PROSPECTUS
Dated 22 April 2014

TF Varlık Kiralama A.Ş.

(incorporated in the Republic of Turkey as an asset lease company in the form of a joint stock company)

U.S.$500,000,000 Certificates due 2019

The U.S.$500,000,000 certificates due 2019 (the "**Certificates**") of TF Varlık Kiralama A.Ş. (the "**Issuer**") will be authorised and issued in accordance with the terms of the Transaction Documents (as defined herein) including an agreement (the "**Representative Agreement**") dated on or around 24 April 2014 (the "**Closing Date**") between the Issuer, Türkiye Finans Katılım Bankası A.Ş. ("**Türkiye Finans**" or the "**Bank**") and Citibank N.A., London Branch (the "**Representative**"). The proceeds of issuance of the Certificates shall be applied by the Issuer towards the acquisition of Sukuk Assets (as defined herein) as authorised and directed by the Certificateholders (as defined herein) in the terms and conditions of the Certificates (the "**Conditions**"). The Issuer will hold its interests in the Sukuk Assets on its own behalf and for the account of the Certificateholders pursuant to the Representative Agreement. Under the laws of the Republic of Turkey ("**Turkey**"), the Issuer will hold its interest in the Sukuk Assets in its own name and on its own behalf and for the account and benefit of the Certificateholders and the income from the Sukuk Assets, together with any capital arising from the disposal of any Sukuk Assets, shall be for the Issuer and for the account and benefit of the Certificateholders.

On 24 April and 24 October in each year commencing on 24 October 2014 (each, a "**Periodic Distribution Date**"), the Issuer will pay Periodic Distribution Amounts (as defined herein) to Certificateholders calculated at the rate of 5.375 per cent. per annum on the outstanding face amount of the Certificates as at the beginning of the relevant Return Accumulation Period (as defined herein) on a 30/360 day basis.

The Issuer will pay such Periodic Distribution Amounts from the proceeds received in respect of the Sukuk Assets which include payments received under the Portfolio Assets pursuant to the Initial Asset Portfolio Sale and Purchase Agreement and amounts of Deferred Payment Price received pursuant to the Murabaha Agreement (all terms as defined herein). Unless previously redeemed in the circumstances described in Condition 13 (*Dissolution Events*), the Certificates will be redeemed on the Periodic Distribution Date falling on 24 April (the "**Scheduled Dissolution Date**") at the Dissolution Distribution Amount (as defined herein). The Issuer will pay the Dissolution Distribution Amount solely from the proceeds received in respect of the Sukuk Assets (see "*Structure Diagram and Cashflows — Dissolution Payment by Türkiye Finans*").

The Certificates will be limited recourse obligations of the Issuer. An investment in 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 (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the official list (the "**Official List**") and trading on its regulated market (the "**Main Securities Market**"). Such approval relates only to the Certificates which are to be admitted to trading on the Main Securities Market or any other regulated markets for the purposes of Directive 2004/39/EC (each such regulated market being a "**MiFID Regulated Market**") or which are to be offered to the public in any member state of the European Economic Area (each a "**Member State**").

Application has been made to the Capital Markets Board of Turkey (the "**CMB**") in its capacity as competent authority under Law No. 6362 of Turkey relating to capital markets (the "**Capital Markets Law**") for the approval of and the issuance and sale of the Certificates by the Issuer outside Turkey. The issuance of the Certificates was approved by the CMB on 10 April 2014 and the approved issuance document relating to the Certificates is expected to be obtained from the CMB on or before 24 April 2014.

The Certificates are expected to be assigned a rating of BBB by Fitch Ratings Ltd. ("**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 ratings agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold the Certificates (or interests therein) and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Turkey has been assigned a long-term debt rating of BB+ (negative outlook) by Standard & Poor's Credit Market Services Europe Limited, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**"), Baa3 (negative outlook) by Moody's Investors Service Limited ("**Moody's**") and BBB- (stable outlook) by Fitch. Each of Standard & Poor's and Moody's is established in the European Union and is registered under the CRA Regulation. As such, each of Standard & Poor's and Moody's is included in the list of credit ratings agencies published by ESMA on its website in accordance with the CRA Regulation.

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 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 or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act ("**Regulation S**") except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. 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 S.A/N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the *Sharia* Supervisory Board of Citi Islamic Investment Bank E.C., the *Sharia'a* Supervisory Board of QInvest LLC and the HSBC Saudi Arabia Executive Shari'ah Committee. 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.

Joint Lead Managers

Citigroup **Emirates NBD Capital** **HSBC** **QInvest**

Co-Managers

Commercial Bank International **Dubai Islamic Bank**

The date of this Prospectus is 22 April 2014

IMPORTANT NOTICES

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State) (the "Prospectus Directive") and for the purpose of giving information with regard to the Issuer, Türkiye Finans and the Certificates which, according to the particular nature of the Issuer, Türkiye Finans 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 and Türkiye Finans.

The Issuer and Türkiye Finans accept responsibility for the information contained in this Prospectus and each declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

The Managers (as defined herein) and the Representative have not independently confirmed the accuracy and completeness of the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers and the Representative as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Managers and the Representative in connection with the offering of the Certificates.

Certain information under the headings "*Risk Factors*", "*Description of Türkiye Finans Katılım Bankası A.Ş.*", "*Selected Financial Overview*" and "*Overview of the Turkish Banking Sector and Regulations*" has been extracted from: The Banks' Association of Turkey, the Banking Regulation and Supervision Agency of Turkey (the "**BRSA**"), the Central Bank of the Republic of Turkey (the "**Turkish Central Bank**"), the Turkish Statistical Institute, the General Directorate of the Public Accounts, the Turkish Treasury, the Turkish State Planning Organisation, the International Monetary Fund (the "**IMF**"), the Participation Banks' Association of Turkey and the Turkish participation banks' published financial statements. Each of Türkiye Finans and the Issuer confirms that third party information contained in this Prospectus has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant sources referred to, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of any third party information is stated where such information appears in this Prospectus.

No person has been authorised by the Issuer or Türkiye Finans to give any information or to make any representation not contained in or not consistent with this Prospectus or any other document entered into in relation to the offering of the Certificates any information supplied by the Issuer or Türkiye Finans or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, Türkiye Finans, the Representative or any of the Managers.

None of the Managers, the Representative or any of their respective affiliates make any representation or warranty or accept any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor any sale of any Certificates shall, under any circumstances, create any implication that the information contained in this Prospectus is true subsequent to the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer or Türkiye Finans since the date hereof or, if later, the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Certificates is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Representative and the Managers expressly do not undertake to review the financial condition or affairs of the Issuer or Türkiye Finans during the life of the Certificates or to advise any investor in the Certificates of any information coming to their attention.

No comment is made or advice given by the Issuer, Türkiye Finans, the Representative or the Managers in respect of taxation matters relating to any Certificates or the legality of the purchase of Certificates by an investor under applicable or similar laws.

The distribution of this Prospectus and the offering, sale and delivery of the Certificates in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus or any other information supplied in connection with the Certificates comes are required by the Issuer, Türkiye Finans and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Certificates and on the distribution of this Prospectus and other offering material relating to the Certificates, see "*Subscription and Sale*". In particular, Certificates have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**"). Subject to certain exceptions, Certificates may not be offered, sold or delivered within the United States or to U.S. persons as defined in Regulation S under the Securities Act ("**Regulation S**"). The Issuer, Türkiye Finans, the Representative and the Managers do not represent 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 assume any responsibility for facilitating any such distribution or offering.

Neither this Prospectus nor any other information supplied in connection with the Certificates constitutes an offer or an invitation to subscribe for or purchase any Certificates and should not be considered as a recommendation by the Issuer, Türkiye Finans, the Representative and the Managers or any of them that any recipient of this Prospectus or any other information supplied in connection with the Certificates should subscribe for or purchase any Certificates. Each recipient of this Prospectus or any other information supplied in connection with the Certificates shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer and Türkiye Finans.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning Türkiye Finans' 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. Türkiye Finans has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although Türkiye Finans believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise, including those which Türkiye Finans has identified in this Prospectus, or if any of Türkiye Finans' underlying assumptions prove to be incomplete or inaccurate, Türkiye Finans' actual results of operation may vary from those expected, estimated or predicted.

These forward-looking statements speak only as at the date of this Prospectus. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*". Without prejudice to any requirements under applicable laws and regulations, Türkiye Finans 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.

The investment activities of certain investors are subject to legal investment laws and regulations, or the review of such laws and regulations by certain governmental or regulatory authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Certificates constitute legal investments for it; (ii) the Certificates can be used as collateral for various types of borrowing; and (iii) other restrictions apply to any purchase or pledge of any Certificates by the investor. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules and regulations.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Accounting Records

Türkiye Finans maintains its books and prepares its consolidated financial statements in Turkish Lira ("**TRY**") in accordance with the "Regulation on Accounting Applications and Safeguarding of Documents" published in the Official Gazette No. 26333 on 1 November 2006, published by the BRSA, Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Public Oversight Accounting and Auditing Standards Authority and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the BRSA in accordance with Article 37 and Article 38 of the Banking Law No. 5411 (collectively, "**BRSA Principles**"), the "Communiqués Related to Publicly Announced Financial Statements of Banks and Explanations and Notes Related to these Financial Statements" published in the Official Gazette No. 26430 dated 10 February 2007, the Banking Law No. 5411 which is effective from 1 November 2005, the Turkish Commercial Code and Turkish tax legislation.

Financial Statements

Although Türkiye Finans is not required by Turkish law to prepare financial statements in accordance with International Financial Reporting Standards ("**IFRS**"), including International Accounting Standards ("**IAS**") as promulgated by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as international investors are generally unfamiliar with BRSA Principles, Türkiye Finans has included IFRS financial statements (the "**IFRS Financial Statements**") elsewhere in this Prospectus. The IFRS Financial Statements consist of the audited consolidated annual financial statements of Türkiye Finans as at and for the year ended 31 December 2013 and the audited unconsolidated annual financial statements of Türkiye Finans as at and for the year ended 31 December 2012, presented herein (the "**Audited Annual Financial Statements**"). The Audited Annual Financial Statements have been prepared in accordance with IFRS as issued by the IASB and were audited by Türkiye Finans' independent auditors, Akis Bağimsiz Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (the Turkish member firm of KPMG International Cooperative, a Swiss entity) ("**KPMG**").

