strengthen the customer's liquidity position and to collect its receivables up to three times.

According to Provisional Article 7 of the Regulation, which was effective until 31 December 2014, restructured debts classified as Group 2 that were granted by banks to real persons or legal entities residing in Syria or engaged in activities relating to Syria who reside in Turkey or in any other foreign country may be classified under Group 1 receivables; **provided that** at least 10 per cent. of the total debt has been repaid. Any such debt classified under Group 1 that is reclassified as Group 2 or that is restructured or is continued to be monitored under Group 2 as the agreed conditions for reclassification were not adhered to and are restructured again may be reclassified as Group 1; **provided that** at least 15 per cent. of the total debt has been repaid. If such loans and receivables become subject to a redemption plan for a second time by granting new loans, then such loans and receivables shall be classified as Group 3 until 5 per cent. of the total debt has been repaid. As long as such percentage of payments foreseen in the redemption plan are made within the payment periods envisaged for Group 3, it is in the bank's discretion to set aside special provisions for such loans and receivables.

Pursuant to Provisional Article 7(b), if real persons or legal entities residing in Syria or having business activities relating to Syria who reside in Turkey or in any other foreign country incur other debts that are classified under Group 3, 4 or 5, then the debt relating to Syria will be reclassified in the same group as such debt; however, setting aside special provisions in the ratio foreseen by the related group for these loans is at the discretion of the banks. So long as the classification methods as set out in the regulation are complied with, if a customer fails to repay such debt due to a temporary lack of liquidity, then a bank is allowed to refinance the customer with additional funding through extension of new loans, if required, and structure a new repayment plan in order to strengthen the customer's liquidity position and to collect its receivables up to three times.

Pursuant to Provisional Article 8 of the Regulation, the banks will set aside 25 per cent. of the increased amounts of general provisions for consumer loans other than housing loans due to the amendments made to the Regulation as at 31 December 2013, 50 per cent. of such increased amounts as at 31 December 2014 and 100 per cent. of such amount as at 31 December 2015.

Any debt restructured pursuant to Provisional Articles 5(b), 6(b) or 7(b) may be transferred to the "Renewed/Restructured Loans Account" if:

- at least 5 per cent. per cent. of the total debt in the first restructuring has been repaid and the restructured loans and receivables have been monitored under their respective group(s) for a period of at least three months,
- at least 10 per cent. of the total/debt in the second restructuring has been repaid and the restructured loans and receivables have been monitored under their respective group(s) for a period of six months,
- at least 15 per cent. of the total debt in the third restructuring has been repaid and the restructured loans and receivables have been monitored under their respective group(s) for a period of one year, and
- the payments foreseen in the payment plan are not delayed.

### ***Exchange Rate Exposure***

According to the Calculation of the Standard Ratio of the Net Short Foreign Currency Position to the Capital Base on a Consolidated and an Unconsolidated Basis by the Banks and its Implementation (the "**Calculation Regulation**"), banks are obliged to calculate the standard ratio of their net short foreign currency position to their capital base daily in accordance with the criteria on the declaration forms to be sent to the BRSA by the banks. The weekly average of the absolute values of the standard ratios of a

bank's net short foreign currency position to its capital base, calculated over the working days in that week, cannot exceed 20 per cent., based on both consolidated and non-consolidated financials.

### **Capital Adequacy**

Article 45 of the Banking Law defines "**Capital Adequacy**" as having adequate equity against losses that could arise from the risks encountered. Pursuant to the same article, banks must calculate, achieve, maintain and report their capital adequacy ratio, which, within the framework of the BRSA's regulations, cannot be less than 8.0 per cent.

The BRSA is authorized to increase the minimum capital adequacy ratio and the minimum consolidated capital adequacy ratio, to set different ratios for each bank and to revise the calculation and notification periods, but must consider each bank's internal systems as well as its asset and financial structures. Both the minimum total capital adequacy ratio and the minimum consolidated capital adequacy ratio for the group as required by the BRSA is currently 8.0 per cent. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4.0 per cent. higher than the legal capital ratio of 8.0 per cent.

In order to implement the rules of the report entitled "*A Global Regulatory Framework for More Resilient Banks and Banking Systems*" published by the Basel Committee in December 2010 and revised in June 2011 (*i.e.*, Basel III) into Turkish law, the 2013 Equity Regulation and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks were published in the Official Gazette dated 5 September 2013 and numbered 28756 and entered into force on 1 January 2014. The 2013 Equity Regulation defines capital of a bank as the sum of: (a) principal capital (*i.e.*, Tier I capital), which is composed of core capital and additional principal capital (*i.e.*, additional Tier I capital); and (b) supplementary capital (*i.e.*, Tier II capital) *minus* capital deductions. Pursuant to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks (as so amended): (i) both the minimum core capital adequacy ratio and the minimum consolidated core capital adequacy ratio are 4.5 per cent. and (ii) both the minimum Tier I capital adequacy ratio and the minimum consolidated Tier I capital ratio are 6.0 per cent.

In addition, the Regulation on the Capital Maintenance and Cyclical Capital Buffer and the Regulation on the Measurement and Evaluation of Leverage Levels of Banks were published in the Official Gazette dated 5 November 2013 and numbered 28812, which regulations entered into force on 1 January 2014 (with the exception of certain provisions of the latter regulation that entered into effect on 1 January 2015). The Regulation on the Capital Maintenance and Cyclical Capital Buffer provides additional core capital requirements both on a consolidated and bank-only basis. Pursuant to this regulation, the additional core capital requirements are to be calculated by the multiplication of the amount of risk-weighted assets by the sum of a capital maintenance buffer ratio and bank-specific countercyclical buffer ratio. The Regulation on the Measurement and Evaluation of the Leverage Level of Banks seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and bank-only basis against leverage risks.

Lastly, the Regulation on Liquidity Coverage Ratios, published in the Official Gazette dated 21 March 2014 and numbered 28948, seeks to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period. Such regulation provides that the ratio of the high quality asset stock to the net cash outflows, both of which are calculated in line with the regulation, cannot be lower than 100 per cent. in respect of total consolidated and non-consolidated liquidity and 80 per cent. in respect of total consolidated and non-consolidated foreign exchange liquidity; *however*, pursuant to the BRSA Decision on Liquidity Ratios, for a period starting from 5 January 2015 and ending 31 December 2015, such ratios were to be applied as 60 per cent. and 40 per cent., respectively. Furthermore, pursuant to the BRSA Decision on Liquidity Ratios, such ratios shall be applied in increments of ten percentage points for each year from 1 January 2016 until 1 January 2019. Unconsolidated total and foreign currency liquidity coverage ratios cannot be non-compliant more than six times within a calendar year. This includes non-compliances that have already been remedied. With respect to consolidated total and foreign currency liquidity coverage, these cannot be non-compliant consecutively within a calendar year and such ratios cannot be non-compliant for more than two times within a calendar year, including the non-compliances that have already been remedied. The Regulation on Liquidity Coverage Ratios entered into effect immediately with the provisions thereof becoming applicable as of 1 January 2014 (with the exception of certain provisions

relating to minimum coverage ratio levels and the consequences of failing to maintain compliance, which entered into effect on 5 January 2015, pursuant to the BRSA Decision on Liquidity Ratios).

Under the 2013 Equity Regulation, debt instruments and their issuance premia can be included either in additional Tier I capital or in Tier II capital subject to certain conditions; *however*, such amount is required to be reduced by the amount of any cash credit extended to creditors holding 10 per cent. or more of such debt instruments of a bank (or to any person within such creditors' risk group).

In accordance with Basel III rules, each bank is required to prepare an internal capital adequacy assessment process report (the "**ICAAP Report**") representing its own assessment of its capital requirements. The first ICAAP Report covering the activities of Kuveyt Türk in 2012 was submitted to the BRSA on 26 June 2013. Subsequent filings of the ICAAP Report are required to be made at the end of March in each year.

See also a discussion of the implementation of Basel III in "*-Basel Committee - Basel III* below.

#### *Tier II Rules under Turkish Law*

*Previous Tier II Rules.* Secondary subordinated debts were, through 31 December 2013, regulated under the 2006 Equity Regulation. The following describes the rules previously applicable to Kuveyt Türk's secondary subordinated debts that were issued before 1 January 2014, which rules continue to apply to such subordinated debts notwithstanding the 2013 Equity Regulation.

According to the 2006 Equity Regulation, the net worth of a bank (*i.e.*, the bank's own funds) consists of main capital and supplementary capital *minus* capital deductions. In the relevant definition, "secondary subordinated loans" (which as defined can also include bonds) are listed as one of the items that constitute a bank's supplementary capital (*i.e.*, "Tier II" capital); *however*, loans provided to the banks by their affiliates or debt instruments issued to their affiliates do not fall within the scope of such "secondary subordinated loans." Unless temporarily permitted by the BRSA in exceptional cases, the portion of primary subordinated debts that is not included in the calculation of "Tier I" capital *plus* the total secondary subordinated debts that, in aggregate, exceeds 50 per cent. of "Tier I" capital is not taken into consideration in the calculation of "Tier II" capital. During the final five years of a secondary subordinated debt, the amount thereof to be taken into account in the calculation of the "Tier II" capital would be reduced by 20 per cent. per year. In addition, any secondary subordinated debt with a remaining maturity of less than one year is not included in the calculation of "Tier II" capital. Any cash credits extended by the bank to the provider(s) of the "secondary subordinated loans" (if debt instruments, to the investor(s) holding 10 per cent. or more thereof) and any debt instruments issued by such provider(s) (or investor(s)) and purchased by the bank are also deducted from the amount to be used in the calculation of the Tier II capital. A secondary subordinated debt is taken into account in the calculation of "Tier II" capital on the date of the accounting of such secondary subordinated debt on the books of the relevant bank.

The 2006 Equity Regulation requires banks to obtain the prior permission of the BRSA for a debt to be classified as a "secondary subordinated loan." In order to obtain such permission, the bank must submit to the BRSA the original copy or a notarized copy of the applicable agreement(s), and if an applicable agreement is not yet signed, a draft of such agreement (with submission of its original to be made after receipt of the BRSA's consent). The BRSA would, in considering any such request for its permission, determine if the credit in question meets the following criteria:

- the debt must have an initial maturity of at least five years and the agreement must contain express provisions that prepayment of the principal cannot be made before the expiry of the five-year period and the creditors waive their rights to make any set-offs against the bank with respect to such debt; *it being understood* that interest and other charges may be payable during such five year period;
- there may be no more than one repayment option before the maturity of the debt and, if there is a repayment option before maturity, the date of exercising the option must be clearly defined;
- the creditors must have agreed expressly in the agreement that in the event of dissolution and liquidation of the bank, such debt will be repaid before any payment to shareholders for their capital return and payments on primary subordinated debts but after all other debts;

- it must be stated in the agreement that the debt is not related to any derivative operation or contract violating the condition stated in clause (c) or tied to any guarantee or security, in one way or another, directly or indirectly, and the debts cannot be assigned to any affiliates of the bank;
- it must be utilized as one single drawdown if utilized in the form of a loan and it must be wholly collected in cash if in the form of a debt instrument; and
- payment before maturity is subject to approval of the BRSA.

If the interest rate applied to a secondary subordinated debt is not explicitly indicated in the loan agreement or the text of the debt instrument or if the interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorize the inclusion of the loan or debt instrument in the calculation of "Tier II" capital.

In cases where the parties subsequently agree that a secondary subordinated debt be prepaid prior to its stated maturity (but in any event after the fifth anniversary of its utilization), they would be required to apply for the BRSA's permission. Upon any such application, the BRSA would, in its sole discretion, determine if any such prepayment would adversely affect the bank's credit lines and limits or its compliance with the applicable standard ratios and give or decline to give its consent accordingly.

In connection with secondary subordinated debts pursuant to which it has been agreed that a prepayment option shall be available and the remaining maturity is calculated by way of taking into account the originally agreed maturity date (*i.e.*, not on the basis of the prepayment option date), such prepayment option can only be exercised with the consent of the BRSA, which would apply the criteria stated above.

Subordinated debt instruments that do not meet the New Tier II Conditions described below as of 1 January 2014 are not required to meet such conditions or otherwise become subject to such conditions (*e.g.*, they are not subject to the new loss absorbency rules); *however*, the issuing bank will be permitted to take them into account for equity calculation only after reducing their nominal amount over the total amount of the Tier II instruments by 10 per cent. each year effective from 1 January 2015. Additionally, debt instruments that provide for an increase in interest rate after 1 January 2015 shall not be taken into account in equity calculations as of the date of increase.