Türkiye Finans prepares financial information in accordance with IFRS on a semi-annual and annual basis only. Türkiye Finans has also included in this Prospectus its audited consolidated annual financial statements prepared in accordance with BRSA Principles as at and for the year ended 31 December 2013 (the "**BRSA Financial Statements**"). A summary of differences between IFRS and BRSA Principles and details of the reconciliation of certain BRSA and IFRS data are set out in the "*Summary of Differences between IFRS and BRSA Principles*".

Except as otherwise indicated, the financial information presented in this Prospectus has been extracted from the Audited Annual Financial Statements.

Where historical financial information of Türkiye Finans has been translated from Turkish into English, the English translations included herein constitute direct and accurate translations of the Turkish originals.

Reclassifications

Certain reclassifications were made in the comparable financial statements as at and for the year ended 31 December 2012 which were included in the 2013 Audited Annual Financial Statements;

- proceeds from funds borrowed amounted to TRY2,561.7 million as at 31 December 2012 were reclassified from cash flows from financing activities to net cash used in operating activities in 31 December 2013 financial statements for comparative purposes; and
- repayments of funds borrowed amounted to TRY1,582.8 million as at 31 December 2012, reclassified from cash flows from financing activities to net cash used in operating activities in 31 December 2013 financial statements for comparative purposes.

Certain reclassifications were made in the comparable financial statements as at and for the year ended 31 December 2011 which were included in the 2012 Audited Annual Financial Statements. The table below shows the effect of these reclassifications:

Statement of financial position

	Year ended 31 December 2011	
	After reclassification	**Before reclassification**
	(TRY in thousands) (audited)	
Cash and balances with Central Bank of Turkey	882,815	1,261,757
Loans and advances to banks	647,342	268,400

The reason for such reclassification was that during the financial year ended 31 December 2012, unallocated gold account amounting to TRY 378,942 was reclassified from the account "Cash and balances with Central Bank of Turkey" to the account "Loans and advances to banks".

Certain Conventions

In this Prospectus, references to "**Turkish Lira**" and "**TRY**" are to the currency of Turkey; references to "**U.S. dollars**", "**U.S.$**", "**dollars**" and "**$**" refer to United States dollars being the legal currency for the time being of the United States of America; and references to "**euro**" and "**€**" are to the currency introduced at the start of the third stage of the Treaty on the Functioning of the European Union, as amended. 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.

Unless otherwise indicated, all amounts in this Prospectus are presented in Turkish Lira.

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

Foreign Language

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable 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 a "**Member State**" herein are references to a Member State of the European Economic Area;
- references to "**Turkey**" or to the "**Republic**" herein are to the Republic of Turkey; and
- references to "**Turkish Central Bank**" are to the Central Bank of the Republic of Turkey.

CREDIT RATING AGENCIES

Fitch has assigned Türkiye Finans a rating of BBB, and assigned the Certificates a rating of BBB. See pages i, 10 and 21.

Fitch is established in the European Union and is registered under the CRA Regulation.

STABILISATION

In connection with the issue of the Certificates, a Joint Lead Manager acting as Stabilising Manager (or persons acting on behalf of the Stabilising Manager) may effect transactions with a view to supporting the market price of the Certificates at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Certificates is made and, if begun, may be ended at any time, but it must end no later than the earlier of thirty (30) days after the issue date of the Certificates and sixty (60) days after the date of the allotment of the Certificates. Any stabilisation action must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

SUITABILITY OF INVESTMENTS

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

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Prospectus;

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

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;

(d) understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

NOTICE TO UK RESIDENTS

The Certificates constitute "alternative finance investment bonds" within the meaning of Article 77A of the Financial Services and Markets Act 2000 ("FSMA") 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: (A) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Financial Promotion Order"); and (ii) persons falling within any of the categories of persons described in Article 49 (*High net worth companies, unincorporated associations, etc*) of the Financial Promotion Order; and (B) if effected by a person who is an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "Promotion of CISs Order"); (ii) persons falling within any of the categories of person described in Article 22 (*High net worth companies, unincorporated associations, etc.*) of the Promotion of CISs Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Prospectus or any other marketing materials in relation to the Certificates.

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

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.

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. The CMB approval for the sale of the Certificates and the approved issuance document are expected to be obtained from the CMB on or about 24 April 2014.

NOTICE TO THE KINGDOM OF BAHRAIN RESIDENTS

In relation to investors in the Kingdom of Bahrain, the Certificates issued in connection with this Prospectus and related offering documents may only be offered in registered form to existing account holders and accredited investors as defined by the Central Bank of Bahrain ("CBB") in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.$100,000 or any equivalent amount in other currency or such other amount as the CBB may determine.

This Prospectus does not constitute an offer of securities in the Kingdom of Bahrain in terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no securities may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside the Kingdom of Bahrain.

The CBB has not reviewed, approved or registered this Prospectus or related offering documents and it has not in any way considered the merits of the Certificates to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Prospectus and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Prospectus. No offer of securities will be made to the public in the Kingdom of Bahrain and this Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

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, directly or indirectly, and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons or in categories falling within Schedule 6 or Section 229(l)(b), Schedule 7 or Section 230(l)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act, 2007 of Malaysia. The Securities Commission of Malaysia

shall not be liable for any non-disclosure on the part of the Issuer or Türkiye Finans and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus.

KINGDOM OF SAUDI ARABIA NOTICE

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "Capital Market Authority"). The Capital Market Authority does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of the Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Prospectus he or she should consult an authorised financial adviser.

NOTICE TO QATARI RESIDENTS

This Prospectus is not intended to constitute an offer, sale or delivery of bonds or other debt financing instruments under the laws of the State of Qatar. The Certificates have not been and will not be authorised by the Qatar Financial Markets Authority ("QFMA"), the Qatar Financial Centre ("QFC") or the Qatar Central Bank ("QCB") in accordance with their regulations or any other regulations in the State of Qatar. The Certificates and interests therein will not be offered to investors domiciled or resident in the State of Qatar and do not constitute debt financing in the State of Qatar under the Commercial Companies Law No. (5) of 2002 (the "Commercial Companies Law") or otherwise under any laws of the State of Qatar.

CONTENTS

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" and "Summary of the Principal Transaction Documents" shall have the same meanings in this overview. Reference to a "Condition" is to a numbered condition of the Conditions.

Issuer	TF Varlık Kiralama A.S. (the "**Issuer**"), a joint stock company (*anonim şirket*) incorporated in accordance with the laws of, and formed and registered in, Turkey. The Issuer has been incorporated for the purpose of issuing lease certificates and entering into related transaction documents and participating in the transactions contemplated by the Transaction Documents to which it is a party. The Issuer shall on the Closing Date issue the Certificates to the Certificateholders.
Ownership of the Issuer	The authorised share capital of the Issuer is TRY 50,000 consisting of 50,000 shares of TRY 1 each, of which 50,000 shares are fully paid up and issued. The Issuer's entire issued share capital is held by Türkiye Finans.
Asset Seller	Türkiye Finans as seller (in such capacity, the "**Asset Seller**"). In accordance with the Initial Asset Portfolio Sale and Purchase Agreement, the Asset Seller will sell and transfer, and the Issuer in its capacity as purchaser (in such capacity, the "**Asset Purchaser**") will purchase and accept the transfer of, all of the Asset Seller's interest, rights, benefits and entitlements, to and under: (i) certain assets held and leased by the Asset Seller to customers pursuant to the related lease finance documents (together with the interests, rights, benefits and entitlements of the Asset Seller thereunder) (except legal title, which shall remain with the Asset Seller) (the "**Lease Assets**"); and (ii) certain *Shari'a* compliant sukuk or trust certificates that are fully backed by, or based on, underlying tangible assets (together with the interests, rights, benefits and entitlements of the Asset Seller under the associated sukuk documents) (the "**Investment Sukuk**", and together with the Lease Assets, the "**Initial Portfolio Assets**") comprised in a portfolio (the "**Initial Asset Portfolio**").
Commodity Purchaser	Türkiye Finans as purchaser (in such capacity, the "**Commodity Purchaser**"). In accordance with the Murabaha Agreement, the Commodity Purchaser may request, by way of a Notice of Request to Purchase, the Issuer as seller (the "**Commodity Seller**") to purchase certain Commodities from the Supplier on spot payment and spot delivery terms. The Commodity Seller will purchase the Commodities from the Supplier using a portion of the proceeds from the issuance of the Certificates. After purchasing the Commodities, the Commodity Seller will offer to sell those Commodities to the Commodity Purchaser on spot delivery terms with payment on a deferred basis by submitting an Offer Notice to the Commodity Purchaser. The Commodity Purchaser may accept the offer by countersigning the Offer Notice.

Upon doing so a Murabaha Contract shall be concluded between the two parties. The Commodity Purchaser will pay the profit component of the Deferred Payment Price to the Commodity Seller, by crediting such amount to the Profit Collection Account, in equal instalments on the date falling one (1) Business Day prior to each Periodic Distribution Date. The Commodity Purchaser will undertake in the Murabaha Agreement to pay the outstanding Deferred Payment Price to the Commodity Seller in accordance with the terms of the Murabaha Agreement, including on the Business Day prior to a Dissolution Date.

(See "*Summary of Principal Transaction Documents — Murabaha Agreement*" for further details).

Obligor

Türkiye Finans in its capacity as obligor (in such capacity, the "**Obligor**").

In accordance with the terms of the Purchase Undertaking, the Obligor will:

(a) following a Dissolution Event which is continuing or on the Business Day prior to the Scheduled Dissolution Date, and the service of an exercise notice (a "**Purchase Undertaking Exercise Notice**") by or on behalf of the Issuer, pay the Dissolution Event Exercise Price to the Issuer. Following payment of the Dissolution Event Exercise Price in accordance with the terms of the Purchase Undertaking, the Obligor will, as consideration therefor purchase the Issuer's interests, rights, benefits and entitlements in, to and under the Portfolio Assets, in which case the Dissolution Event Exercise Price will represent the purchase price for the Portfolio Assets; and

(b) following the occurrence of a Change of Control and service of a change of control exercise notice (the "**Change of Control Exercise Notice**") by or on behalf of the Issuer, the Obligor will pay the Change of Control Exercise Price to the Issuer. Following the payment of the Change of Control Exercise Price in accordance with the terms of the Purchase Undertaking, the Obligor will, as consideration therefor, purchase the Issuer's interests, rights, benefits and entitlements in, to and under the Change of Control Redemption Assets, in which case the Change of Control Exercise Price will represent the purchase price for the relevant Change of Control Redemption Assets.

(See "*Summary of the Principal Transaction Documents — Purchase Undertaking*" for further details).

Managing Agent

Türkiye Finans in its capacity as Managing Agent (the "**Managing Agent**"). In accordance with the terms of the Management Agency Agreement, the Managing Agent shall provide certain services with respect to the Sukuk Assets, including, but not limited to, maintaining a Principal Collection Account and Profit Collection Account, managing and ensuring the timely receipt of all Revenues from the Portfolio Assets, any Shari'a Compliant

Investments and the Murabaha Contract from time to time, notifying the Issuer regarding the availability (if any) of Eligible Portfolio Assets and the amount standing to the credit of the Principal Collection Account which can be used for purchasing Eligible Portfolio Assets or making Shari'a Compliant Investments (as the case may be).

Pursuant to the Management Agency Agreement, the Managing Agent will credit all Profit Revenues to the Profit Collection Account and will, on the Business Day prior to each Periodic Distribution Date, pay amounts standing to the credit of the Profit Collection Account to the Transaction Account for the purposes of payment of the Periodic Distribution Amounts payable by the Issuer under the Certificates.

The Managing Agent shall, on the Business Day prior to the Dissolution Date:

(a) ensure that all amounts standing to the credit of the Principal Collection Account are promptly credited to the Transaction Account; and

(b) procure the liquidation of all Shari'a Compliant Investments and pay the Investment Liquidation Amount into the Transaction Account.

(See "*Summary of the Principal Transaction Documents — Management Agency Agreement*" for further details).

Joint Bookrunners — Citigroup Global Markets Limited, Emirates NBD Capital Limited, HSBC Bank plc and QInvest LLC.

Joint Lead Managers — Citigroup Global Markets Limited, Emirates NBD Capital Limited, HSBC Bank plc and QInvest LLC.

Co-Managers — Commercial Bank International PSC and Dubai Islamic Bank PJSC

Representative — Citibank N.A., London Branch. In accordance with the Representative Agreement, the Representative will agree to undertake certain administrative functions in respect of the Certificates and the Transaction Documents and, in such capacity, shall act solely as trustee of the Certificateholders. The appointment of the Representative does not affect the Issuer's continuing role and obligations.

Principal Paying Agent and Transfer Agent — Citibank N.A., London Branch.

Registrar — Citigroup Global Markets Deutschland AG.

Summary of the Structure — An overview of the structure of the transaction and the principal cash flows is set out in the section entitled "*Structure Diagram and Cash Flows*".

Summary of the Principal Transaction Documents — An overview of the principal terms of the principal Transaction Documents is set out in the section entitled "*Summary of the Principal Transaction Documents*".

Certificates — U.S.$500,000,000 Certificates due 2019.

Sukuk Assets — The Issuer will hold the Portfolio Assets, the right to receive the outstanding Deferred Payment Price under the Murabaha Contract, any Shari'a Compliant Investments and the amounts standing to the credit of the Principal

	Collection Account and Profit Collection Account from time to time (together, the "**Sukuk Assets**") on its own behalf and for the account of the Certificateholders.
Lease Certificate Assets	So long as the Lease Certificate Communiqué (Serial No. III/61.1 and published in the official gazette dated 7 June 2013 numbered 28670) applicable to asset leasing companies (the "**Sukuk Communiqué**") permits, each Certificate will evidence the entitlement of each Certificateholder to an undivided interest in: (a) all of the Issuer's interest, rights, benefit and entitlements, present and future, in, to and under the relevant Sukuk Assets; (b) the interest, rights, benefits and entitlements, present and future, of the Issuer in, to and under the Transaction Documents (excluding: (i) any representations given by Türkiye Finans to the Issuer and the Representative pursuant to any of the Transaction Documents; and (ii) the indemnities given by Türkiye Finans to the Issuer pursuant to the Representative Agreement); (c) all monies standing to the credit of the Transaction Account; and all proceeds of the foregoing *pro rata* according to the face amount of Certificates held by each holder (together, the "**Lease Certificate Assets**").
Closing Date	24 April 2014.
Issue Price	100 per cent. of the aggregate face amount of the Certificates.
Periodic Distribution Dates	24 April and 24 October in each year commencing on 24 October 2014 and ending on 24 April 2019.
Periodic Distributions	On each Periodic Distribution Date, Certificateholders will receive a Periodic Distribution Amount in U.S. dollars equaling the product of: (a) 5.375 per cent. per annum; and (b) the face amount of their 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 9 (*Capital Distributions*).
Return Accumulation Period	The period from and including the Closing Date to, but excluding the first Periodic Distribution Date and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date or, if earlier, the Dissolution Date.
Scheduled Dissolution	The Scheduled Dissolution Date is 24 April 2019. The Issuer shall use the Dissolution Event Exercise Price payable in accordance with the terms of the Purchase. Undertaking, the outstanding Deferred Payment Price payable in accordance with the terms of the Murabaha Agreement and any amounts standing to the credit of the Principal Collection Account or invested in Shari'a

Compliant Investments in accordance with the Management Agency Agreement to redeem the outstanding Certificates at the Dissolution Distribution Amount.

Early Dissolution

The Certificates may be redeemed in full prior to the Scheduled Dissolution Date:

(a) on the Dissolution Event Redemption Date upon the occurrence of a Dissolution Event;

(b) on the Tax Redemption Date upon the occurrence of a Tax Event;

(c) on the Change of Control Redemption Date, upon the occurrence of a Change of Control and the exercise of the Change of Control Put Option by holders of 100 per cent. of the Certificates;

(d) at the option of the Issuer, in the event that holders of 75 per cent. or more of the aggregate outstanding face amount of the Certificates exercise the Change of Control Put Option; or

(e) upon redemption and cancellation of all of the outstanding Certificates as a result of Türkiye Finans holding all of the Certificates and delivering a Redemption and Cancellation Notice on a Redemption and Cancellation Date.

Dissolution Events

The Dissolution Events are set out in Condition 13 (*Dissolution Events*). Following the occurrence of a Dissolution Event which is continuing, the Certificates may be redeemed in full at the Dissolution Distribution Amount.

Dissolution Distribution Amount

The aggregate outstanding face amount of the Certificates plus all accrued and unpaid Periodic Distribution Amounts in respect of such Certificates.

Change of Control

In the event that:

(a) The National Commercial Bank ceases to have the power to direct the management and policies of Türkiye Finans (whether through the ownership of voting capital, by contract, decree or otherwise); or

(b) there is a reduction in the principal share ownership of The National Commercial Bank in Türkiye Finans to less than fifty one per cent. (51%) of the issued share capital of Türkiye Finans,

(each a "**Change of Control**"), each Certificateholder will have the right to require the redemption of its Certificates on the Change of Control Put Option Date. Following payment by Türkiye Finans of the Change of Control Exercise Price under the Purchase Undertaking, the Murabaha Contract Change of Control Amount, under the Murabaha Agreement and the Principal Collections Change of Control Amount and Shari'a Compliant Investments Change of Control Amount under the Management Agency Agreement, the Issuer will redeem the relevant Certificates on the Change of Control Redemption Date at the Change of Control Amount.

Early Dissolution for Tax Reasons	Where the Issuer has or will become obliged to pay any additional amounts in respect of the Certificates pursuant to Condition 10 (*Taxation*) or Türkiye Finans has or will become obliged to pay any additional amounts in respect of amounts payable under the Transaction Documents to which it is a party as a result of a change in the laws of a Relevant Jurisdiction and such obligation cannot be avoided by the Issuer or the Managing Agent, as applicable, taking reasonable measures available to it, the Issuer shall, following receipt of a Sale Undertaking Exercise Notice from Türkiye Finans pursuant to the Sale Undertaking and payment by Türkiye Finans of the Sale Undertaking Exercise Price under the Sale Undertaking, the outstanding Deferred Payment Price under the Murabaha Agreement and any amounts standing to the credit of the Principal Collection Account or invested in Shari'a Compliant Investments under the Management Agency Agreement, redeem the Certificates in whole but not in part at an amount equal to the Early Dissolution Amount (Tax) together with any accrued but unpaid Periodic Distribution Amounts on the relevant Dissolution Date.
Covenants	The Purchase Undertaking contains a negative pledge given by Türkiye Finans and events of default that apply to Türkiye Finans. (See "*Summary of the Principal Transaction Documents — Purchase Undertaking*" for further details.)
Role of the Representative	Pursuant to the Representative Agreement, the Representative has agreed to act as trustee of the Certificateholders and undertake certain administrative functions in respect of the Certificates and the Transaction Documents. In particular, the Representative shall have the power to determine, in accordance with the Conditions, whether any Dissolution Event has occurred. In addition, the Representative has the benefit of the Issuer's covenant to pay all amounts falling due under the Certificates from time to time.
Purchase of Certificates by Türkiye Finans	In accordance with Condition 12 (*Purchase and Cancellation of Certificates*), Türkiye Finans may at any time purchase Certificates in the open market or otherwise. Where Türkiye Finans has purchased Certificates and wishes to cancel those Certificates (the "**Redemption Certificates**"), Türkiye Finans may deliver a cancellation notice (a "**Redemption and Cancellation Notice**") to the Issuer pursuant to the Redemption Undertaking obliging the Issuer to purchase and cancel the Redemption Certificates. Following the exercise of such right, the Issuer will: (i) purchase the Redemption Certificates from Türkiye Finans; (ii) cancel such Redemption Certificates; (iii) sell to Türkiye Finans the Issuer's interests, rights, benefits and entitlements in, to and under the Portfolio Assets specified in the relevant Redemption and Cancellation Notice and the relevant Redemption Sale Agreement (the "**Redemption and Cancellation Assets**") (in which case the redemption and cancellation of the relevant proportion of the Redemption Certificates shall be the consideration for such purchase); (iv) subject to the terms of the Redemption Undertaking, pay the Redemption Amount (in which case the redemption and cancellation of

the remaining proportion of the Redemption Certificates shall be the consideration for such payment); and (v) enter into a sale agreement (the "**Redemption Sale Agreement**") pursuant to which the Redemption and Cancellation Assets will be sold to Türkiye Finans.