*New Tier II Rules.* According to the 2013 Equity Regulation (including provisional articles relating to the transition period to the New Tier II Rules), which came into force on 1 January 2014, Tier II capital shall be calculated by subtracting capital deductions from general provisions that are set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts for receivables (as the case may be, depending upon the method used by the bank to calculate the credit risk amounts of the applicable receivables) and the debt instruments that have been approved by the BRSA upon the application of the board of directors of the applicable bank along with a written statement confirming compliance of the debt instruments with the conditions set forth below and their issuance premia (the "**New Tier II Conditions**"):

- the debt instrument shall have been issued by the bank and approved by the CMB and shall have been fully collected in cash;
- in the event of dissolution of the bank, the debt instrument shall have priority over debt instruments that are included in additional Tier I capital and shall be subordinated with respect to rights of deposit holders and all other creditors;
- the debt instrument shall not be related to any derivative operation or contract violating the condition stated in clause (b) nor shall it be tied to any guarantee or security, in one way or another, directly or indirectly;
- the debt instrument must have an initial maturity of at least five years and shall not include any provision that may incentivize prepayment, such as dividends and increase of interest rate;



- if the debt instrument includes a prepayment option, such option shall be exercisable no earlier than five years after issuance and only with the approval of the BRSA; approval of the BRSA is subject to the following conditions:
  - (a) the bank should not create any market expectation that the option *will* be exercised by the bank;
  - (b) the debt instrument shall be replaced by another debt instrument either of the same quality or higher quality, and such replacement shall not have a restrictive effect on the bank's ability to sustain its operations; or
  - (c) following the exercise of the option, the equity of the bank shall exceed the higher of: (1) the capital adequacy requirement that is to be calculated pursuant to the regulation on the measurement and evaluation of capital adequacy of banks along with the procedures and principles on capital buffers that are to be set by the brsa, (2) the capital requirement derived as a result of an internal capital adequacy evaluation process of the bank and (3) the higher capital requirement set by the brsa (if any);
 

*however*, if tax legislation or other regulations are materially amended, a prepayment option may be exercised; **provided that** the above conditions are met and the BRSA provides its approval;
- the debt instrument shall not provide investors with the right to demand early amortization except for during a bankruptcy or dissolution process relating to the issuer;
- the debt instrument's dividend or interest payments shall not be linked to the creditworthiness of the issuer;
- the debt instrument shall not be: (i) purchased by the issuer or by corporations controlled by the issuer or significantly under the influence of the issuer or (ii) assigned to such entities, and its purchase shall not be directly or indirectly financed by the issuer itself;
- if there is a possibility that the bank's operating license would be cancelled or the probability of transfer of management of the bank to the SDIF arises pursuant to Article 71 of the Banking Law, removal of the debt instrument from the bank's records or the debt instrument's conversion to share certificates would be possible if the BRSA so decides; and
- in the event that the debt instrument has not been issued by the bank itself or one of its consolidated entities, the amounts obtained from the issuance shall be immediately transferred without any restriction to the bank or its consolidated entity (as the case may be) in accordance with the rules listed above.

Loans (as opposed to securities) that have been approved by the BRSA upon the application of the board of directors of the applicable bank accompanied by a written statement confirming that all of the New Tier II Conditions (except the issuance and approval by the CMB) are met also can be included in Tier II capital calculations.

In addition to the conditions that need to be met before including debt instruments and loans in the calculation of Tier II capital, the 2013 Equity Regulation also provides a limit for inclusion of general provisions to be set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts of receivables (as the case may be, depending upon the method used by Kuveyt Türk to calculate the credit risk amount of such receivables) in Tier II capital such that: (a) the portion of general provisions that exceeds 1.25 per cent. of the risk-weighted sum of the receivables and/or (b) the portion of surplus of provisions and capital deductions that exceeds 6 parts per 1,000 of the receivables to which they relate is not taken into consideration in calculating the Tier II capital.

Furthermore, in addition to the New Tier II Conditions stated above, the BRSA may require new conditions for each debt instrument and the procedure and principles regarding the removal of the debt instrument from the bank's records or the debt instrument's conversion to share certificates are determined by the BRSA.

Applications to include debt instruments or loans into Tier II capital are required to be accompanied with the original copy or a notarized copy of the applicable agreement(s) or, if an applicable agreement is not yet signed, a draft of such agreement (with submission of its original or a notarized copy to BRSA within five business days of the signing of the agreement). If the interest rate is not explicitly indicated in the loan agreement or the prospectus of the debt instrument (*borçlanma aracı izahnamesi*), or if the interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorize the inclusion of the loan or debt instrument in the calculation of Tier II capital.

Debt instruments and loans that are approved by the BRSA are included in accounts as Tier II capital as of the date of transfer to the relevant accounts in the applicable bank's records. Loan agreements and debt instruments that have been included in Tier II capital calculations, and that have less than five years to maturity, shall be included in Tier II capital calculations after being reduced by 20 per cent. each year.

#### *Basel Committee*

*Basel II.* The most significant difference between the capital adequacy regulations in place before 1 July 2012 and the Basel II regulations is the calculation of risk-weighted assets related to credit risk. The current regulations seek to align more closely the minimum capital requirement of a bank with its customers' credit risk profile. The impact of the new regulations on capital adequacy levels of Turkish banks largely stems from exposure to the Turkish government, principally through the holding of Turkish government bonds. While the previous rules provided a 0 per cent. risk weight for exposures to the Turkish sovereign and the Turkish Central Bank, the rules of Basel II require that claims on sovereign entities and their central banks be risk-weighted according to their credit assessment, which currently results in a 50 per cent. risk weighting for Turkey; *however*, the Turkish rules implementing the Basel principles in Turkey (*i.e.*, the "**Turkish National Discretion**") revises this general rule by providing that all Turkish lira-denominated claims on sovereign entities in Turkey and all foreign currency-denominated claims on the Turkish Central Bank will have a 0 per cent. risk weight. As a result of these implementation rules, the impact of the new regulations has been fairly limited when compared to the previous regime. The BRSA announced that the migration from the previous regime to Basel II regulations had an effect of an approximately 0.20 per cent. decline in the capital adequacy levels of the Turkish banking system as of 31 July 2012. This figure is consistent with Kuveyt Türk's own experience (with its capital adequacy actually increasing slightly due to its diversified portfolio of retail loans, which benefit from certain preferential capital treatments) and thus no additional capital needs are projected for Kuveyt Türk in the short term due to this change in the regulatory capital adequacy framework.

*Basel III.* Turkish banks' capital adequacy requirements have been and might continue to be further affected by Basel III, as implemented by the Equity Regulations 2013, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements, which are expected to be implemented in phases until 2019. In 2013, the BRSA announced its intention to adopt the Basel III requirements and, as published in the Official Gazette dated 5 September 2013 and numbered 28756, adopted the 2013 Equity Regulation and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks, both of which entered into effect on 1 January 2014. The 2013 Equity Regulation introduced core Tier I capital and additional Tier I capital as components of Tier I capital, whereas the amendments to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks: (a) introduced a minimum core capital adequacy standard ratio (4.5 per cent.) and a minimum Tier I capital adequacy standard ratio (6.0 per cent.) to be calculated on a consolidated and non-consolidated basis (which are in addition to the previously existing requirement for a minimum total capital adequacy ratio of 8.0 per cent.) and (b) changed the risk weights of certain items that are categorized under "*other assets*." The 2013 Equity Regulation also introduced new Tier II rules and determined new criteria for debt instruments to be included in the Tier II capital.

In addition to these implementations: (a) the Regulation on the Capital Maintenance and Cyclical Capital Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, and (b) the Regulation on the Measurement and Evaluation of Leverage Levels of Banks, through which regulation the BRSA seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks (including measurement error in the risk-based capital measurement approach), were published in the Official Gazette dated 5 November 2013 and numbered 28812 and entered into effect on 1 January 2014 with the exception of certain provisions of the Regulation on the Measurement and Evaluation of Leverage Levels of Banks that entered into effect on 5 January 2015. Lastly, the BRSA issued the Regulation on Liquidity Coverage Ratios seeking to ensure that a bank maintains an adequate level of

unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period, both on a consolidated and unconsolidated basis, which entered into effect immediately with the provisions thereof becoming applicable as of 1 January 2014 (with the exception of certain provisions relating to minimum coverage ratio levels and the consequences of failing to maintain compliance, which entered into effect on 1 January 2015, pursuant to the BRSA Decision on Liquidity Ratios). If Kuveyt Türk is unable to maintain its capital adequacy or leverage ratios above the minimum levels required by the BRSA or other regulators (whether due to the inability to obtain additional capital on acceptable economic terms, if at all, sell assets (including subsidiaries) at commercially reasonable prices, or at all, or for any other reason), then this could have a material adverse effect on Kuveyt Türk's business, financial condition and/or results of operations.

### ***Reserves and Liquidity Reserve Requirement***

The Banking Law requires Turkish banks to calculate, attain, maintain and report the minimum liquidity level in accordance with principles and procedures to be set out by the BRSB. Within this framework, a comprehensive liquidity arrangement was put into force by the BRSA, following the consent of the CBT.

The reserve requirements regarding foreign currency liabilities vary by category, as set out below:

<b>Category of Foreign Currency Liabilities</b>	<b>Required Reserve Ratio</b>
Demand deposits, notice deposits and private current accounts, precious metal deposit accounts, deposits/participation accounts up to 1-month, up to 3-month, up to 6-month and up to 1-year maturities .....	13%
Deposits/participation accounts and precious metal deposit accounts, with 1-year and longer maturity and cumulative deposits/participation accounts .....	9%
Other Liabilities up to 1-year maturity (including 1-year).....	20%
Other Liabilities up to 2-year maturity (including 2-year).....	14%
Other Liabilities up to 3-year maturity (including 3 -year).....	8%
Other Liabilities up to 5-year maturity (including 5 -year) .....	7%

The reserve requirements regarding Turkish lira liabilities vary by category, as set out below.

<b>Turkish Lira Liabilities</b>	<b>Required Reserve Ratio</b>
Demand deposits, notice deposits and private current accounts .....	11.5%
Deposits/participation accounts up to 1-month maturity (including 1-month) .....	11.5%
Deposits/participation accounts up to 3-month maturity (including 3-month) .....	11.5%
Deposits/participation accounts up to 6-month maturity (including 6-month) .....	8.5%
Deposits/participation accounts up to 1-year maturity .....	6.5%
Deposits/participation accounts up to 1-year and longer maturity and cumulative deposits/participation accounts .....	5%
Liabilities other than deposits/participation funds up to 1-year maturity (including 1-year) .....	11.5%
Liabilities other than deposits/participation funds up to 3-year maturity (including 3-year) .....	8%
Liabilities other than deposits/participation funds with longer than 3-year maturity .....	5%

The reserve requirements also apply to gold deposit accounts. Furthermore, banks are permitted to maintain:

(a) up to 60 per cent of the Turkish lira reserve requirements in U.S. dollars (first 30 per cent. at 1.4 times, second 5 per cent. at 1.5 times, third 5 per cent. at 1.9 times, fourth 5 per cent. at 2.3 times, fifth 5 per cent. at 2.7 times, sixth 5 per cent. at 3.1 times, seventh 1 per cent. at 3.9 times, eighth 1 per cent. at 4.1 times, ninth 1 per cent. at 4.3 times, tenth 1 per cent. at 4.5 times and eleventh 1 per cent. at 4.7 times the reserve requirement) and up to 30 per cent. of the Turkish lira reserve requirements in standard gold (first 15 per cent. at 1.4 times, second 5 per cent. at 1.5 times, third 5 per cent. at 2 times and fourth 5 per cent. at 2.5 times the reserve requirement); and (b) up to the total amount of the foreign currency reserve requirements applicable to precious metal deposit accounts in standard gold. In addition, banks are required to maintain their required reserves against their U.S. dollar-denominated liabilities in U.S. dollars only.

Starting in September 2010, reserve accounts kept in Turkish lira became non-interest-bearing (reserve accounts in foreign currencies had not been interest-bearing since 2008). However, as of 24 October 2014, interest has been paid by the CBT on Turkish lira liquidity reserve accounts. Pursuant to the announcement made by the Turkish Central Bank on 2 May 2015, reserve accounts in U.S. dollars became interest bearing as of 5 May 2015.

The relevant regulations further state that until 31 December 2013, foreign exchange-indexed assets and liabilities shall, for the purposes of calculations of foreign currency liquidity ratios, be deemed to be foreign currency assets and liabilities. However, such foreign exchange-indexed assets and liabilities shall continue to be deemed TRY currency for the calculation of total liquidity adequacy ratios.