(See "*Summary of the Principal Transaction Documents — Redemption Undertaking*" for further details).

Substitution of Portfolio Assets

Türkiye Finans may substitute Portfolio Assets from time to time in accordance with the relevant provisions of the Sale Undertaking, **provided that**, amongst other things, the aggregate Outstanding Principal Value of the Eligible Portfolio Assets (the "**New Assets**") replacing the existing Portfolio Assets being substituted (the "**Substituted Assets**") is equal to the Outstanding Principal Value of the Substituted Assets immediately prior to the substitution. The Issuer may substitute Impaired Portfolio Assets with New Assets in accordance with the terms of the Purchase Undertaking.

Form and Delivery of the Certificates

(See "*Summary of the Principal Transaction Documents*" for further details).

The Certificates will be issued in registered global form only. The Certificates will be represented on issue by interests in the Global Certificate which will be deposited with 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 the 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, as the case may be. 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 of the Certificates

Subject to the terms of the Transaction Documents and the Conditions, each Certificate will rank *pari passu*, without any preference, with the other Certificates.

All amounts due from Türkiye Finans under the Transaction Documents to which it is a party will constitute direct, unconditional, unsubordinated and unsecured obligations of Türkiye Finans and will rank at least *pari passu* among themselves and at least *pari passu* with all other present and future unsubordinated and unsecured obligations of Türkiye Finans, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Transaction Account

The Principal Paying Agent will maintain and operate a U.S. dollar account opened in the name of the Issuer (the "**Transaction Account**"). Payments to the Issuer by the Managing Agent and the Obligor under the Transaction Documents will be credited to the Transaction Account. Periodic Distribution Amounts and the Dissolution

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 Dissolution 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 extent not previously paid) to pay the Representative all amounts owing to it under the Transaction Documents in its capacity as Representative and to any receiver, manager or administrative receiver or any other analogous officer appointed by the Representative in accordance with the Representative Agreement;

(b) *second*, (to the extent not previously paid) to pay *pro rata* and *pari passu*: (i) the Issuer in respect of all amounts properly incurred and documented owing to it under the Transaction Documents in its capacity as Issuer; and (ii) to the extent not paid by Türkiye Finans in accordance with the terms of the Paying Agency Agreement, each Agent in respect of all amounts owing to such Agent on account of its fees, costs, charges and expenses and the payment or satisfaction of any liability properly incurred by such Agent pursuant to the Paying Agency Agreement or the other Transaction Documents in its capacity as Agent;

(c) *third*, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;

(d) *fourth*, only if such payment is made on a Change of Control Redemption Date (which date is not a Dissolution Date), to the Principal Paying Agent for application in or towards payment of the relevant Change of Control Amount;

(e) *fifth*, only if such payment is made on a Dissolution Date, to the Principal Paying Agent for application in or towards payment of the Dissolution Distribution Amount; and

(f) *sixth*, only if such payment is made on a Dissolution Date, payment of any residual amount to the Managing Agent as an incentive amount for its performance.

Limited Recourse

Each Certificate will evidence the entitlement of each Certificateholder to an undivided interest in the Sukuk Assets on a *pro rata* basis in accordance with the Sukuk Communiqué, the Representative Agreement and the Conditions. However, the Certificateholders will have no direct recourse over the Sukuk Assets under Turkish law. 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 the Lease Certificate Assets, the Issuer, the Representative, the Asset Seller, the

Commodity Purchaser, the Obligor or the Managing Agent (to the extent that each of them fulfils all of its obligations under the Transaction Documents to which it is a party) in respect of any shortfall in the expected amounts from the Sukuk Assets to the extent that the Sukuk Assets have been exhausted, following which all obligations of the Issuer shall be extinguished.

(See "*Risk Factors — Risks relating to the Sukuk Assets and limited rights of enforcement*" for further details.)

Withholding Tax

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

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

Use of Proceeds

The proceeds of the issue of the Certificates will be applied by the Issuer in the following manner:

(a) no less than fifty one per cent. (51%) of the proceeds will be used to purchase the Initial Asset Portfolio from Türkiye Finans pursuant to the Initial Asset Portfolio Sale and Purchase Agreement; and

(b) no more than forty nine per cent. (49%) will be used to purchase Commodities from the Supplier, which will be subsequently sold to Türkiye Finans pursuant to the Murabaha Contract entered into pursuant to the Murabaha Agreement.

Listing

Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the Official List and to be admitted to trading on the Main Securities Market.

Rating

On or prior to the Closing Date, the Certificates are expected to be assigned a rating of BBB by Fitch. Fitch is established in the European Union and is registered under the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to suspension, revision or withdrawal at any time by the assigning rating organisation.

Certificateholder Meetings

A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 17 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*).

Tax Considerations	See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.
Transaction Documents	The Transaction Documents are the Initial Asset Portfolio Sale and Purchase Agreement, the Murabaha Agreement, the Commodity Purchase Letter of Understanding, the Commodity Sale Letter of Understanding, the Netting Deed, the notice of request to purchase submitted by Türkiye Finans to the Issuer (the "**Notice of Request to Purchase**") pursuant to the Murabaha Agreement, the offer notice from the Issuer and countersigned by Türkiye Finans pursuant to the Murabaha Agreement (the "**Offer Notice**"), the Management Agency Agreement, the Purchase Undertaking, the Sale Undertaking, the Redemption Undertaking, each Transfer Agreement, the Representative Agreement, the Paying Agency Agreement and the Costs Undertaking.
Governing Law	The Initial Asset Portfolio Sale and Purchase Agreement, any Sale Agreement or Transfer Agreement entered into pursuant to the Purchase Undertaking or Sale Undertaking, any New Asset Sale Agreement entered into pursuant to the Purchase Undertaking and any Redemption Sale Agreement entered into pursuant to the Redemption Undertaking will be governed by Turkish law. The Certificates, the Murabaha Agreement, the Murabaha Contract, the Commodity Purchase Letter of Understanding, the Commodity Sale Letter of Understanding, the Netting Deed, the Management Agency Agreement, the Purchase Undertaking, the Sale Undertaking, the Redemption Undertaking, the Representative Agreement, the Paying Agency Agreement and the Costs Undertaking will be governed by English law.
Selling Restrictions	There are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, Malaysia, Turkey, the Kingdom of Saudi Arabia, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Bahrain, the State of Qatar (excluding the Qatar Financial Centre), the Qatar Financial Centre and such other restrictions as may be required in connection with the offering and sale of the Certificates.

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, Türkiye Finans 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 Türkiye Finans believes that the factors described below represent the principal risks inherent in investing in the Certificates and may affect Türkiye Finans' 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 Türkiye Finans to perform its obligations under the Transaction Documents may occur for other reasons and none of the Issuer or Türkiye Finans 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 Türkiye Finans or which the Issuer or Türkiye Finans 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 has no material assets and will depend on receipt of payments from Türkiye Finans to make payments to Certificateholders

The Issuer is an entity formed under the laws of Turkey on 11 February 2013 and has no operating history other than as described in "*Description of the Issuer*" and "*— The Issuer has previously issued lease certificates*". The Issuer will not engage in any business activity other than the issuance of lease certificates, the transfer of assets relating thereto (including the Sukuk Assets as described herein), the issuance of shares in its capital and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Issuer's only material assets in respect of the Certificates, which will be held on its own behalf and for the account of the Certificateholders, will be the Lease Certificate Assets, the obligation of the Managing Agent to make payments under the Management Agency Agreement and the obligation of Türkiye Finans to make payments under the Murabaha Agreement, the Purchase Undertaking, the Redemption Undertaking or, as the case may be, the Sale Undertaking to the Issuer. Therefore the Issuer is subject to all the risks to which Türkiye Finans is subject to the extent that such risks could limit Türkiye Finans' ability to satisfy in full and on a timely basis its obligations under the Transaction Documents to which it is a party. See "*— Risks relating to Türkiye Finans' Business*" below for a further description of these risks.

The ability of the Issuer to pay amounts due on any Certificates will primarily be dependent upon receipt by the Issuer from Türkiye Finans, of all amounts due under the Management Agency Agreement, the Murabaha Agreement, the Purchase Undertaking, the Redemption Undertaking and the Sale Undertaking, respectively, which, in the aggregate, may not be sufficient to meet all claims under the relevant Certificates and the Transaction Documents in the event that Türkiye Finans does not fully perform its obligations thereunder (as applicable).

The Issuer has previously issued lease certificates

Pursuant to the terms of the Sukuk Communiqué asset leasing companies are permitted to undertake multiple issuances of certificates.

The Sukuk Communiqué provides that asset leasing companies are required to identify separately the assets related to each issuance. Additionally, pursuant to the terms of Article 61(3) of the Capital Markets Law and Article 4(3) of the Sukuk Communiqué each issuance remains segregated from the other until all non-defaulting issuances have been paid in full.

There have been no Turkish precedent decisions in relation to segregation of each issuance and accordingly there can be no assurances that the Turkish courts will treat each issuance by the Issuer as segregated from each other.