Pursuant to the Communiqué regarding Reserve Requirements numbered 2013/15, there is a new reserve requirement to be calculated based upon the financial leverage ratio of banks. The leverage ratio of a bank is determined as the ratio of the main capital of the bank to the sum of: (a) the total of its liabilities; (b) its non-cash loans and liabilities; (c) 10 per cent. of its revocable commitments; (d) the total amount to be calculated by the multiplication of each undertaking arising from derivative instruments with their own loan conversion ratio; and (e) the total amount of irrevocable undertakings. The reserve requirement based on the financial leverage ratio of banks is required to be determined for three-month periods by calculating the arithmetic average of monthly leverage ratios. The additional reserve requirements to be set aside in the following quarter of the calculation period (calculated separately for each category of Turkish lira and foreign currency liabilities) vary by leverage ratios, as set forth below:

Calculation Period for the Leverage Ratio	Leverage Ratio	Additional Reserve Requirement
From the 4 <sup>th</sup> quarter of 2013 through the 3 <sup>rd</sup> quarter of 2014 .....	Below 3.0%	2.0%
	From 3.0%	
	(inclusive) to 3.25%	1.5%
	From 3.25%	
From the 4 <sup>th</sup> quarter of 2013 through the 3 <sup>rd</sup> quarter of 2015 (inclusive) .....	(inclusive) to 3.5%	1.0%
	Below 3.0%	2.0%
	From 3.0%	
	(inclusive) to 3.50%	1.5%
Following the 4 <sup>th</sup> quarter of 2015 (inclusive) .....	From 3.5%	
	(inclusive) to 4.0%	1.0%
	Below 3.0%	2.0%
	From 3.0%	
	(inclusive) to 4.0%	1.5%
	From 4.0%	
	(inclusive) to 5.0%	1.0%

Banks have been required to notify the CBT of their leverage ratios starting from 31 December 2012, and the above-described additional reserve requirements were first implemented in 2014 in respect of the 2013 year-end financial statements.

### ***Audit of Banks***

Under the Banking Law, banks' boards of directors are required to establish audit committees for the execution of audit and monitoring functions. Audit committees must consist of a minimum of two members and be appointed from among the members of the board of directors who do not have executive duties. The duties and responsibilities of the audit committee include, among others: (i) the supervision of the efficiency and adequacy of the banks' internal control, risk management and internal audit systems; (ii) the functioning of these systems and accounting and reporting systems within the framework of the Banking Law and other relevant legislation; (iii) the integrity of the information produced; (iv) conducting the necessary preliminary evaluations for the selection of independent audit firms by the board of directors; (v) regularly monitoring the activities of independent audit firms selected by the board of directors; and (vi) in the case of holding companies covered by the Banking Law, ensuring that the internal audit functions of the institutions that are subject to consolidation and operate in a coordinated manner, on behalf of the board of directors.

The BRSA, as the principal regulatory authority in the Turkish banking sector, has the right to monitor compliance by banks with the requirements relating to audit committees. As part of exercising this right, the BRSA reviews audit reports prepared for banks by their independent auditing firms. Banks are required to select an independent audit firm in accordance with the Regulation on Independent Audit of Banks, published in the Official Gazette dated 2 April 2015 and numbered 29314. Independent auditors are held liable for damages and losses to third parties and are subject to stricter reporting obligations. Professional liability insurance is required for: (a) independent auditors; and (b) if requested by the service-acquiring bank or required by the BRSA, evaluators, rating agencies and certain other support services. Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with the Turkish Accounting Standards. The year-end consolidated financial statements are

required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms.

The reports prepared by independent audit firms are also filed with the CMB if the bank's shares are quoted on Borsa Istanbul and published on the Public Disclosure Platform. The CMB has the right to inspect the accounts and transaction records of any publicly traded company. In addition, quarterly reports that are subject to limited review must also be filed with the CMB and published on the Public Disclosure Platform.

All banks (public and private) undergo an annual audit by certified bank auditors who have the authority to audit banks on behalf of the BRSA. Audits by certified bank auditors encompass all aspects of a bank's operations, its financial statements and other matters affecting the bank's financial position, including its domestic banking activities, foreign exchange transactions and tax liabilities. Additionally, such audits seek to ensure compliance with applicable laws and the constitutional documents of the bank. The CBT has the right to monitor compliance by banks with the CBT's regulations through off-site examinations.

Pursuant to the Regulation on the Internal Systems of Banks, banks are obligated to establish, manage and develop (for themselves and all of their consolidated affiliates) internal audit and risk management systems in line with the scope and structure of their activities, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. To achieve this, according to the regulation, the internal control committee personnel cannot also be appointed to work in another role. This prohibition is not applicable to the banks that are established by law with the purpose of development of the country or financing a specific sector or field, and which do not accept deposit funds or participation funds.

#### ***Anti-Money Laundering and Combating the Finance of Terrorism (AML/CFT) Policies***

The AML/CFT policies applicable to banks are defined under the Law No. 5549 on Prevention of Laundering Proceeds of Crime, the Turkish Criminal Code No. 5237 and the Regulation on Program of Compliance with Obligations of Anti-Money Laundering and Combating the Finance of Terrorism, the Regulation on Measures Regarding Prevention of Laundering Proceeds of Crime and Financing of Terrorism and related Financial Crime Investigation Board Communiqués and a new law on Combating the Finance of Terrorism number 6415 published in the Official Gazette on 16 February 2013 (together the "**Anti-Money Laundering Laws**").

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

When requested by the Financial Crimes Investigation Board or the investigators thereof, banks are required to provide information relating to their customers and their transactions. Furthermore, banks are required to maintain all the documents, books and records of identification documents regarding all transactions for eight years starting from the transaction date, the last record date and the last transaction date. The eight year period for identification documents relating bank accounts will commence on the closing date of the account. In addition to these, banks are required to provide them to the officials when requested.

Banks breaching any of the obligations set out in the Anti-Money Laundering Laws may, as at the date of this Prospectus, be subject to an administrative fine of approximately TRY 20,450. Furthermore, real persons who breach their duty of confidentiality with respect to the notification that they made regarding the suspicious transactions to the Financial Crimes Investigation Board and who fail to provide all necessary, information, documents, records, passwords, etc. to the public authorities, the Financial Crimes Investigation Board and inspection officials, when requested and keep all relevant documents, records,

books etc, in relation to their duties and transaction within the scope of Anti-Money Laundering Laws for eight years starting from the transaction date, the last record date and the last transaction date may be subject to imprisonment with terms ranging from one year to three years.

The Law on Prevention of Financing of Terrorism number 6415 and dated 7 February 2013 has been enacted by the Republic of Turkey and it has been published on the Official Gazette on 16 February 2013. This law sets out procedure and principles applicable to the freezing of assets in connection with decisions relating to the prevention of financing of terrorism within the framework of the International Convention for Suppression of the Financing of Terrorism (as adopted by the General Assembly of the United Nations on 9 December 1999). Financing of terrorism is defined as an offence committed by a legal or real person by providing or collecting funds, directly or indirectly, unlawfully and wilfully, with the intention that such funds would be used, in full or in part, in order to carry out an act which constitutes an offence within the scope of and as defined, as applicable, in the:

- Law on Fighting with Terrorism (Law No. 3713);
- Convention for the Suppression of Unlawful Seizure of Aircraft, done at The Hague on 16 December 1970;
- Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, done at Montreal on 23 September 1971;
- Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents, adopted by the General Assembly of the United Nations on 14 December 1973;
- International Convention against the Taking of Hostages, adopted by the General Assembly of the United Nations on 17 December 1979;
- Convention on the Physical Protection of Nuclear Material, adopted at Vienna on 3 March 1980;
- Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, done at Montreal on 24 February 1988;
- Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation, done at Rome on 10 March 1988;
- Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms located on the Continental Shelf, done at Rome on 10 March 1988; and
- International Convention for the Suppression of Terrorist Bombings, adopted by the General Assembly of the United Nations on 15 December 1997.

Freezing of assets is defined as deprivation or restriction of disposal capacity over the relevant assets in order to prevent disappearance, consummation, conversion, transfer, assignment of such assets. Assets, which are disposal of persons listed in United Nations Security Council resolutions 1267 (1999), 1988 (2011) and 1989 (2011), shall be frozen upon promulgation of Council of Ministers Decree in the Official Gazette. Apart from funds of these persons, findings of investigations on funds conducted by the Financial Crimes Investigation Board ("**MASAK**") must be submitted to the Inspection Commission. Decisions of the Inspection Commission shall enter into force upon its publication in the Official Gazette.

Banks are obliged to comply with the decisions of the Inspection Commission once they are published in the Official Gazette. Accordingly, funds and assets of real or legal persons against whom the Inspection Commission imposed a freeze order must be blocked and any disposal of such assets by such persons must be prevented by the bank within which such assets or funds are maintained. A responsible officer of a bank who fails to do so or delay the implementation of a freezing order shall be subject to imprisonment of a minimum of six (6) months and a maximum of two (2) years and a fine corresponding to his or her imprisonment. Additionally, legal persons, such as banks, where such responsible officer, shall be subject to a fine at the minimum amount of TRY 10,000 up to maximum amount of TRY 100,000.

### ***Cancellation of Banking Licence***

If the results of an audit show that a bank's financial structure has seriously weakened, then the BRSA may require the bank's board of directors to take measures to strengthen its financial position. Pursuant to the Banking Law, in the event the BRSA in its sole discretion determines that:

- the assets of a bank are insufficient or are likely to become insufficient to cover its obligations as they become due;
- the bank is not complying with liquidity requirements;
- the bank's profitability is not sufficient to conduct its business in a secure manner due to disturbances in the relation and balance between the expenses and profit;
- the regulatory equity capital of such bank is not sufficient or is to likely to become insufficient;
- the quality of assets of such bank have been impaired in a manner potentially weakening its financial structure, the decisions, transactions or applications of such bank are in breach of the Banking Law, relevant regulations or the decisions of the BRSA;
- such bank fails to establish internal audit, supervision and risk management systems or to effectively and sufficiently conduct such systems or any factor impedes the supervision of such systems, or any factor impedes the audit; or
- there has been a material increase in risks defined in the Banking Law and relevant legislation which weakens the bank's financial structure due to the imprudent acts of such bank's managers,

then the BRSA may require the board of directors of such bank to take one or some of the following measures depending on the situation for a period determined by the BRSA and in accordance with a plan approved by the BRSA:

- to increase its equity capital;
- not to distribute dividends for a period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund;
- to increase its loan provisions;
- to stop extension of loans to its shareholders;
- to dispose of its assets in order to strengthen its liquidity;
- to limit or stop its new investments;
- to restrict payment of fees and other types of payments;
- to cease its long term investments;
- to cure the breach and comply with the relevant banking legislation;
- to cease its risky transactions, by re-evaluating its credit policy;
- to take all actions to decrease any maturity foreign exchange and interest rate risks; and/or
- to exercise other necessary actions to be determined by the BRSA,

In the event the aforementioned actions are not taken (in whole or in part) by that bank or its financial structure cannot be strengthened despite its having taken such actions, or its financial structure has become so weak that it could not be strengthened, then the BRSA may require such bank:

- to strengthen its financial structure, to increase its liquidity and/or capital adequacy;

- to dispose of its fixed assets and long-term assets within a reasonable time determined by the BRSA;
- to decrease its operational and management costs;
- to suspend its payments under any name whatsoever, excluding the regular payments to be made to its members;
- to limit or prohibit extension of any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors;
- to convene an extraordinary general assembly in order to change the members of the board of directors or assign new member(s) to the board of directors, in the event any board member is responsible for non-compliance with relevant legislation, a failure to establish efficient and sufficient operation of internal audit, internal control and risk management systems or non-operation of these systems efficiently or there is a factor that impedes supervision or such member(s) of the board of directors cause(s) to increase risks as stipulated above;
- to implement short-, medium- or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the bank or to take written undertakings from members of board of directors or qualified shareholders (as defined in the Banking Law) regarding such plans and projections; and/or
- to exercise other necessary actions to be determined by the BRSA.

In the event the aforementioned actions are not (in whole or in part) taken by that bank or are not sufficient to cause such bank to continue its business in a secure manner, then the BRSA may require such bank:

- to limit or cease its business or its whole organisation by its field of activity for a temporary period (to include its relations with its local or foreign branches and correspondents);
- to apply various restrictions, including restrictions on interest rate and maturity with respect to resource collection and utilisation;
- to remove from office (in whole or in part) its members of the board of directors, general manager and deputy general managers and department and branch managers from their offices and obtain approval from the BRSA as to the persons to be appointed to replace these individuals;
- to make available long-term loans, **provided that** these will not exceed the amount of deposit or participation funds subject to insurance, and be secured sufficiently by the shares or other assets of the controlling shareholders;
- to limit or cease its non-performing operations and to dispose of its non-performing assets;
- to merge with one or more other banks;
- to provide new shareholders in order to increase its equity capital;
- to cover its losses with its equity capital; and/or
- to exercise other necessary actions to be determined by the BRSA.

In the event: (a) the aforementioned actions are not (in whole or in part) taken by that bank within a period of time set forth by the BRSB or in any case within twelve months; (b) the financial structure of such bank cannot be strengthened despite its having taken such actions or the financial structure of such bank has become so weak that it could not be strengthened even if the actions were taken; (c) the continuation of the activities of such bank would jeopardise the rights of the depositors and the participation fund owners and the security and stability of the financial system; (d) such bank cannot cover its liabilities as they become due; (e) the total amount of the liabilities of such bank exceeds the total amount of its assets; or (f) the controlling shareholders or directors of such bank are found to have



made use of that bank's resources for their own interests, directly or indirectly or fraudulently, in a manner that jeopardised the secure functioning of the bank or caused such bank to sustain a loss as a result of such misuse, then the BRSA, with the affirmative vote of at least five of its board members, may revoke the licence of such bank to engage in banking operations and/or to accept deposits and transfer the management, supervision and control of the privileges of shareholders (excluding dividends) of such bank to the SDIF for the purpose of the whole or partial transfer or sale of such bank to third persons or merger thereof, **provided that** the loss is deducted from the share capital of current shareholders.

In the event that the licence of a bank to engage in banking operations and/or to accept deposits is revoked, then that bank's management and audit will be taken over by the SDIF. Any and all execution and bankruptcy proceedings (including preliminary injunctions) against such bank would be discontinued as from the date on which the BRSA's decision to revoke such bank's licence is published in the Official Gazette. From the date of revocation of such bank's licence, the creditors of such bank may not assign their rights or take any action that could lead to assignment of their rights. The SDIF must take measures for the protection of the rights of depositors, participation fund owners and other creditors of such bank.

The SDIF is required to pay the insured deposits and insured participation funds of such bank either by itself or through another bank it may designate. In practice, the SDIF may designate another bank that is under its control. The SDIF is required to institute bankruptcy proceedings in the name of depositors against a bank whose banking licence is revoked.

### ***Annual Reporting***

The Banking Law stipulates that banks are required to prepare an annual activity report that includes information about their status, management and organisation structures, human resources, activities, financial situations and assessment of the management and expectations, together with financial statements, summary of board of directors' report and independent audit report.

Pursuant to the Banking Law, Turkish banks are required to follow the BRSA's principles and procedures (which are established in consultation with the Turkish Accounting Standards Board and international standards) when preparing their annual reports. In addition, they must ensure uniformity in their accounting systems, correctly record all their transactions and prepare timely and accurate financial reports in a format that is clear, reliable and comparable as well as suitable for auditing, analysis and interpretation. Turkish listed companies must also comply with the Communiqué on Principles of Financial Reporting in Capital Markets issued by the CMB.

Furthermore, Turkish companies (including banks) are required to comply with the Regulation regarding Determination of the Minimum Content of the Companies' Annual Reports published by the Ministry of Customs and Trade, as well as the Corporate Governance Communiqué, when preparing their annual reports. These reports are required to include the following information: management and organization structures, human resources, activities, financial situation, assessment of management and expectations and a summary of the directors' report and independent auditor's report.

A bank cannot settle its balance sheets without ensuring reconciliation with the legal and auxiliary books and records of its branches and domestic and foreign correspondents.

The BRSA is authorised to take necessary measures where it is determined that a bank's financial statements have been misrepresented.

When the BRSA requests a bank's financial reports, the chairman of the board, members of the audit committee, general manager, deputy general manager responsible for financial reporting and the relevant unit manager (or equivalent authorities) must sign the reports indicating their full names and titles and declare that the financial report complies with relevant legislation and accounting records. In addition, foreign banks must have the members of the board of managers of their Turkish branches sign the annual reports.

All annual reports that banks present to their general assemblies must be approved by independent auditing firms.

Banks are required to submit their financial reports to related authorities and publish them in accordance with the BRSA's principles and procedures.

Further, banks are required to submit and publish activity reports that comply with the BRSA's established guidelines.

The Regulation on the Preparation and Publication of Annual Reports regulates the procedures and principles regarding the annual reports of banks to be published at the end of each fiscal year. According to the regulation, a bank's financial performance and the risks that it faces need to be assessed in the annual report. The annual report is subject to the approval of the board of directors and must be submitted to the review of shareholders at least 15 days before the annual general assembly of the bank together with the assent of the independent auditing firm regarding such report. Each bank must: (i) submit electronically a copy of its annual report to the BRSA within 7 days following its publication; (ii) keep a copy of it in its headquarters; (iii) keep an electronic copy of it at each branch to provide it as printed, if requested, until the annual report for next year will be published; and (iv) publish it on its website by the end of May.

### ***Disclosure of Financial Statements***

With the Communiqué on Financial Statements to be Disclosed to the Public published in the Official Gazette No. 28337 dated 28 June 2012, new principles of disclosure of annotated financial statements of banks were promulgated. The amendments to the calculation of risk-weighted assets and their implications for capital adequacy ratios are reflected in the requirements relating to information to be disclosed to the public and new standards of disclosure of operational, market, currency and credit risk were determined. In addition, new principles were determined with respect to the disclosure of position risks relating from (*inter alia*) securitisation transactions and investments in quoted stocks.

### ***New Consumer Loan, Provisioning and Credit Card Regulations***

On 8 October 2013 the BRSA introduced new regulations that aim to limit the expansion of individual loans (especially credit card installments). The rules (as amended from time to time): (a) include overdrafts on deposit accounts and loans on credit cards in the category of consumer loans for purposes of provisioning requirements, (b) set a limit of TRY1,000 for credit cards issued to consumers who apply for a credit card for the first time if their income cannot be determined by the bank, (c) require credit card issuers to monitor cardholders' income levels before each limit increase of the credit card, (d) set the risk weight for installment payments of credit cards to 75 per cent. and (e) increase the minimum monthly payment required to be made by cardholders. Before increasing the credit card limit, a bank should monitor the income level of the consumer. A bank should not increase the limit of the credit card if the aggregate card limit exceeds four times the consumer's monthly income. In addition, after 1 January 2014, minimum payment ratios for credit card limits up to TRY20,000 will be incrementally increased to ratios between 30 per cent. and 40 per cent. until 1 January 2015. These new regulations might result in slowing the growth and/or reducing the profitability of the Bank's credit card business.

The Law on the Protection of Consumers (Law No: 6502), published in the Official Gazette No. 28835 dated 28 November 2013 which entered into force six months after its publication date, imposes new rules applicable to Turkish banks, such as requiring banks to offer to its customers at least one credit card type for which no annual subscription fee (or other similar fee) is payable. Furthermore, while a bank is generally permitted to charge its customers fees for accounts held with it, no such fees may be payable on certain specific accounts (such as fixed term loan accounts and mortgage accounts).

The Regulation Amending the Regulation on Provisions and Classification of Loans and Receivables, which was published in the Official Gazette dated 8 October 2013 and numbered 28789, reduced the general reserve requirements for cash and non-cash loans provided for export purposes and obtained by SMEs: (a) for cash export loans and non-cash export loans, from 1 per cent. and 0.2 per cent., respectively, to 0 per cent., (b) for cash SME loans and non-cash SME loans, from 1 per cent. and 0.2 per cent. to 0.5 per cent. and 0.1 per cent., respectively, (c) for cash export loans whose loan conditions will be amended in order to extend the first payment schedule, from 5 per cent. to 0 per cent., and (d) for cash SME loans whose loan conditions will be amended in order to extend the first payment schedule, from 5 per cent. to 2.5 per cent. In addition, this regulation altered the requirements for calculating consumer loan provisions by: (i) increasing the ratio of consumer loans to total loans beyond which additional consumer loan provisions are required from 20 per cent. to 25 per cent. and (ii) requiring the inclusion of auto loans and credit cards in the calculation of the ratio of non-performing consumer loans to total consumer loans ratio (if such ratio is beyond 8 per cent., which ratio was not altered by these amendments, additional consumer loans provisions are required). Credit cards are included in the

definition of consumer loans by this regulation and the consumer loan provision rate for credit cards in Group 1 (Loans of a Standard Nature and Other Receivables) and Group 2 (Loans and Other Receivables under Close Monitoring) increased from 1 per cent. and 2 per cent. to 4 per cent. and 8 per cent., respectively.

The Regulation Amending the Regulation on Bank Cards and Credit Cards introduced some changes on the credit limits for credit cards and income verification so that: (a) the total credit card limit of a cardholder from all banks will not exceed four times his/her monthly income in the second and subsequent years (two times for the first year) and (b) banks will have to verify the monthly income of the cardholders in the limit increase procedures and will not be able to increase the limit if the total credit card limit of the cardholder from all banks exceeds four times his/her monthly income. The following additional changes regarding minimum payment amounts and credit card usage were included in the amended regulation: (i) minimum payment amounts differentiated for first time cardholders in the sector, new cardholders, existing cardholders and existing cardholders' second card by customer limits, (ii) if the cardholder does not pay at least three times the minimum payment amount on his/her credit card statement in a year, then his/her credit card cannot be used for cash advance and also will not allow limit upgrade until the total statement amount is paid, and (iii) if the cardholder does not pay the minimum payment amount on three consecutive occasions, then his/her credit card cannot be used for cash advances or shopping, and such card will not be available for a limit upgrade, until the total amount in the statements is paid.

The BRSA, by the Regulation Amending the Regulation on Bank Cards and Credit Cards published in the Official Gazette dated 31 December 2013 and numbered 28868 (which entered into force on 1 February 2014), has adopted limitations on instalments of credit cards. Pursuant to such limitations, the instalments for purchase of goods and services and cash withdrawals are not permitted to exceed nine months. In addition, in respect of telecommunication and jewellery expenditures and food, nutriment and fuel oil purchases, credit cards may not provide for instalment payments.

On 31 December 2013, the BRSA adopted new rules on loan to value and instalments of certain types of loans. Pursuant to these rules, the minimum loan-to-value requirement for housing loans extended to consumers, for loans (except auto loans) secured by houses and for financial lease transactions is 75 per cent. In addition, for auto loans extended to consumers, for loans secured by autos and for financial lease transactions, the loan-to-value requirement is set at 70 per cent.; **provided that** in each case the sale price of the respective auto is not higher than TRY50,000. On the other hand, if the sale price of the respective auto is above this TRY50,000 threshold, then the minimum loan-to-value ratio for the portion of the loan below the threshold amount is 70 per cent. and the remainder is set at 50 per cent. As for limitations regarding instalments, the maturity of consumer loans (other than loans extended for housing finance and other real estate finance loans) are not permitted to exceed 36 months, while auto loans and loans secured by autos may not have a maturity longer than 48 months. Provisions regarding the minimum loan-to-value requirement for auto loans entered into force on 1 February 2014 and the other provisions of this amendment entered into force on 31 December 2013.

### ***Financial Services Fees***

Pursuant to Heading XI of Tariffs Chart numbered 8 of the Law on Fees (Law No. 492) amended by the Law No. 5951, banks are required to pay to the relevant tax office to which their head office reports an annual financial services fee for each of their branches. The amount of the fee is determined in accordance with the population of the district in which the relevant branch is located.

## SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

*The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).*

### Purchase Agreement

The Purchase Agreement will be entered into on the Closing Date between the Certificateholders' Agent (in its capacity as Purchaser), Kuveyt Türk (in its capacity as Seller) and the Certificateholders' Representative and will be governed by Turkish law.

Pursuant to the Purchase Agreement, the Seller will sell to the Purchaser, and the Purchaser will purchase from the Seller, the initial Asset Portfolio for U.S.\$500,000,000 (the "**Purchase Price**"), free and clear of any encumbrance or other rights of third parties, payable on the Closing Date. The Constituent Assets the subject of the Purchase Agreement will comprise Ijara Assets, Tangible Investment Sukuk and Murabaha Receivables. The details of the initial Asset Portfolio purchased pursuant to the Purchase Agreement are set out in the schedule to the Purchase Agreement and the aggregate Value of the Ijara Assets and the Tangible Investment Sukuk comprising such Constituent Assets shall be at least equal to 33<sup>1/3</sup> per cent. of the Value of such initial portfolio.

In respect of the sale, transfer and assignment of the Asset Portfolio under the Purchase Agreement, legal title to the Constituent Assets shall at all times remain with the Seller in accordance with Article 6 of the Sukuk Communiqué, which will hold such legal title on behalf and for the account of the Purchaser on a fiduciary basis. In no circumstances shall the Seller be under any obligation to notify an obligor in respect of any Constituent Asset of the transfer or assignment of that Constituent Asset pursuant to the Purchase Agreement.

### Management Agreement

The Management Agreement will be entered into on the Closing Date between the Certificateholders' Agent, Kuveyt Türk (in its capacity as Managing Agent) and the Certificateholders' Representative and will be governed by English law.