Risk factors relating to Türkiye Finans' business

Türkiye Finans' cash credit portfolio has increased in recent years and this will require it to continue to develop more sophisticated monitoring systems to manage Türkiye Finans' credit exposure

Türkiye Finans' net cash credit portfolio (which comprises loans and other cash advances) has increased rapidly in recent years, growing to TRY18,200 million (including finance lease receivables) as at 31 December 2013 from TRY12,984 million as at 31 December 2012 and TRY10,342 million as at 31 December 2011. The growth in Türkiye Finans' net cash credit portfolio is attributable to an overall increase in Türkiye Finans' lending activity, particularly to SMEs, which Türkiye Finans intends to continue to target as part of its growth strategy. See "*Description of Türkiye Finans Katilim Bankasi A.Ş.—Strategy*" for further details.

As at 31 December 2013, Türkiye Finans' ratio of credits in arrears to total cash credits was 2.4 per cent., compared to 2.7 per cent. as at 31 December 2012. Although there has been a significant increase in the size of its cash credit portfolio, Türkiye Finans has managed to reduce its ratio of credits in arrears to total credits by increasing its 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 Türkiye Finans to seek to attract and retain a significant number of qualified personnel to monitor asset quality. Insofar as the growth in Türkiye Finans' credit portfolio that is attributable to SMEs is concerned, SMEs typically have less financial strength than larger commercial customers, and any negative macro-economic developments could have a more significant impact on SME customers compared to more traditional corporate customers. See "*Description of Türkiye Finans Katilim Bankasi A.Ş.—Risk Management*" for further details. Türkiye Finans' increased levels of lending may require Türkiye Finans to make higher levels of provisioning for credit losses. Although Türkiye Finans constantly seeks to revise and improve its lending procedures and credit quality analysis there can be no assurances that Türkiye Finans 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 Türkiye Finans' business, financial condition and results of operations. See "*—Risks relating to Türkiye Finans' Business—Türkiye Finans" retail/consumer and SME customer base is particularly sensitive to adverse developments in the Turkish economy which renders such lending activities riskier than lending to larger corporate customers*" for further details.

Türkiye Finans is subject to credit risk in relation to its borrowers and other counterparties

Türkiye Finans is subject to inherent risks concerning the credit quality of borrowers and other counterparties, which has affected and is expected to continue to affect the value of Türkiye Finans' assets, particularly if economic conditions in Turkey deteriorate.

Türkiye Finans' core banking businesses have historically been, and are expected to continue to be, loans to corporate and SME (as defined by the BRSA) clients. As at 31 December 2013, such loans constituted 81 per cent. of Türkiye Finans' total assets with corporate loans contributing 37 per cent. and SME loans contributing 44 per cent. Many factors affect customers' ability to repay their loans or meet their other obligations to Türkiye Finans. 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 are outside of Türkiye Finans' control. Other factors are dependent upon Türkiye Finans' strategy for loan growth (including sector focus) and the viability of Türkiye Finans' internal credit application and monitoring systems, see "*—Türkiye Finans' risk management strategies and internal control* *capabilities may leave it exposed to unidentified or unanticipated risks*". All of the aforementioned risks could have an adverse impact on Türkiye Finans' business, financial condition, results of operations and prospects.

Türkiye Finans 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. Given the high level of interdependence between financial institutions within the financial services industry, Türkiye Finans is, and will continue to be, subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of financial services institutions. Within the financial services industry, the default of any one institution could lead to defaults by other institutions. The perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by Türkiye Finans or other institutions. Türkiye Finans' credit risk would also be exacerbated if the collateral it holds cannot be realised at prices that are sufficient to recover the full amount of the loan or derivative exposure the collateral 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 an adverse effect on Türkiye Finans' business, financial condition, results of operations and prospects.

Türkiye Finans' retail/consumer and SME customer base is particularly sensitive to adverse developments in the Turkish economy, which renders such lending activities riskier than lending to larger corporate customers

As at 31 December 2013, 63 per cent. of Türkiye Finans' total loan portfolio consisted of retail loans and loans to SMEs, with retail loans accounting for 19 per cent. and loans to SMEs accounting for 44 per cent. Retail and SME customers typically have less financial strength than corporate borrowers and negative developments in the Turkish economy could affect retail and SME customers more significantly than corporate borrowers. Furthermore, the availability of accurate and comprehensive financial information and general credit information on which to base credit decisions is more limited for SMEs than is the case for larger corporate clients. Therefore, notwithstanding the credit risk determination procedures that Türkiye Finans has in place, Türkiye Finans may be unable to evaluate correctly the current financial condition of each prospective SME or consumer borrower and to determine their long-term financial viability.

It is generally accepted that lending to SMEs and retail customers represents a relatively higher degree of risk than comparable lending to other groups, and there can be no guarantee that Türkiye Finans' non-performing loans ("**NPLs**") for SMEs and retail customers, or any of its other customers, will not materially increase in the near to medium term, particularly if there is a deterioration in macroeconomic conditions in Turkey or if Türkiye Finans is unable to accurately model the risk associated with the SME, retail customer or other borrowers to which it extends credit. See "*—Türkiye Finans' risk management strategies and internal control capabilities may leave it exposed to unidentified or unanticipated risks*".

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

Türkiye Finans may have difficulty foreclosing on collateral or enforcing guarantees or other third party credit support arrangements when debtors default on their loans. While Türkiye Finans seeks to mitigate credit risk (including through diversification of its assets and requiring collateral for its loans where applicable), such efforts may be insufficient to protect Türkiye Finans against material credit losses. For example, if the value of the collateral security in respect of Türkiye Finans' credit portfolio is insufficient (including through any decline in its value, Türkiye Finans will be exposed to greater credit risk and an increased risk on non-recovery if related credit exposures fail to perform. In addition, the time and costs associated with enforcing security interests in Turkey may make it uneconomical for Türkiye Finans to pursue such proceedings, adversely affecting Türkiye Finans' ability to recover its loan losses. Any decline in the value or liquidity of such collateral may prevent Türkiye Finans from foreclosing on such collateral for its full value, or at all, in the event that a borrower becomes insolvent and enters bankruptcy and could thereby adversely affect Türkiye Finans' ability to recover any loan losses, which would have a material adverse effect on Türkiye Finans' financial condition and results of operations.

Türkiye Finans' loans and deposits portfolio has significant geographic and currency concentrations

Türkiye Finans' loans are highly concentrated in Turkey (98.7 per cent. of cash credits as at 31 December 2013) and Türkiye Finans' deposits are concentrated in Turkish Lira accounts (63.9 per cent. of total deposits as at 31 December 2013). Accordingly, Türkiye Finans is particularly exposed to any future downturn in the economy of Turkey or performance of the Turkish Lira.

Türkiye Finans does not have a large portion of its total assets and liabilities concentrated in one customer segment. As at 31 December 2013, 28 per cent. of Türkiye Finans' total credit risk exposure was to the trade and commerce sector, 25 per cent. to the manufacturing sector, 19 per cent. to the retail sector and 11.8 per cent. to the construction sector. However, adverse changes in any of these sectors could lead to deterioration in Türkiye Finans' overall asset quality.

Türkiye Finans has all its operations and assets predominantly in Turkey and accordingly its business may be affected by the financial, political, regulatory and general economic conditions prevailing from time to time in Turkey and/or the EU generally.

Türkiye Finans' business entails operational risks

Operational risks and losses can result from fraud, error by employees, failure to document transactions properly, failure to obtain proper internal authorisations, failure to comply with regulatory requirements and conduct of business rules, the failure of internal systems, equipment and external systems (for example, those of Türkiye Finans' counterparties or vendors) or the occurrence of natural disasters including earthquakes to which Turkey is particularly susceptible. A significant portion of Turkey's population and most of its economic resources are located in a first-degree earthquake risk zone (the zone with the highest level of risk of damage from earthquakes).

A number of Türkiye Finans' properties and business operations in Turkey are located in earthquake zones. Türkiye Finans maintains earthquake insurance to minimise/recover losses arising from such disasters but does not have, in addition, wider business interruption insurance or insurance for loss of profit, as such insurance is not generally available in Turkey The occurrence of a severe earthquake could adversely affect one or more of Türkiye Finans' facilities and could harm the Turkish economy in general, which could adversely affect Türkiye Finans' business, financial condition and results of operations. See "*Description of Türkiye Finans Katilim Bankasi A.Ş.—Risk Management*" for a description of Türkiye Finans' exposure to operational risks.

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

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

Türkiye Finans' business, financial condition and results of operation may be affected by liquidity risks

Liquidity risks could arise from Türkiye Finans' inability to anticipate and provide for unforeseen decreases or changes in funding sources which could have an adverse effect on Türkiye Finans' ability to meet its obligations when they fall due.

As is the normal practice in the banking industry, Türkiye Finans accepts deposits from its customers and from banks which are short-term in nature (according to financial statements prepared in accordance with IFRS, of its TRY 13,864 million in customer deposits at 31 December 2013, 91.4 per cent. had contractual maturities of less than three months). However, it is also normal in the banking industry for these short-term deposits to be rolled over on their maturity such that, in practice, a significant portion of them have actual maturities of rather longer duration. However, Türkiye Finans cannot be certain that its customers will continue to roll over or maintain their deposits with Türkiye Finans. By contrast, Türkiye Finans' loans have more diversified maturities (according to financial statements prepared in accordance with IFRS of its TRY 5,062 million in customer cash loans at 31 December 2013, only 27.8 per cent. had contractual maturities of less than three months). See "*Description of Türkiye Finans Katilim Bankasi A.Ş.—Risk Management*" for a description of Türkiye Finans' exposure to liquidity risks. Accordingly, there is a risk that if a significant number of Türkiye Finans' customers do not choose to roll over their deposits at any time Türkiye Finans could experience difficulties in repaying those deposits. In addition, Türkiye Finans only has limited Shari'a compliant products that could be used for short-term liquidity management.

To address these risks, Türkiye Finans monitors its liquidity position on a daily basis and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. It also holds liquid assets at prudent levels to maintain liquidity, even under adverse conditions. However, assets held for sale may not be able to be sold due to adverse market conditions. Accordingly, there is no assurance that Türkiye Finans will not experience significant liquidity constraints in the future and any such constraints could have an adverse effect on Türkiye Finans' financial position and it may be required to seek funding from more expensive sources, which in turn could have a material adverse effect on its business, financial condition, results of operations, cash flows and prospects.

Market risks arising from indirect effect of currency exchange rates, interest rates and fluctuations in the prices of financial products

The most significant market risks to which Türkiye Finans is exposed are currency exchange rate risk, interest rate risk and fluctuations in the prices of financial products. Türkiye Finans 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 Türkiye Finans sets limits and performs certain other measures aimed at reducing these risks, such as hedging against these risks and use of derivative instruments, no assurance can be given that these measures will be effectively implemented or that they will allow Türkiye Finans to minimise the impact of currency exchange rate and interest rate volatility See "*Description of Türkiye Finans Katilim Bankasi A.Ş.—Risk Management*" for further details. If Türkiye Finans' risk management procedures and limits do not minimise the impact of market risks on Türkiye Finans, its business, financial condition and results of operations may be adversely affected. Türkiye Finans 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 Türkiye Finans' business, financial position and results of operations.

Türkiye Finans is exposed to foreign exchange and currency risks

Türkiye Finans maintains its books of account and prepares its statutory financial statements in Turkish Lira in accordance with the accounting practices as promulgated by the BRSA. A portion of Türkiye Finans' assets and liabilities are denominated in foreign currencies, and in particular the U.S. dollar and the Euro. In preparing its financial statements, Türkiye Finans 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, Türkiye Finans' capital adequacy ratios, its reported income and its assets and liabilities are affected by changes in the value of the Turkish Lira with respect to foreign currencies. Accordingly, the overall effect of exchange rate movements on Türkiye Finans' 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 Türkiye Finans' business, financial condition and results of operations.

In addition, Türkiye Finans is exposed to exchange rate risk to the extent that its assets and liabilities are mismatched. Türkiye Finans seeks to manage the gap between its foreign currency-denominated assets and liabilities by (among other things) matching the volumes and maturities of its foreign currency-denominated loans against its foreign currency-denominated funding or by entering into currency hedges. Although regulatory limits prohibit Türkiye Finans from having a net currency short or long position of greater than 20 per cent. of the total capital used in the calculation of its regulatory capital adequacy ratios, if Türkiye Finans is unable to manage the gap between its foreign currency-denominated assets and liabilities, then material volatility in exchange rates could lead to operating losses, which could have a material adverse effect on Türkiye Finans' business, financial condition and results of operations.

Although Türkiye Finans has adopted procedures and policies aimed at minimising this risk (see "*Risk Management—Market Risk*" for further information), these measures might not adequately protect Türkiye Finans' business, financial condition and results of operations from the effects of exchange rate fluctuations or may limit any benefit that Türkiye Finans might otherwise receive from favourable movements in exchange rates.

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

Currently, The National Commercial Bank JSC ("**NCB**") directly and indirectly holds 66.27 per cent. of Türkiye Finans' shares, see "*Description of Türkiye Finans—Shareholders and Share Capital-Shareholders*" for further details.

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

The growth of Türkiye Finans' business is dependent upon the continued development of the participation banking industry in Turkey

Although the participation banking industry has an established, loyal customer base in Turkey, participation banking is a relatively new and growing area in the Turkish banking sector. As at 31 December 2013, participation banks have a market share of approximately 5 per cent. of the Turkish banking sector in terms of asset size and Türkiye Finans has a market share, by asset size, of approximately 26 per cent. among all participation banks. There can be no assurances that customer perception in relation to participation banking will not change as a result of events and factors affecting the socio-political environment in Turkey and in countries where Türkiye Finans considers operating in the future or that the market share of participation banks will continue to grow.

The implementation of Türkiye Finans' growth strategy could adversely affect its asset quality, profitability and capital ratios

Türkiye Finans is currently engaged in a program of expansion of its core business areas, see "*Description of Türkiye Finans—Strategy*". Türkiye Finans intends to open a number of additional branches throughout Turkey where growth opportunities exist in order to attract more retail and SME customers as well as increase Türkiye Finans' retail deposit base. There are risks associated with expansion, including encountering greater-than-anticipated costs of opening new branches, being unable to profitably deploy assets acquired or developed through expansion and being unable to integrate such assets into Türkiye Finans' risk management systems. Türkiye Finans may also experience pressure on its margins as it implements its growth strategy because of the time lag between the increased operating costs incurred in connection with such expansion and any increase in revenues, if any, generated from such expansion. Any failure to manage this growth while at the same time ensuring that Türkiye Finans maintains adequate focus on existing operations, including risk management systems and internal control processes, could have an adverse effect on its asset quality, profitability and capital ratios, and in turn, have an adverse effect on Türkiye Finans' business, financial condition, results of operations and prospects.

Türkiye Finans' capital base may limit its potential for growth

The opening of new branches is a central aspect of Türkiye Finans' overall strategy. The BRSA does not allow a bank to continue to expand if that bank's capital adequacy ratio is below 12 per cent. While Türkiye Finans' current capital adequacy ratio is sufficient to support existing operations (see "*Description of Türkiye Finans Katilim Bankasi A.Ş.—Prudent Risk Management Policy*"), there can be no assurance that it will continue to be sufficient to support its growth strategy without additional capital raising or increased retained earnings. Türkiye Finans may need to raise additional capital in the future to ensure that it has sufficient capital to support its future growth. Should Türkiye Finans desire or be required to raise additional capital, such capital may not be available at all or at a price that Türkiye Finans considers to be reasonable. Any such inability to acquire additional capital or increase retained earnings could have an adverse effect on Türkiye Finans' business, financial condition, results of operations and prospects.

Türkiye Finans' risk management strategies and internal control capabilities may leave it exposed to unidentified or unanticipated risks

Türkiye Finans' risk management strategies and internal controls may leave it exposed to unidentified or unanticipated risks. Türkiye Finans' risk management and internal control policies and procedures might not adequately control or protect Türkiye Finans against all credit, liquidity, market and other risks. In addition, certain risks may not be accurately quantified or evaluated by Türkiye Finans' risk management systems. Some of Türkiye Finans' methods of managing risk are based upon the use of historical market data, which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures, which could be significantly greater than historical measures indicate. Türkiye Finans continues to maintain and develop its risk management systems, both to meet Türkiye Finans' ongoing internal risk management needs and to comply with all legal and regulatory requirements in the banking sector, including the Basel II and III criteria (as defined below) and the BRSA regulations.

Other risk management practices, including "know your client" practices, depend upon evaluation of information regarding the markets in which Türkiye Finans operates, its clients, other matters that are publicly available or information otherwise accessible to Türkiye Finans. As such practices are less developed in Turkey than they are in 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.

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

Any material deficiency in Türkiye Finans' 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 Türkiye Finans' business, financial condition, results of operations and prospects.

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

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

In the event of a disaster, natural or otherwise, whereby Türkiye Finans cannot operate its technology infrastructure, Türkiye Finans has a contract with Türk Telekom to provide a recovery solution for Türkiye Finans' critical systems at a centre located in Ankara. However, the recovery systems might not be adequate to ensure connectivity with Türkiye Finans' branches and protect Türkiye Finans' information technology systems and operations in such an event. Therefore, there can be no assurances that such failures or interruptions will not occur or that Türkiye Finans will be able to address them in a timely manner if they occur. Accordingly, the occurrence of any failure, interruption or breach of Türkiye Finans' information systems could have a material adverse effect on its business, financial condition and results of operations.

Türkiye Finans' expansion plans also depend to a large extent upon its ability to expand its information technology capacity. Failure to put in place information technology systems to support its expansion could materially adversely affect Türkiye Finans' growth strategy.

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

Although Türkiye Finans is a participation bank dealing in financial products that differ in many ways from the products of conventional banks, it faces significant competition from not only other participation banks, but also from conventional banks in the Turkish banking sector. As at 31 December 2013, there were a total of 49 banks (excluding the Central Bank of the Republic of Turkey (the "**Turkish Central Bank**")) licensed to operate in Turkey, 24 of which were banks with foreign ownership (including branches of foreign banks, subsidiaries of foreign banks and joint ventures between Turkish and foreign shareholders) and four of which were participation banks. A small number of banks in the Turkish banking sector dominate the market. According to the Banks Association of Turkey, as at 30 September 2013, the top five banks in Turkey (in terms of asset size), one of which was state controlled, held approximately 52 per cent. of the banking sector's total credit portfolio, approximately 55 per cent. of total bank assets in Turkey and approximately 60 per cent. of total depositors in Turkey.

Türkiye Finans faces competition from state-controlled financial institutions. Such government-controlled financial institutions historically focused on government and government-related projects but are increasingly focusing on the private sector, leading to increased competition and pressure on margins. In particular, such government-controlled institutions may have access to low cost deposits (on which such institutions pay low or no interest) through State Economic Enterprises ("**SEEs**") owned or administered by the Turkish government, which could result in a lower cost of funds that cannot be duplicated by private banks.

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 operation 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. The entry of foreign-owned companies to the sector, either directly or in collaboration with existing Turkish banks, may increase the already significant competition in the market.

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

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

As a participation bank, Türkiye Finans 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 Türkiye Finans' customers can suffer is limited to the nominal amount of their initial investment. Accordingly, interest rate related risk has no direct effect on Türkiye Finans' business. However, changes in market interest rates still affect Türkiye Finans 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 Türkiye Finans' mark-ups.

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

Türkiye Finans' 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

Türkiye Finans is dependent upon its senior management to implement its strategy and operate its day-to-day business. In addition, corporate, retail and other relationships of members of senior management are important to the conduct of Türkiye Finans' business. In a rapidly emerging and developing market such as Turkey, demand for highly trained and skilled staff is very high and requires Türkiye Finans to re-assess its compensation and employment policies continually. If members of Türkiye Finans' senior management were to leave, particularly if they were to join competitors, then those employees' relationships that have benefited Türkiye Finans may not continue. In addition, Türkiye Finans is not insured against the effects to its business that may result from the loss or dismissal of its key personnel and Türkiye Finans' continuing success depends, in part, on its ability to attract, retain and motivate qualified and experienced banking and management personnel. Türkiye Finans' failure to recruit and retain necessary personnel or manage its personnel successfully could have a material adverse effect on Türkiye Finans' business, financial condition and results of operations.