Pursuant to the Management Agreement, the Certificateholders' Agent will appoint the Managing Agent to manage the Asset Portfolio. In particular:

- (a) the Managing Agent will apply the Portfolio Revenues and otherwise manage the Asset Portfolio on behalf of the Certificateholders' Agent in accordance with the relevant provisions of the Management Agreement and Article 6 of the Sukuk Communiqué;
- (b) the Managing Agent will use its best efforts to manage the Asset Portfolio such that the Tangible Constituent Assets Value is, at all times, at least equal to 33<sup>1/3</sup> per cent. of the Sukuk Assets Value and in the event that, at any time, the Tangible Constituent Assets Value falls below 33<sup>1/3</sup> per cent. of the Sukuk Assets Value, the Managing Agent shall use all reasonable endeavours to acquire as soon as reasonably practicable thereafter (through the reinvestment of Portfolio Principal Revenues as provided in the Management Agreement) sufficient Tangible Assets to increase the Tangible Constituent Assets Value to a level that is equal to or greater than 33<sup>1/3</sup> per cent. of the Sukuk Assets Value, and shall further ensure that at all times there remain Tangible Assets comprised within the Asset Portfolio;
- (c) the Managing Agent will use its best efforts to manage the Asset Portfolio such that the Sukuk Assets Value is, at all times, at least equal to the aggregate face amount of the Certificates then outstanding;
- (d) the Managing Agent will do all acts and things (including execution of such documents, issue of notices and commencement of any proceedings) that it reasonably considers necessary to ensure the assumption of, and compliance by each lessee or other obligor in respect of the Constituent Assets with, its covenants, undertakings or other obligations under the relevant contracts, agreements and/or other documents in respect of such Constituent Assets in accordance with applicable law and the terms of such contracts, agreements and/or documents;

- (e) the Managing Agent will perform all obligations and satisfy all liabilities in respect of any Constituent Assets comprised in the Asset Portfolio that were otherwise to be performed by Kuveyt Türk prior to the transfer and assignment of such Constituent Assets to the Certificateholders' Agent and use all reasonable endeavours to pay on behalf of the Certificateholders' Agent any costs, expenses, losses and taxes which would otherwise be payable by the Certificateholders' Agent as a result of the Certificateholders' Agent's ownership of the Asset Portfolio;
- (f) the Managing Agent will ensure the timely receipt of all Sukuk Asset Revenues, investigate non-payment of Sukuk Asset Revenues and generally make all reasonable efforts to collect or enforce the collection of all Sukuk Asset Revenues payable in respect of the Constituent Assets or in respect of any Sharia Compliant Investments as and when the same shall become due;
- (g) the Managing Agent will not agree to any reduction in any amount payable in respect of any Constituent Asset or any postponement or other rescheduling of the due date for such payment;
- (h) the Managing Agent will obtain all necessary authorisations in connection with any of the Constituent Assets and its obligations under or in connection with this Agreement;
- (i) the Managing Agent will ensure that each lessee of the Ijara Assets constituting the Asset Portfolio (in its relevant capacity other than as lessee) maintains industry standard insurances, and fulfils all structural repair and major maintenance obligations, in respect of such Ijara Assets in accordance with the terms of the relevant agreements or other documents associated with that contract;
- (j) the Managing Agent will shall use all reasonable endeavours to ensure that the Portfolio Income Revenues are at least equal to the Required Amount; and
- (k) the Managing Agent will carry out any incidental matters relating to any of the above;
- (l) Pursuant to the Management Agreement, the Managing Agent shall also ensure that:
  - (i) the Ijara Assets are insured at all times against Total Loss in an amount at least equal to the Value of that Ijara Asset (the "**Insurance Coverage Amount**") and that such insurance policies are maintained on a *Sharia*-compliant takaful basis and with reputable insurers in good financial standing; and
  - (ii) in the event of a Total Loss, the insurance policies relating to such Ijara Assets provide for an amount at least equal to the Insurance Coverage Amount of the relevant Ijara Asset to be paid to the Managing Agent to the Principal Collection Account in U.S. dollars by no later than close of business on the date falling thirty (30) calendar days after the occurrence of such Total Loss.

A failure by the Managing Agent to comply with (i) and (ii) above shall not constitute a Termination Event and the sole remedy of the Certificateholders' Agent for any failure by the Managing Agent to comply with the provisions of (i) and (ii) above shall be to claim against the Managing Agent for any Insurance Shortfall Amount.

In the event that the relevant insurance company fails to pay the Insurance Coverage Amount relating to an Ijara Asset to the Managing Agent, by crediting such amount to the Principal Collection Account, within thirty (30) calendar days of a Total Loss of that Ijara Asset and the Managing Agent is unable to unequivocally prove that it complied with all of its obligations or where the Managing Agent has failed to maintain or ensure the maintenance of any insurances over the Ijara Assets in breach of its obligations:

- (i) the Managing Agent acknowledges that it shall have failed to comply with its obligations; and
- (ii) the Managing Agent irrevocably and unconditionally undertakes to pay in U.S. dollars on the thirty first (31<sup>st</sup>) calendar day after the occurrence of the Total Loss, in same day funds (free and clear of any withholding or deduction or any set off or any counterclaim), an amount equal to the difference between the insurance proceeds credited to the Principal Collection Account and the Insurance Coverage Amount, in each case, in

respect of the relevant Ijara Asset, directly into the Principal Collection Account (the "**Insurance Shortfall Amount**").

- (m) on each Payment Business Day immediately prior to the Periodic Distribution Date falling immediately after the end of each Return Accumulation Period (the "**Periodic Distribution Determination Date**") other than where the relevant Periodic Distribution Date is a Termination Date, to the extent there is any shortfall between (i) the sum of the amounts standing to the credit of the Income Collection Account and the Reserve Collection Account and (ii) the Required Amount (any such shortfall, the "**Periodic Distribution Shortfall**"), the Managing Agent shall:
- (i) *first*, using amounts standing to the credit of the Principal Collection Account, pay into the Transaction Account an amount equal to the lesser of the Periodic Distribution Shortfall and the balance of the Principal Collection Account;
  - (ii) *second*, where the amount paid into the Transaction Account pursuant to (i) above is insufficient to cover the Periodic Distribution Shortfall, realise a portion of any Sharia Compliant Investments then held by the Managing Agent as selected by the Managing Agent equal in value to the remaining Periodic Distribution Shortfall or, where the aggregate Value of such Sharia Compliant Investments is less than the remaining Periodic Distribution Shortfall, all such Sharia Compliant Investments (by termination and demanding immediate payment of such Sharia Compliant Investments in compliance in all material respects with Sharia principles as interpreted by Kuveyt Türk's Sharia Advisory Board), and pay the amount so realised to the Transaction Account; and
  - (iii) *third*, where the amounts paid into the Transaction Account pursuant to (i) and (ii) above are insufficient to cover the Periodic Distribution Shortfall, realise a portion of the Asset Portfolio equal in value to the remaining Periodic Distribution Shortfall through the liquidation of Constituent Assets on behalf of the Certificateholders' Agent (with Murabaha Receivables to be liquidated or transferred first for an amount equal to the Value of those Murabaha Receivables and in accordance with Sharia principles related to debt trading as approved by Kuveyt Türk's Sharia Advisory Board), then Tangible Investment Sukuk and finally Ijara Assets but in each case only to the extent necessary to realise an amount equal to the remaining Periodic Distribution Shortfall), and pay the amount so realised to the Transaction Account; and
- (n) upon the occurrence of a Change of Control Event, the Managing Agent shall realise a percentage portion of any Sharia Compliant Investments (by terminating and demanding immediate payment of such Sharia Compliant Investments in compliance in all material respects with Sharia principles as interpreted by Kuveyt Türk's Sharia Advisory Board) as selected by the Managing Agent equal to the Change of Control Certificate Percentage, which percentage portion shall be determined by reference to the Value of those Sharia Compliant Investments (with the amount so realised being the "**Change of Control Principal Cash Amount**"), and pay the Change of Control Principal Cash Amount to the Transaction Account.

For these purposes:

"**Applicable Exchange Rate**" means, in the case of any amount paid or payable in respect, or any face amount or par value, of a Constituent Asset (including any amount of Portfolio Principal Revenues) that is in a currency (the "**Constituent Currency**") other than U.S. dollars, the spot rate of exchange at which the Seller was, or would have been, able to purchase U.S. dollars with such amount of the Constituent Currency on the date on which the relevant asset (including the relevant asset in respect of which any such Portfolio Principal Revenues have been received) becomes part of the Asset Portfolio (or if it is not practicable to make such purchase on such date, on the immediately preceding date on which it is so practicable), without taking into account any premium or other costs of exchange;

"**Asset Portfolio**" means (a) the initial Asset Portfolio and (b) from the time of any acquisition of a Constituent Asset on the Certificateholders' behalf or substitution of a Constituent Asset in accordance with (i) the Management Agreement or (ii) the Sale and Transfer Undertaking, the Eligible Constituent Asset(s) so acquired, including as substituted for any relevant Constituent Asset and from the time of such substitution the Constituent Asset so substituted shall cease to be included in the Asset Portfolio. From the time of any other sale and transfer of a Constituent Asset to Kuveyt Türk in accordance with the Sale

and Transfer Undertaking, the Constituent Asset so sold and transferred shall also cease to be included in the Asset Portfolio;

**"Eligible Constituent Assets"** means, among other things, an Ijara Asset, Murabaha Receivable or Tangible Investment Asset which complies in all respects with Sharia principles as interpreted by Kuveyt Türk's Sharia Advisory Board and which has been originated or is held or owned by Kuveyt Türk in a manner consistent with its usual credit and origination policies;

**"Portfolio Income Revenues"** means all rental, distributions and other amounts payable, and all sale proceeds or consideration, damages, insurance proceeds, compensation or other sums, in each case as received by the Managing Agent in whatever currency in respect of or otherwise in connection with the Tangible Assets but excluding any Portfolio Principal Revenues;

**"Portfolio Principal Revenues"** means any amounts received in the nature of capital or principal payments in respect of the Ijara Assets or, in the case of any Tangible Investment Sukuk, in respect of any payment of the outstanding face amount or par value of such Tangible Investment Sukuk and, in the case of any Murabaha Receivable, all amounts received in respect of that Murabaha Receivable;

**"Portfolio Revenues"** means the Portfolio Income Revenues and the Portfolio Principal Revenues;

**"Sharia Compliant Investment"** means a U.S. dollar denominated deposit in an investment account with Kuveyt Türk (following conversion, if necessary, of the relevant Portfolio Principal Revenues at the applicable Exchange Rate) which complies in all material respects with Sharia principles as interpreted by Kuveyt Türk's Sharia Advisory Board, is payable on demand and entitles the holder to share in the profits of Kuveyt Türk on the same basis as for any other such deposit made with Kuveyt Türk; and

**"Sukuk Assets"** means, at any time, the Asset Portfolio at that time and any Sharia Compliant Investments then held by the Managing Agent;

**"Sukuk Asset Revenues"** means the Portfolio Revenues and the Sharia Compliant Investment Amounts;

**"Sukuk Assets Value"** means, at any time, the aggregate Value of (i) the Constituent Assets constituting the Asset Portfolio at that time and (ii) any Sharia Compliant Investments then held by the Managing Agent;

**"Surrender Certificates"** means the Certificates specified as such in a Surrender Notice;

**"Tangible Constituent Assets Value"** means, at any time, the aggregate Value of the Tangible Assets comprised in the Asset Portfolio at that time (which Value shall not include any insurance proceeds or equivalent amounts payable on a Total Loss);

**"Total Loss"** means the total loss or destruction of, or damage to the whole of the asset(s) the subject of the relevant contracts, agreements and/or other documents in respect of such Constituent Assets or any event or occurrence that renders the whole of such asset(s) permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted by any third party in respect of the asset(s)) the repair or remedial work in respect thereof is wholly uneconomical;

**"Value"** means:

- (a) in respect of any Constituent Asset, the amount in U.S. dollars (following conversion, if necessary, of any relevant amount(s) at the applicable Exchange Rate) determined by Kuveyt Türk the relevant date as being equal to: (i) in the case of an Ijara Asset, the aggregate of all outstanding fixed rental instalment amounts payable by the lessee (whether then due and unpaid or due and payable on or after such date) or other equivalent fixed instalment amounts payable by the obligor, in each case in the nature of capital or principal payments in respect of the relevant asset and payable to Kuveyt Türk under or in respect of the related contracts, agreements and/or other documents in respect of such Ijara Asset (and including any insurance proceeds or equivalent amounts payable in place of such payments on a Total Loss), (ii) in the case of a Murabaha Receivable, the aggregate of the outstanding amounts payable in respect of that Murabaha Receivable, comprising the unpaid purchase price of the relevant asset(s) and profit amount payable in relation thereto or (iii) in the case of a Tangible Investment Sukuk, its then outstanding face amount or par value; and

- (b) in respect of any Sharia Compliant Investment, the amount in U.S. dollars determined by Kuveyt Türk on the relevant date as being equal to its then outstanding face amount or par value.

The Managing Agent shall perform its duties under the Management Agreement in accordance with all applicable laws and regulations and with the degree of skill and care that it would exercise in respect of its own assets.

The Managing Agent shall be entitled to receive a fee for acting as Managing Agent which will comprise a fixed fee of U.S.\$100 and may also receive an incentive payment as described below.