Labour disputes or work stoppages could disrupt operations or make them more costly to run. Türkiye Finans is exposed to the risk of labour disputes and work stoppages. There are no members of labour unions amongst Türkiye Finans' employees. Türkiye Finans 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 an adverse effect on Türkiye Finans' business, financial condition, results of operations and prospects.

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

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

Türkiye Finans maintains a reputation as a pre-eminent participation bank, 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 Türkiye Finans operates and conducts its business pursuant to the principles of a participation bank, and in line with the principles of *Shari'a*, Türkiye Finans maintains a supervisory board to ensure that the respective entities adhere to the principles of *Shari'a* at all times. However, any failure to comply with the principles of a participation bank or *Shari'a* may adversely affect Türkiye Finans' reputation which may in turn damage its ability to attract and retain customers and consequently have a material adverse effect on Türkiye Finans' 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 Türkiye Finans to customers and their deposits are subject to the credit risks of financings included in such pools) may also have an adverse effect on Türkiye Finans' business, financial condition, results of operations and prospects.

Türkiye Finans' credit ratings may not reflect all risks, and changes to Turkey's credit ratings may affect Türkiye Finans' ability to obtain funding

Credit ratings affect the cost and other terms upon which Türkiye Finans is able to obtain funding. Rating agencies regularly evaluate Türkiye Finans and their ratings of its long-term debt are based on a number of factors, including its financial strength as well as conditions affecting the financial services industry generally. As at 31 December 2013, Türkiye Finans' long-term foreign currency rating was BBB from Fitch Ratings. One or more independent credit rating agencies may also assign credit ratings to the Certificates. Any ratings of either Türkiye Finans 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 Türkiye Finans' current ratings or outlooks. A downgrade or potential downgrade of the Turkish sovereign rating could negatively affect the perception these agencies have of Türkiye Finans' rating. Investors should be aware that a credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

The occurrence of a risk faced by Türkiye Finans could exacerbate other risks that Türkiye Finans faces

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

Future events may be different than those reflected in the management assumptions and estimates used in the preparation of Türkiye Finans' 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, Türkiye Finans is required to use certain estimates in preparing its financial statements, including accounting estimates to determine loan loss reserves and the fair value of certain assets and liabilities, among other items. Should the estimated values for such items prove substantially inaccurate, particularly because of significant and unexpected market movements, or if the methods by which such values were determined are revised in future IFRS rules or interpretations, Türkiye Finans may experience unexpected reductions in profitability or losses.

Türkiye Finans is exposed to risks related to doing business with related parties

The Turkish Banking Law No. 5411 of 2005, as amended (the "**Banking Law**"), places limits on a Turkish bank's exposure to related parties. Türkiye Finans enters into banking transactions within the framework of the Banking Law and tax regulations. Although Türkiye Finans' management believes that these transactions are on an arm's length basis and in line with the Banking Law and tax regulations, the interests of Türkiye Finans might not at all times be aligned with the interests of the Certificateholders.

Risk factors relating to Turkey

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

Risks relating to emerging markets

Türkiye Finans operates in Turkey and derives all of its revenue from its operations in Turkey. As a result, Türkiye Finans' business, results of operations, financial condition and prospects are significantly affected by the overall level of economic activity and political stability in Turkey. Despite Turkey undergoing significant political and economic reform in recent years that has increased stability and led to economic growth, 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.

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

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

During the global financial crisis, Turkey suffered reduced domestic consumption and investment and a sharp decline in exports, which led to an increase in unemployment. Turkey's GDP contracted by 7.0 per cent. in the fourth quarter of 2008 and declined 4.8 per cent. in 2009. Following the implementation of fiscal and monetary measures during 2009, the Turkish economy began to recover in the fourth quarter of 2009, resulting in Turkey's GDP growing by 9.2 per cent. in 2010, 8.8 per cent. in 2011, 2.2 per cent. in 2012 and 4.4 per cent. in the third quarter of 2013. 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. 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 Türkiye Finans' 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 Türkiye Finans' business and customers in a number of ways, including, among others, the income, wealth, employment, liquidity, business, prospects or financial condition of Türkiye Finans' customers, which, in turn, could reduce Türkiye Finans' asset quality and demand for Türkiye Finans' products and services and negatively impact Türkiye Finans' growth plans. Türkiye Finans' 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.

Adverse political, economic and related considerations in Turkey and abroad could adversely effect Türkiye Finans' 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 light of those risks, their investment is appropriate.

Turkey has seen significant growth and relative political stability despite the recent political unrest since the middle of 2013. There can be no assurance that such growth or stability will continue. Moreover, while the government of Turkey's recent policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained. Türkiye Finans may also be adversely affected generally by political and economic developments in or affecting Turkey.

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

Since December 2010, political instability has increased markedly in a number of countries in the Middle East and North Africa, such as Tunisia, Egypt, Jordan, Yemen, Syria and Libya. Unrest in those countries may also have implications for the wider global economy and may negatively affect market sentiment towards other countries in the region, including Turkey. Turkey has also experienced problems with domestic terrorist and ethnic separatist groups. For example, Turkey has been in conflict for many years with the People's Congress of Kurdistan, formerly known as the PKK (an organisation that is listed as a terrorist organisation by states and organisations including Turkey, the EU and the United States). Most recently, on 9 January 2013, three PKK activists were killed in Paris jeopardising Turkish-Kurdish peace talks. Furthermore, tensions between Syria and Turkey have intensified following the shooting down of a Turkish aircraft by Syrian forces in June 2012 and more recently a mortar attack on the Turkish border town of Akcakale which killed five civilians. In response to this, the Turkish Parliament authorised the government on 4 October 2012 to task the military and send troops outside Turkey for a one year period, if deemed necessary, while the United Nations Security Council issued a statement condemning the attack on Akcakale by the Syrian armed forces. Such circumstances and domestic terrorist attacks have had and could continue to have a material adverse effect on the Turkish economy and Türkiye Finans' business, financial condition and results of operations.

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. Political instability in the Middle East and elsewhere remains a concern, most recently exemplified by the internal conflict in Syria and tension between Iran and Israel. While regional conflicts, terrorist attacks and the threat of future terrorism have not had a major negative impact on Turkey's capital markets, the level of tourism, foreign investment and other elements of the Turkish economy, additional attacks or conflicts may occur in the future with such a negative impact which could have an adverse effect on Türkiye Finans' business, financial condition, results of operations and prospects. While Türkiye Finans' 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.

Türkiye Finans 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 Türkiye Finans will 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 Türkiye Finans' business, financial condition and results of operations.

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

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

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

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

Turkey is subject to earthquakes

Almost all of Turkey is classified in a high risk earthquake zone by seismologists. A significant proportion of Turkey's population and most of its economic resources are located in a first-degree earthquake risk zone. Turkey has experienced a large number of earthquakes in recent years, some of which have been quite significant in magnitude. In 1999, separate earthquakes measuring 7.5 and 7.2 on the Richter scale struck an area near the city of Izmit, and the city of Düzce, respectively, resulting in the loss of thousands of lives and the destruction of many buildings. These earthquakes resulted in substantial financial costs to Turkey. As recently as October 2011, the eastern part of the country near the city of Van was struck by an earthquake measuring 7.2 on the Richter scale, causing property damage and the loss of several lives. Türkiye Finans maintains insurance policies covering earthquake damages and appropriate measures have been taken to minimise the risks associated with potential earthquakes, such as operating a disaster recovery centre in a lower earthquake risk zone for the continuation of its operations. However, in the event of major earthquakes, effects from the direct impact of such events on Türkiye Finans and its employees, as well as measures that could be taken by the government (such as the imposition of taxes to raise revenue for rebuilding), may have an adverse effect on Türkiye Finans' business, financial condition, results of operations and prospects. To finance in part the rebuilding of the areas affected by the large earthquakes of 1999, a package of measures was passed by the Turkish Parliament in November 1999, including a new law that subjected interest earned on domestic treasury securities issued before 1 December 1999 to an additional tax at a rate of 4 per cent. to 19 per cent. depending upon their maturity. There can be no assurance that Turkey would recover from the negative economic impact of a major earthquake or that the recent GDP growth rate would be sustainable. A severe earthquake could negatively impact the Turkish economy, which could adversely affect the Turkish banking sector and Türkiye Finans' business, financial condition, results of operations and prospects.

Turkish accounting and formal reporting standards and publically available information differ in certain material respects from those in more developed markets, leading to a relatively limited amount of information being available

The reporting, accounting and financial practices applicable to Turkish banks differ in certain respects from those applicable to similar banks in the United States, the EU or in other more developed economies. There is also less publicly available information regarding listed Turkish companies than public companies in the United States, the EU or in other more developed economies and any information that is published may only be presented in Turkish. This may make it more difficult to assess Türkiye Finans' continuing and expected future compliance with all required regulatory and legal requirements and, as a result, investors may not have access to the same level of information relating to Türkiye Finans as they would for investments in banks in the United States, the EU and other more developed markets.

Recent changes in Turkish law may have a significant impact on Türkiye Finans' 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. Consumer Protection Law will come into effect in 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 Türkiye Finans' business, financial condition, results of operations and prospects although, at this stage, the potential impact cannot be quantified.

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

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 three major new laws: the Turkish Commercial Code, the Code of Obligations and the Capital Markets Law which replace the Turkish Commercial Code No. 6762, Code of Obligations No. 818 and the Capital Markets Law No. 2499, respectively.

Though Turkey has had a long standing 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 on eight chapters should be suspended and that no Chapter be closed until the EU has verified that Turkey has fulfilled its commitments relating to the additional protocol. There can be no assurance that the EU will continue to maintain an open approach to Turkey's EU membership, nor that Turkey will be able to meet all the criteria applicable to becoming a member state.