The Certificateholders' Agent and the Managing Agent will agree that whether or not a Termination Event has occurred and is continuing the Managing Agent on behalf of the Certificateholders' Agent shall, upon becoming aware of (i) any impairment of any Constituent Asset as a result of any default or any claim of ownership of any person (other than the Seller) in respect of that Constituent Asset or (ii) any breach of any of the representations and warranties in respect of any Constituent Asset contained in the Purchase Agreement or contained in any Sale Agreement (any such Constituent Asset, an **"Impaired Constituent Asset"**), attend to the replacement of that Impaired Constituent Asset pursuant to the Purchase and Asset Portfolio Undertaking through the entry into by the Managing Agent on behalf of the Certificateholders' Agent and Kuveyt Türk of an agreement in the form of the sale agreement in the form set out in the Purchase and Asset Portfolio Undertaking and the acquisition on behalf of the Certificateholders' Agent of replacement Constituent Assets (the **"Replacement Constituent Assets"**) (a) of a Value that is not less than the Value of the Impaired Constituent Assets and (b) in respect of which the representations and warranties in the Purchase Agreement can be given, such that the Replacement Constituent Assets so acquired are included in the Asset Portfolio and the Tangible Constituent Assets Value following such replacement is at least 33<sup>1/3</sup> per cent. of the Sukuk Assets Value.

On any transfer of Constituent Assets in connection with any purchase and delivery for cancellation of any Certificates by Kuveyt Türk pursuant to Condition 10 (**"Surrender Certificates"**), there shall also be a *pro rata* reduction in the amount payable pursuant to the Management Agreement in respect of any Portfolio Principal Revenues then held, and the outstanding face amount or par value of any Sharia Compliant Investments then made (the **"Sharia Compliant Investment Principal"**), by the Managing Agent (together, the **"Principal Cash Amount"**). The amount by which such Principal Cash Amount is to be reduced shall equal the product of the Surrender Certificate Percentage and the Principal Cash Amount, and such reduction shall be effected by way of the retention of the resulting amount by the Managing Agent for its own account (following the termination to the extent necessary of the relevant *pro rata* amount of any relevant Sharia Compliant Investments for this purpose in compliance in all material respects with Sharia principles as interpreted by Kuveyt Türk's Sharia Advisory Board) from the date of delivery of the Surrender Certificates for cancellation.

The **"Surrender Certificates Percentage"** means the percentage of the aggregate face amount of the Certificates then outstanding represented by the aggregate face amount of the Surrender Certificates.

The Managing Agent will maintain three separate book-entry ledger accounts (referred to as the **"Principal Collection Account"**, the **"Income Collection Account"** and the **"Reserve Collection Account"**, respectively, and, together, the **"Collection Accounts"**) in which all Portfolio Principal Revenues and Portfolio Income Revenues (the **"Portfolio Revenues"**) and Sharia Compliant Investment Amounts will be recorded.

On each Periodic Distribution Determination Date and prior to any reinvestment of Portfolio Principal Revenues as described below, all Portfolio Revenues and Sharia Compliant Investment Amounts received by the Managing Agent during the Return Accumulation Period for which such Periodic Distribution Determination Date is the final Payment Business Day and, on any Termination Date or on the Payment Business Day immediately preceding any Tax Redemption Date, all Portfolio Revenues and Sharia Compliant Investments Amounts still to be recorded by the Managing Agent, will be recorded:

- (a) to the extent that any such amounts comprise Portfolio Income Revenues or Sharia Compliant Investment Income, in the Income Collection Account; and
- (b) to the extent that any such amounts comprise Portfolio Principal Revenues or Sharia Compliant Investment Principal, in the Principal Collection Account,



(following conversion, if necessary, of any relevant amount(s) at the applicable Exchange Rate).

Subject to the paragraph below and following the payment of any amounts pursuant to paragraph (m)(i) above, the Managing Agent shall on each Periodic Distribution Determination Date (other than where the relevant Periodic Distribution Date is a Termination Date) use all reasonable endeavours to reinvest the amount standing to the credit of the Principal Collection Account in acquiring further Eligible Constituent Assets for and on behalf of the Certificateholders' Agent from Kuveyt Türk, such that the further Constituent Assets so acquired are added to the Asset Portfolio, subject to (i) the Value of such further Constituent Assets being not less than the amount of the Portfolio Principal Revenues being used for the purchase of those Constituent Assets and (ii) such further Constituent Assets being Constituent Assets in respect of which the representations and warranties in the Purchase Agreement can be given by Kuveyt Türk. This acquisition of further Eligible Constituent Assets shall be on the same basis as for the sale and purchase of the initial Asset Portfolio pursuant to the Purchase Agreement, including with respect to the representations and warranties provided in the Purchase Agreement, but may take such form as may be approved from time to time by Kuveyt Türk's Sharia Advisory Board.

In the circumstances where Kuveyt Türk does not have sufficient further Eligible Constituent Assets available in order for the Managing Agent to reinvest all of the amount standing to the credit of the Principal Collection Account in accordance with the paragraph above, it shall use all reasonable endeavours to invest, for and on behalf of the Certificateholders' Agent, any such remaining amount standing to the credit of the Principal Collection Account in a Sharia Compliant Investment(s) until such time as Kuveyt Türk has further Eligible Constituent Assets in which the Managing Agent can invest in accordance with the paragraph above.

Amounts standing to the credit of the Income Collection Account will be applied by the Managing Agent on each Periodic Distribution Determination Date in the following order of priority:

- (a) *first*, in payment to the Managing Agent on behalf of the Certificateholders' Agent of any expenses of the Managing Agent in providing the above services (the "**Management Expenses**") for the Return Accumulation Period in respect of which such Periodic Distribution Determination Date is the final Payment Business Day or any Management Expenses for any previous Return Accumulation Period that remain unpaid;
- (b) *second*, in payment into the Transaction Account of an amount equal to the lesser of the aggregate of the Periodic Distribution Amounts payable on such Periodic Distribution Date (the "**Required Amount**") and the balance of the Income Collection Account; and
- (c) any amounts still standing to the credit of the Income Collection Account following payment of all of the above amounts shall be debited from the Income Collection Account and credited to the Reserve Collection Account.

The Managing Agent will be entitled to deduct amounts standing to the credit of the Income Collection Account or the Reserve Collection Account at any time and use such amounts for its own account, provided that such amounts shall be repaid by it for the purposes of their application in accordance with the relevant provisions of the Management Agreement (including as provided above). Following payment of all amounts due and payable under the Certificates on the Termination Date, the Managing Agent shall be entitled to retain any amounts standing to the credit of the Reserve Collection Account for its own account as an incentive payment for acting as Managing Agent.

The Managing Agent shall keep detailed records of all movements in the Collection Accounts and, if so requested, provide the Certificateholders' Agent with copies of such records and any other information or details in relation to the Collection Accounts as the Certificateholders' Agent may reasonably request.

The Managing Agent will agree in the Management Agreement that all payments by it under the Management Agreement will be made without any deduction or withholding for or on account of tax unless required by law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding, the Managing Agent shall pay all additional amounts as will result in the receipt by the Certificateholders' Agent of such net amounts as would have been received by it if no deduction or withholding had been made. For the avoidance of doubt, the Managing Agent shall not be required to pay any additional amounts with respect to any withholding or deduction imposed on or with respect to any Certificate pursuant to Section 1471 to 1474 of the U.S. Internal Revenue Code of 1986

("FATCA"), any treaty, law, regulation or other official guidance implementing FATCA, or any agreement (or related guidance) between the Managing Agent and the United States, any other jurisdiction, or any authority of any of the foregoing implementing FATCA.

### **The Declaration of Agency**

The Declaration of Agency will be entered into on the Closing Date between Kuveyt Türk, the Issuer, the Certificateholders' Agent and the Certificateholders' Representative and will be governed by English law.

Pursuant to the Declaration of Agency, the Certificateholders' Agent will declare that it will hold in its own name and on behalf and for the account of the Certificateholders all of its rights, interest and benefit, in, to and under the Asset Portfolio and any Sharia Compliant Investments, the Transaction Documents and all moneys standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

Pursuant to the Declaration of Agency, the Certificateholders' Agent will, in relation to the Certificates, among other things:

- (a) hold the Sukuk Assets (which for these purposes shall have the meaning given in Condition 4.1), in its own name and on behalf and for the account of the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder; and
- (b) act as agent in respect of the Sukuk Assets, distribute the income from the Sukuk Assets and perform its duties in accordance with the provisions of the Declaration of Agency.

The Certificateholders' Agent acknowledges the appointment of the Certificateholders' Representative as attorney of the Certificateholders to act in their name and on their behalf in respect of the Conditions, the Certificates, the Declaration of Agency and the other Transaction Documents. The Certificateholders' Agent shall further acknowledge the right, power and authority of the Certificateholders' Representative to require the Certificateholders' Agent to act at its direction and in accordance with its instructions (including in respect of the present and future powers, authorities and discretions vested in the Certificateholders' Agent by the relevant provisions of the Declaration of Agency) and the Certificateholders' Agent shall irrevocably and unconditionally undertake to act in accordance with all directions and instructions so given. The appointment of such Certificateholders' Representative does not affect the Certificateholders' Agent's continuing role and obligations as agent.

The Certificateholders' Representative will undertake in the Declaration of Agency that, following it receiving written notice under the Declaration of Agency of the occurrence of a Termination Event in respect of any Certificates and subject to Condition 13, it shall (a) if the Issuer or Kuveyt Türk has not already done so, promptly notify the Certificateholders of the occurrence of such Termination Event, and (b) subject to being indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing, take such reasonable steps as it may be directed to take by the Certificateholders to enforce the obligations of Kuveyt Türk under the Declaration of Agency, the Purchase and Asset Portfolio Undertaking and any other Transaction Document to which Kuveyt Türk is a party.

The Declaration of Agency specifies, among other things, that:

- (a) following the distribution in full of the proceeds of the Sukuk Assets in respect of the Certificates to the Certificateholders in accordance with the Conditions and the Declaration of Agency, neither the Certificateholders' Agent nor the Certificateholders' Representative shall be liable for any further sums and, accordingly, the Certificateholders may not take any action against the Certificateholders' Agent, the Certificateholders' Representative or any other person to recover any such sum in respect of the Certificates or the Sukuk Assets;
- (b) no Certificateholder shall be entitled to proceed directly against the Issuer and/or Kuveyt Türk under any Transaction Document unless the Certificateholders' Representative having become bound so to proceed, fails to do so within a reasonable period of becoming so bound and such failure is continuing. Under no circumstances shall the Certificateholders' Representative or any Certificateholders have any right to cause the sale or other disposition of any of the Sukuk Assets (other than pursuant to the Purchase and Asset Portfolio Undertaking), and the sole right of the Certificateholders' Representative and the Certificateholders against the Issuer, the

Certificateholders' Agent, Kuveyt Türk or any other party shall be to enforce their respective obligations under the Transaction Documents;

- (c) neither the Certificateholders' Representative nor the Certificateholders' Agent shall be bound in any circumstances to take any action to enforce or realise the Sukuk Assets or take any action against or in respect thereof (in the case of the Certificateholders' Representative) the Issuer, the Certificateholders' Agent, (and in the case of the Certificateholders' Representative), Kuveyt Türk or any other party under any Transaction Document or the Conditions unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least 20 per cent, of the aggregate face amount of the Certificates then outstanding and in either case then only if it is indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing; and
- (d) after enforcing or realising the Sukuk Assets and distributing the proceeds of the Sukuk Assets in accordance with the terms of the Declaration of Agency, the obligations of the Issuer and the Certificateholders' Agent in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Issuer, the Certificateholders' Agent and the Certificateholders' Representative or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no holder of the Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of KT Kira Sertifikalan Varlik Kiralama A.

### **Purchase and Asset Portfolio Undertaking**

The Purchase and Asset Portfolio Undertaking will be executed as a deed on the Closing Date by Kuveyt Türk in favour of the Certificateholders' Agent and the Certificateholders' Representative and will be governed by English law.

Kuveyt Türk will irrevocably undertake in favour of the Certificateholders' Agent and the Certificateholders' Representative:

- (a) to purchase all of the Certificateholders' Agent's rights, interests, benefits and entitlements in, to and under the Asset Portfolio on the Scheduled Termination Date or any earlier Termination Date following the occurrence of a Termination Event, as the case may be, at the "**Asset Portfolio Exercise Price**", being an amount in U.S. dollars equal to the sum of:
  - (i) an amount equal to the aggregate face amount of the Certificates then outstanding less any Principal Cash Amount then held by the Managing Agent;
  - (ii) all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates, less any U.S. dollar amounts standing to the credit of the Transaction Account for the payment of such Periodic Distribution Amounts on the date on which payment of the Exercise Price is made pursuant to the Purchase and Asset Portfolio Undertaking;
  - (iii) any outstanding Management Expenses.
- (b) upon the delivery of an exercise notice by the Certificateholders' Agent, to purchase all of the Certificateholders' Agent's rights, interests, benefits and entitlements in, to and under the Change of Control Constituent Assets on the Change of Control Redemption Date at the "**Change of Control Exercise Price**", being an amount in U.S. dollars equal to the sum of:
  - (i) an amount equal to the aggregate face amount of the Change of Control Certificates less the Change of Control Principal Cash Amount (the "**Change of Control Tangible Asset Value**"); and
  - (ii) all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Change of Control Certificates on the Change of Control Redemption Date.

"**Change of Control Constituent Assets**" means the Constituent Assets specified as such in the relevant exercise notice, the identity of which shall be determined by Kuveyt Türk in its sole and absolute discretion and which shall comprise Ijara Assets, Tangible Investment Sukuk and Murabaha Receivables on a *pro rata* basis relative to the respective contribution of such

Constituent Assets to the overall composition of the Asset Portfolio at that time and shall have an aggregate Value of not more than the Change of Control Tangible Asset Value; and

- (c) in the circumstances where there is a Periodic Distribution Shortfall and there are insufficient amounts standing to the credit of the Principal Collection Account and realisation of the Sharia Compliant Investments to pay the Periodic Distribution Shortfall and upon the delivery of an exercise notice by the Certificateholders' Agent (or the Managing Agent on behalf of the Certificateholders' Agent), to purchase all of the Certificateholders' Agent's rights, interests, benefits and entitlements in, to and under the Periodic Distribution Shortfall Assets at a price equal to the remaining Periodic Distribution Shortfall (the "**Periodic Distribution Shortfall Exercise Price**") and, together with the Asset Portfolio Exercise Price and the Change of Control Exercise Price, the "**Exercise Price**"), which Periodic Distribution Shortfall Assets shall have an aggregate Value of not more than the Periodic Distribution Shortfall Exercise Price and shall comprise of the following:
- (i) *first*, Murabaha Receivables (with such Murabaha Receivables to be liquidated or transferred for an amount equal to the Value of those Murabaha Receivables and in accordance with Sharia principles related to debt trading as approved by Kuveyt Türk's Sharia Advisory Board);
  - (ii) *second*, to the extent the Value of the Murabaha Receivables then comprised within the Asset Portfolio is less than the amount of the Periodic Distribution Shortfall Exercise Price, Tangible Investment Sukuk; and
  - (iii) *third*, to the extent the Value of the Murabaha Receivables and the Tangible Investment Sukuk then comprised within the Asset Portfolio is less than the amount of the Periodic Distribution Shortfall Exercise Price, Ijara Assets.

**"Periodic Distribution Shortfall Assets"** means the Constituent Assets specified as such in the relevant exercise notice, the identity of which shall be determined by Kuveyt Türk in its sole and absolute discretion and which shall have an aggregate Value of not more than the Periodic Distribution Shortfall Exercise Price.

Payment of the Exercise Price will be made together with the payment into the Transaction Account by the Managing Agent of any Principal Cash Amount and for the purpose of redemption in full of the Certificates or the Change of Control Certificates, as the case may be.

Kuveyt Türk will undertake in the Purchase and Asset Portfolio Undertaking that, to the extent that the sale, purchase, transfer and/or assignment of any of Kuveyt Türk's rights, interests, benefits and entitlements in, to and under the Asset Portfolio is not effective in any jurisdiction for any reason, it will agree in consideration for the payment to it by the Certificateholders' Agent of the purchase price for the Asset Portfolio to make payment of an amount equal to the purchase price by way of restitution to the Certificateholders' Agent immediately upon request.

Kuveyt Türk will undertake in the Purchase and Asset Portfolio Undertaking that if it fails to pay all or part of any Exercise Price when due, it will irrevocably, unconditionally and automatically continue to act as managing agent for the provision of the services in respect of the Asset Portfolio on the terms and conditions, *mutatis mutandis*, of the Management Agreement.

Kuveyt Türk will agree in the Purchase and Asset Portfolio Undertaking that all payments by it under the Purchase and Asset Portfolio Undertaking will be made without any deduction or withholding for or on account of tax unless required by law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding, Kuveyt Türk shall pay all additional amounts as will result in the receipt by the Certificateholders' Agent of such net amounts as would have been received by it if no deduction or withholding had been made.

The Purchase and Asset Portfolio Undertaking contains a negative pledge and certain other covenants given by Kuveyt Türk, including in relation to the maintenance of authorisations, transactions with affiliates and the provision of certain financial information. See Condition 6.

### **Sale and Transfer Undertaking**

The Sale and Transfer Undertaking will be executed as a deed on the Closing Date by the Certificateholders' Agent in favour of Kuveyt Türk and acknowledged by the Certificateholders' Representative and will be governed by English law.

Pursuant to the Sale and Transfer Undertaking and following the occurrence of a Tax Event, Kuveyt Türk may, by exercising the right granted to it under the Sale and Transfer Undertaking and serving notice on the Certificateholders' Agent no later than 45 days prior to the Tax Redemption Date, oblige the Certificateholders' Agent to sell all of its rights interests, benefits and entitlements in, to and under the Asset Portfolio on the Tax Redemption Date at the Asset Portfolio Exercise Price (as defined above).

Kuveyt Türk may also exercise its rights under the Sale and Transfer Undertaking to effect the in kind substitution of Constituent Assets, subject to any substitute Constituent Assets being Constituent Assets of a Value not less than the Value of the Constituent Assets to be substituted (and provided that the Tangible Constituent Assets Value following such substitution is at least  $33^{1/3}$  per cent. of the Sukuk Assets Value), and, following any purchase of Certificates by Kuveyt Türk pursuant to Condition 10, to provide for the sale by the Certificateholders' Agent to Kuveyt Türk of Constituent Assets where the sum of the (i) Value of such Constituent Assets and (ii) the corresponding reduction to be made in the Principal Cash Amount under the Management Agreement is not greater than the aggregate face amount of the Surrender Certificates, against the cancellation of the Tangible Asset Percentage of the Surrender Certificates (which shall represent payment in kind for the Cancellation Constituent Assets and related retention by Kuveyt Türk of the relevant Principal Cash Amount).

## TAXATION

*The following is a general description of certain tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates. Prospective purchasers of the Certificates should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes of acquiring, holding and disposing of the Certificates and receiving payments under the Certificates. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.*

### **Turkey**

*The information below is a general overview of some of the tax implications in relation to an individual or corporation, which is not resident in Turkey, investing in lease certificates issued by a Turkish company which have been issued abroad. The information is based on existing Turkish law which may be subject to change, possibly with retrospective effect. The information below only describes tax considerations in Turkey and is applicable to a non-resident who does not hold Certificates in connection with the conduct of a trade or business through a permanent establishment in Turkey. This information does not cover all the tax consequences regarding the disposition or acquisition of ownership of Certificates or which is necessary to make a decision to invest in the Certificates. Accordingly each investor should seek its own independent tax advice before making a decision to invest in the Certificates.*

There are two main types of tax status: resident taxpayers, and non-resident taxpayers. Residents are taxed on their worldwide income, whereas, non-residents are taxed only on the income sourced in Turkey ("**Turkish income**").

If an activity generating trading income is performed or recorded in the books in Turkey, whether the payment is made in Turkey or abroad, any capital gain is considered to be Turkish income. When principal is invested in Turkey, any income from capital investment is considered to be Turkish income.

Pursuant to Income Tax Law No.193, an individual is considered to be a resident individual if such person has established domicile in Turkey or stays in Turkey for a continuous period of more than six months in a calendar year. An individual who is not domiciled in Turkey or does not stay in Turkey for more than six months in a calendar year is considered to be a non-resident individual. A resident individual is liable for Turkish taxes on his/her worldwide income, whereas a non-resident individual is liable for Turkish tax only on Turkish income.

Pursuant to the Corporate Tax Law No. 5520, corporations having their corporate domicile or effective place of management in Turkey are considered to be resident corporations and are taxed on their worldwide income. Corporations that do not have either a corporate domicile or an effective place of management in Turkey are considered to be non-resident corporations and are only taxed on trading income made through a permanent establishment/permanent representative or on Turkish income.

In general, capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the private sector bonds issued abroad may be subject to declaration. However, pursuant to Provisional Article 67 of the Turkish Income Tax Law, as amended by the Law numbered 6111, special or separate tax returns will not be submitted for capital gains from the private sector bonds of a Turkish corporate issued abroad when the income is derived by a non-resident. Therefore, no tax is levied on the non-resident persons on capital gains from such Certificates and no declaration is required.

According to Turkish law and regulations, periodic income payments on lease certificates issued abroad will be subject to withholding tax at a rate between 10 per cent. and 0 per cent. in Turkey. Withholding tax is applied by the issuer of lease certificates. If a double tax treaty is in effect between Turkey and the country of the non-resident corporation/individual which holds lease certificates and the double tax treaty provides a lower withholding tax rate than the current rate applicable in Turkey, the lower rate may be applied by the issuer.

Periodic income paid on lease certificates issued abroad by a Turkish corporate is subject to withholding tax. Through Decree No. 2009/14592 dated 12 January 2009 which has been amended by Decree No. 2010/1182 dated 20 December 2010 and Decree No. 2011/1854 dated 26 April 2011, Turkish withholding tax rates are set according to the maturity of the lease certificates as follows:

- 10 per cent. withholding tax for lease certificates with a maturity of less than one year;
- 7 per cent. withholding tax for lease certificates with a maturity between 1 and less than 3 years;
- 3 per cent. withholding tax for lease certificates with a maturity between 3 and less than 5 years;  
and
- 0 per cent. withholding tax for lease certificates with a maturity of 5 years and more.

Such withholding tax is the final tax for non-resident individuals and non-resident corporations and no further declaration is required.

A non-resident holder will not be liable for Turkish property, inheritance, stamp, registration or similar tax or duty with respect to its investment in the Certificates.

***The proposed financial transactions tax ("FTT")***

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transaction tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Certificates (including secondary market transactions) in certain circumstances. The issuance and subscription of Certificates should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (i) by transacting with a person established in a participating Member State; or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Certificates are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

Under the terms and conditions contained in a Subscription Agreement (the "**Subscription Agreement**") dated 27 October 2016 between the Issuer, Kuveyt Türk, Arab Banking Corporation B.S.C., Dubai Islamic Bank PJSC, Emirates NBD PJSC, KFH Capital Investment Company K.S.C.C., Noor Bank PJSC, QInvest LLC, Standard Chartered Bank, Al Rayan Investment L.L.C. and Warba Bank K.S.C.P. (together, the "**Managers**"), the Issuer has agreed to issue and sell to the Managers U.S.\$500,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Managers have jointly and severally agreed to subscribe for the Certificates.

The Subscription Agreement provides that the obligations of the Managers to pay for and accept delivery of the Certificates are subject to the approval of certain legal matters by their counsel and certain other conditions. Pursuant to the Subscription Agreement, the Managers will be paid certain commissions in respect of their services for managing the issue and sale of the Certificates. The Managers will also be reimbursed in respect of certain of their expenses, and each of the Issuer and Kuveyt Türk has agreed to indemnify the Managers against certain liabilities incurred in connection with the issue, offer and sale of the Certificates.

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

### ***Selling Restrictions***

#### **General**

Each Manager has represented, warranted and undertaken, that it has complied, and will comply, to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Certificates or possesses, distributes or publishes this Prospectus or any related offering material, in all cases at its own expense. Other persons into whose hands this Prospectus comes are required by the Issuer, Kuveyt Türk and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Certificates or possess, distribute or publish this Prospectus or any related offering material, in all cases at their own expense.

The Subscription Agreement provides that the Managers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out below) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Managers described in this paragraph.

#### **United States of America**

The Certificates have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager has represented, warranted and agreed that it has not offered or sold, and that it will not offer or sell, any Certificates constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates, nor any persons acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to any Certificates. Terms used in this paragraph have the meanings given to them by Regulation S.



In addition, until 40 days after the commencement of the offering of the Certificates, an offer or sale of Certificates within the United States by any dealer that is not participating in the offering of the Certificates may violate the registration requirements of the Securities Act.

### **United Kingdom**

Each Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Certificate in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or Kuveyt Türk; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

### **The Republic of Turkey**

The offering of the Certificates will be approved by the CMB only for the purpose of the sale of the Certificates outside of Turkey in accordance with Article 15(b) of Decree 32 on the Protection of the Value of the Turkish Currency ("**Decree 32**") and Article 11 of the Capital Markets Law (Law No. 6362) and accordingly the Certificates may only be offered or sold to real persons and legal entities domiciled outside of Turkey in accordance with the BRSA decision dated 6 May 2010 No. 3665 (as notified by the BRSA in its letter to the Participation Banks Association of Turkey dated 10 May 2010 and numbered B.02.1.BDK.0.11.00.00.31.2-9394). The CMB has authorised the offering of the Certificates provided that, following the primary sale of the Certificates, no party may engage in any transaction that may be deemed a sale of the Certificates in Turkey by way of private placement, public offering or otherwise.

Each Manager has represented, warranted and agreed that neither they, nor any of their respective affiliates, nor any person acting on their behalf, has engaged or will engage in any directed selling efforts within Turkey in connection with the Certificates. Each Manager has further represented, warranted and agreed that neither they nor any of their respective affiliates, nor any person acting on their behalf (i) has engaged or will engage in any form of general solicitation or general advertising in connection with any offer and sale of the Certificates in Turkey, or (ii) will make any disclosure in Turkey in relation to the Issuer, Kuveyt Türk, the Certificates or the Prospectus without the prior consent of Kuveyt Türk, save as may be required by applicable law, court order or regulation. Pursuant to Article 15(d)(ii) of Decree 32, there is no restriction on the offshore purchase or sale of Certificates by residents of Turkey on an unsolicited (reverse enquiry) basis, provided any such purchase or sale is undertaken in financial markets outside of Turkey and such purchase or sale is made through banks and/or licensed brokerage institutions authorised pursuant to CMB regulations.

### **Kingdom of Bahrain**

Each Manager has represented, warranted and agreed that it has not offered, and will not offer, Certificates to (i) the Public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001 of Bahrain)) in the Kingdom of Bahrain or (ii) any person in the Kingdom of Bahrain who is not an "accredited investor".

For this purpose, an "accredited investor" means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more;
- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

## Dubai International Financial Centre

Each Manager has represented, warranted 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) an "Exempt Offer" in accordance with the Markets Rules (MKT Module) of the Dubai Financial Services Authority ("**DFSA**"); and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module.

## Hong Kong

Each Manager 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, except for Certificates which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**"), other than: (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**CO**") or which do not constitute an offer to the public within the meaning of the CO; 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, 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 of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to 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 SFO and any rules made under the SFO.

## Malaysia

Each Manager has represented, warranted and agreed that:

- (a) this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the CMSA; and
- (b) accordingly, the Certificates have not been and will not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under (i) Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b)) and (ii) Schedule 8 (or Section 257(3)) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

## Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Certificates. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under Article 10 or Article 11 of the "Offers of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**"), through a person authorised by the Capital Market Authority (the "**CMA**") to carry on the securities activity of arranging and following a notification to the CMA under the KSA Regulations.

The Certificates may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 10 of the KSA Regulations or by way of a limited offer under Article 11 of the KSA Regulations. Each Manager has represented, warranted and undertaken that any offer of Certificates to a Saudi Investor will be made in compliance with the KSA Regulations.

Investors are informed that Article 17 of the KSA Regulations places restrictions on secondary market activity with respect to the Certificates, including as follows:

- (i) a Saudi Investor (referred to as a "**transferor**") who has acquired Certificates pursuant to a private placement may not offer or sell Certificates to any person (referred to as a "**transferee**") unless the offer or sale is made through an authorised person where one of the following requirements is met:
  - (a) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals one million or an equivalent amount;
  - (b) the Certificates are offered or sold to a sophisticated investor; or
  - (c) the Certificates are being offered or sold in such other circumstances as the CMA may prescribe for these purposes;
- (ii) if the requirement of paragraph (i)(a) above cannot be fulfilled because the price of the Certificates being offered or sold to the transferee has declined since the date of the original private placement, the transferor may offer or sell the Certificates to the transferee if their purchase price during the period of the original private placement was equal to or exceeded Saudi Riyals 1 million or an equivalent amount;
- (iii) if the requirement in paragraph (ii) above cannot be fulfilled, the transferor may offer or sell Certificates if he/she sells his entire holding of Certificates to one transferee; and

the provisions of paragraphs (i), (ii) and (iii) above shall apply to all subsequent transferees of the Certificates.

#### **State of Kuwait**

Each Manager has represented and agreed that the Certificates have not been and will not be marketed or sold by it in Kuwait unless: (a) all necessary approvals from the Kuwait Capital Markets Authority (the "**Authority**") pursuant to Law No. 7 of 2010 and its executive bylaws (each as amended) together with various resolutions, instructions and announcements issued pursuant thereto, or in connection therewith, have been granted; and (b) the Certificates are marketed or sold through persons or corporate entities authorised and licensed by the Authority to carry out such activities.

#### **State of Qatar**

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell or deliver, directly or indirectly, any Certificates in the State of Qatar including the Qatar Financial Centre, except: (i) in compliance with all applicable laws and regulations of the State of Qatar including the Qatar Financial Centre; and (ii) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar. The Prospectus has not been reviewed or approved beforehand by the Qatar Central Bank or the Qatar Financial Markets Authority and is only intended for specific recipients in compliance with the foregoing.

#### **Singapore**

Each Manager has represented, warranted and agreed that this Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented, warranted and agreed that it has not offered or sold any Certificates or caused the Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell any Certificates or cause the 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 and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the

Certificates, whether directly or indirectly, to any person in Singapore other than: (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "SFA")) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

- (A) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (B) where no consideration is or will be given for the transfer;
- (C) where the transfer is by operation of law;
- (D) as specified in Section 276(7) of the SFA; or
- (E) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

#### **United Arab Emirates (excluding the DIFC)**

Each Manager has represented, warranted and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

#### **General**

Each Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Certificates or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, Kuveyt Türk, the Certificateholders' Representative and any other Manager shall have any responsibility therefor.

None of the Issuer, Kuveyt Türk, the Certificateholders' Representative and any of the Managers represents that the Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale. Persons into whose possession this Prospectus or any Certificates may come must inform themselves about, and observe any applicable restrictions on the distribution of this Prospectus and the offering and sale of the Certificates.

## **GENERAL INFORMATION**

### **Authorisation**

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Issuer dated 29 July 2016. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Certificates and the execution and performance of the Transaction Documents.

The entry into of the Transaction Documents to which it is a party by Kuveyt Türk has been duly authorised by a resolution of the Board of Directors of Kuveyt Türk on 27 July 2016.

### **Listing**

Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the Official List and trading on the Main Securities Market. The listing of the Certificates is expected to be granted on or before 31 October 2016.

### **Listing Agent**

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection in relation to the Certificates and is not itself seeking admission of Certificates to the Official List or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

### **Documents Available**

For so long as any Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for physical inspection at the registered office of the Issuer and the offices of the Principal Paying Agent in London:

- (a) the Transaction Documents;
- (b) the Articles of Association and Certificate of Activities of the Issuer;
- (c) the Articles of Association, Certificate of Activities and the Council of Ministers Decree approving the incorporation of Kuveyt Türk;
- (d) the BRSA Accounts;
- (e) the BRSA Interim Financials;
- (f) the IFRS Accounts; and
- (g) this Prospectus.

### **Clearing Systems**

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The ISIN for the Certificates is XS1505149325. The Common Code for the Certificates is 150514932.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### **Significant or Material Change**

There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the prospects of the Issuer, in each case, since the date of its incorporation.

There has been no significant change in the financial position of the Group since 30 June 2016, the date of Kuveyt Türk's most recent unaudited consolidated interim financial statements prepared and presented

in accordance with BRSA principles, and there has been no material adverse change in the prospects of Kuveyt Türk since 31 December 2015, the date of Kuveyt Türk's most recent audited consolidated financial statements prepared and presented in accordance with BRSA principles.

### **Litigation**

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

The Group is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) in the 12 months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Group.

### **Auditors**

The BRSA Accounts and the IFRS Accounts were audited, without qualification, and the Interim BRSA Accounts were reviewed, in each case by DRT Bagimsiz Denetim ve Serbest Muhasebeci Mali Miişavirlik A.Ş. ("**Deloitte**"), member of Deloitte Touche Tohmatsu Limited. Deloitte is a member of the Independent Auditors' Association of Turkey and an institution authorised by the BRSA to conduct independent audits of banks in Turkey. The auditors of Kuveyt Türk have no material interest in Kuveyt Türk.

### **Expenses**

The expenses relating to the admission to trading of the Certificates on the Main Securities Market are expected to amount to €4,790.

### **Sharia Advisory Boards**

The transaction structure relating to the Certificates (as described in this Prospectus) has been reviewed by the QInvest *Sharia*'a Supervisory Board, the Fatwa and *Shari'a* Supervisory Board of Noor Bank, the Sharia Supervisory Committee of Standard Chartered Bank, the KFH Capital *Sharia* Committee and the Fatwa and *Shari'a* Supervision Board of Dubai Islamic Bank and Dar Al Sharia Legal and Financial Consultancy. Prospective Certificateholders should not rely on the review referred to above in deciding whether to make an investment in the Certificates and should consult their own Sharia advisers as to whether the proposed transaction is in compliance with Sharia principles.

### **Managers transacting with Kuveyt Türk**

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, Kuveyt Türk and their respective affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Managers or their affiliates that have a lending relationship with the Issuer and/or Kuveyt Türk routinely hedge their credit exposure to the Issuer and/or Kuveyt Türk, as the case may be, consistent with their customary risk management policies.

Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Certificates. Any such short positions could adversely affect future trading prices of the Certificates. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## ANNEX A - SUMMARY OF DIFFERENCES BETWEEN IFRS AND BRSA PRINCIPLES

BRSA principles differ from IFRS. Such differences primarily relate to the format of presentation of financial statements, disclosure requirements (e.g. IFRS 7) and accounting policies. BRSA format and disclosure requirements are prescribed by relevant regulations and do not always meet IFRS or IAS 34 standards. Among the differences in accounting policies some of the most important are:

- *Consolidation.* Only financial sector subsidiaries and associates are consolidated under BRSA Principles; others are carried at cost or at fair value. BRSA Principles provide exemptions for consolidation based on certain materiality criteria whereas this is not applicable in the case of IFRS.
- *Specific provisioning for loan losses.* The BRSA provisioning for loan losses is different from IAS 39 and is based on minimum percentages relating to the number of days overdue prescribed by relevant regulations, whereas the IFRS provisioning for loan losses is based on the present value of future cash flows discounted at original effective interest rates.
- *General loan loss provisioning.* This is required under BRSA Principles but prohibited under IFRS. Instead, IFRS requires portfolio/collective provisioning for groups of loans and receivables sharing similar characteristics and not individually identified as impaired. Moreover, the BRSA generic provisioning is based on minimum percentages defined in regulations for many asset classes (both on- balance and off-balance sheet), not only for loans, which is not the case with IFRS.
- *Investment property and assets held for sale.* Definitions and accounting treatment according to BRSA Principles are different from those under IFRS (based on regulations prescribed by the BRSA). Under BRSA Principles depreciation of assets held for sale is taken into account, whereas pursuant to IFRS it is carried at fair value.
- *Deferred taxation.* Certain differences exist in this area. According to the IAS 12 Income Taxes deferred taxation is calculated in full on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the group, whereas under BRSA Principles there are some specific exemptions. For example, under BRSA Principles there are some specific exemptions such as no deferred tax being computed in relation to general loan loss provisions.
- *Application period for hyperinflationary accounting.* Under BRSA Principles, this period ends at 1 January 2005 whereas under IFRS it ends at 1 January 2006, constituting a one year difference between the two.

Similar differences with IFRS also exist in the accounting policies and disclosure requirements applied to consolidated subsidiaries, especially those providing life and non-life insurance services which are subject to Undersecretariat of Treasury policies/requirements and factoring and leasing services which are subject to specific BRSA policies/requirements.

## **ISSUER AND CERTIFICATHOLDERS' AGENT**

### **KT Kira Sertifikaları Varlık Kiralama A.Ş.**

Büyüdere Cad. No 129/1 Kat:3, 34394  
Esentepe Şişli  
İstanbul  
Turkey

## **KUVEYT TÜRK**

### **Kuveyt Türk Katılım Bankası A.Ş.**

Büyüdere Cad. No 129/1, 34394  
Esentepe Şişli  
İstanbul  
Turkey

## **SOLE GLOBAL COORDINATOR**

### **KFH Capital Investment Company K.S.C.C.**

Level 23, Baitak Tower  
Safat Square, Ahmed Al Jaber Street  
Kuwait City  
P.O. Box 2650 Mishref  
40177 Kuwait

## **JOINT LEAD MANAGERS**

### **Arab Banking Corporation**

**B.S.C.**  
Head Office  
P.O. Box 5698  
Manama  
Kingdom of Bahrain

### **Dubai Islamic Bank PJSC**

P.O. Box 1080  
Dubai  
United Arab Emirates

### **Emirates NBD PJSC**

P.O. Box 777  
Dubai  
United Arab Emirates

### **KFH Capital Investment Company**

**K.S.C.C.**  
Level 23, Baitak Tower  
Safat Square, Ahmed Al Jaber Street  
Kuwait City  
P.O. Box 2650 Mishref  
40177 Kuwait

### **Noor Bank PJSC**

P.O. Box 8822  
Dubai  
United Arab Emirates

### **QInvest LLC**

Tornado Tower, 39th Floor  
West Bay  
Doha  
P.O. Box 26222  
State of Qatar

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