The government's influence over the Turkish economy could negatively impact Türkiye Finans' 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 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 Türkiye Finans 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 Türkiye Finans' business, financial condition, results of operations and prospects.

Türkiye Finans has a significant portion of its assets invested in Turkish government securities, making it highly dependent upon the continued credit quality of, and payment by, the Turkish government of its debts

Turkish banks have traditionally invested a large portion of their assets in securities issued by the Turkish government (rated BB+ (negative outlook) by Standard & Poor's, Baa3 (negative outlook) by Moody's and BBB- (stable outlook) by Fitch). As of 31 December 2013, Türkiye Finans' total securities portfolio (5.8 per cent. of its total assets) was invested in securities issued by the Turkish government. In addition to any direct losses that Türkiye Finans might incur, a default, or the perception of increased risk of default, by the Turkish government in making payments on its securities or the possible downgrade in Turkey's credit rating would likely have a significant negative impact on the value of the government securities held in Türkiye Finans' securities portfolio and the Turkish banking system generally and may have a material adverse effect on Türkiye Finans' business, financial condition and results of operations.

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

In 2010, the Turkish current account deficit widened significantly to U.S.$46.6 billion from U.S.$13.4 billion in 2009, and then increased further to U.S.$77.1 billion in 2011, according to the Turkish Central Bank. This rapid acceleration has raised concerns regarding financial stability in Turkey, and the Turkish Central Bank, BRSA and Turkish Ministry of Finance have initiated coordinated measures 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 down 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. Further regulations may be introduced by the BRSA or the Turkish Central Bank with respect to loan growth ratios that could have a material adverse effect on Türkiye Finans' business, financial condition and results of operations.

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

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

Any introduction of exchange controls may adversely affect Türkiye Finans' business, financial condition or results of operations generally or its ability to make any payments required under the Transaction Documents

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 Turkish Central Bank.

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. Turkish citizens are permitted to buy unlimited amounts of foreign currency from banks and to hold foreign exchange in commercial banks. Although Türkiye Finans' management believes that it is unlikely that exchange controls will be re-introduced in the near term, the implementation of any such exchange controls may adversely affect Türkiye Finans' business, financial condition or results of operations generally or its ability to make any payments required under the Transaction Documents.

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

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

The Turkish economy is undergoing continued transformation to a free market system, is subject to significant macro-economic risks and has been dependent upon the support of the IMF in times of economic crisis

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

Turkey's GDP grew by 8.4 per cent. in 2005, 6.9 per cent. in 2006, 4.7 per cent. in 2007 and 0.7 per cent. in 2008. Turkey's GDP contracted by 7.0 per cent. in the fourth quarter of 2008 and 4.8 per cent. in 2009, before rebounding in 2010 (9.2 per cent.) and 2011 (8.5 per cent.). The growth in the Turkish economy has started to decline and GDP increased by only 2.2 per cent. in 2012. In the third quarter of 2013, GDP grew by 4.4 per cent. and domestic demand increased by 4.7 per cent. (on a quarter-on-quarter basis), compared to the same period in 2012. The ratio of public debt to GDP decreased from 52.7 per cent. in 2005 to 36.7 per cent. in the third quarter of 2012. The last stand-by arrangement with the IMF was completed in May 2008. In October 2011, the government announced a three year medium-term economic programme from 2013 to 2015. Under this programme, the government has set growth targets of 4.0 per cent. for 2013 and 5 per cent. for 2014, as well as a gradual decrease in the net public debt to GDP ratio, according to the Ministry of Development. The cooling down of the economy is expected to have reduced the capital account deficit as a percentage of GDP to approximately 7.1 per cent. in 2013 compared to 7.3 per cent. in 2012.

Türkiye Finans' banking and other businesses are significantly dependent upon its customers' ability to make payments on their loans and meet their other obligations to Türkiye Finans'. If the Turkish economy declines because of, among other factors, a reduction in the level of economic activity, a devaluation of the Turkish Lira, inflation or an increase in domestic interest rates, then a greater portion of Türkiye Finans' customers may not be able to repay loans when due or meet their other debt service requirements to Türkiye Finans, which would increase Türkiye Finans' 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 Türkiye Finans' products. The occurrence of any or all of the above could have a material adverse effect on Türkiye Finans' business, financial condition, results of operations and prospects.

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 Turkish government made structural changes to the Turkish banking system to strengthen the private (i.e. non-governmental) banking sector and allow it to compete more effectively against the state-controlled banks. Notwithstanding such changes, the Turkish banking sector remains subject to volatility.

If the general 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.

The activities of Türkiye Finans 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 Türkiye Finans' business

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

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

The draft 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 July 2013 in the draft 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 draft 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.

The policy of the Turkish Central Bank on reserve requirements and interest rates could negatively affect Türkiye Finans' 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 Turkish Central Bank has adopted a new approach. Accordingly, instead of deducting specified items from the total domestic liabilities, only the items subject to reserve requirements are directly taken into account while calculating liabilities subject to reserve requirements. Thus, immaterial items, which do not have a direct impact on the monetary policy but reduce the efficiency of the operational processes, have been excluded from reserve requirements coverage. In addition, the Turkish Central Bank has revised the reserve option coefficients for foreign exchange reserves held for Turkish Lira required reserves, by 0.4 basis points for each tranche above 40 per cent.

In addition to these regulatory measures, the Turkish Central Bank has tightened monetary policy raising the 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 to 12 per cent. from 7.75 per cent. the borrowing rate from 3.5 per cent. to 8 per cent. The interest rate on borrowing facilities provided for primary dealers via repo transactions from 6.75 per cent. to 11.5 per cent. One-week repo rate was increased to 10 per cent. from 4.5 per cent.

Türkiye Finans 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*"). Accordingly, Türkiye Finans might not be able to sustain its level of profitability in light of these regulatory changes and Türkiye Finans' profitability might be materially adversely impacted until such changes are incorporated into Türkiye Finans' pricing.

The Turkish Central Bank's increase in initial rates and regulatory changes such as increased reserve requirements, the non-payment of interest on reserves and caps on interest rates charged on credit cards can have an adverse impact on Türkiye Finans' net interest income, thereby exerting downward pressure on Türkiye Finans' net interest margins. New laws and regulations may increase Türkiye Finans' 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 Türkiye Finans' 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 Türkiye Finans' products and services.

In addition to the recent devaluation of the Turkish Lira, as a consequence of certain of these changes, Türkiye Finans 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 Türkiye Finans to adopt adequate responses to these or future changes in the regulatory framework could have an adverse effect on Türkiye Finans' business, financial condition and results of operations. In addition, non-compliance with regulatory guidelines could expose Türkiye Finans to potential liabilities and fines and damage its reputation.

Turkish banking regulation is administered on the basis of BRSA accounts

Türkiye Finans' primary regulator, the BRSA, uses the BRSA Financial Statements to assess Türkiye Finans' compliance with banking regulations and capital adequacy requirements. Therefore, the results of operations and financial condition of Türkiye Finans' as reflected in the IFRS Financial Statements might not reflect Türkiye Finans' business, results of operations or financial condition as used to determine Türkiye Finans' performance under, and in compliance with, Turkish regulations. In addition, Türkiye Finans 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 BRSA and IFRS data are set out in "*Summary of Differences between IFRS and BRSA Principles*."

Türkiye Finans 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 Türkiye Finans 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. Türkiye Finans believes that it and each of its subsidiaries is currently in compliance with its existing material licence and reporting obligations. If Türkiye Finans and, to the extent applicable, any of its subsidiaries were to suffer a future loss of any licence, breach the terms of any licence or fail to obtain any further required licences, then this could have a material adverse effect on Türkiye Finans' business, financial condition and results of operations.

Risk factors relating to the Certificates

There is currently no secondary market for the Certificates and there may be limited liquidity for Certificateholders

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 their maturity. An application has been made for the listing of the Certificates on the Irish Stock Exchange but there can be no assurance that any such listing will occur on or prior to the date of this Prospectus or at all, if it does occur, that it will enhance the liquidity of the Certificates.

The trading market for the Certificates may be volatile and may be adversely impacted by many events

The market for the Certificates is expected to be influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates in the United States and Europe and other industrialised countries. There can be no assurance that events in Turkey, the United States, Europe or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of the Certificates or that economic and market conditions will not have any other adverse effect.

Certificateholders will have limited rights to proceed directly against the Issuer

Recourse to the Issuer in respect of Certificates is limited to the proceeds of the Lease Certificate Assets which are the sole source of payments on the Certificates. Upon the occurrence of a Dissolution Event or early dissolution pursuant to Condition 9(c) (*Capital Distributions — Redemption following a Tax Event*), the sole rights of each of the Issuer, the Representative and, through the Representative, the Certificateholders will be against Türkiye Finans to perform its obligations under the Transaction Documents to which it is a party. Certificateholders will otherwise have no recourse to any assets of the Representative, Türkiye Finans, the Managing Agent, the Commodity Purchaser, the Issuer (including its directors and service providers), and the Principal Paying Agent or any affiliate of any of the foregoing entities in respect of any shortfall in the expected amounts due under the Lease Certificate Assets. Each of the Managing Agent, the Commodity Purchaser and Türkiye Finans is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Issuer, and the Issuer and the Representative will have direct recourse against the Managing Agent, the Commodity Purchaser and Türkiye Finans to recover payments due to the Issuer from the Managing Agent, the Commodity Purchaser and Türkiye Finans pursuant to the Transaction Documents. There can be no assurance that the proceeds of the realisation of, or enforcement with respect to, the Lease Certificate Assets will be sufficient to make all payments due in respect of the Certificates. Furthermore, under no circumstances shall any Certificateholder, the Issuer or the Representative have: (i) any right to cause the sale or other disposition of any of the Lease Certificate Assets except pursuant to the Transaction Documents; or (ii) any other recourse against the Lease Certificate Assets, except the right to receive distributions derived from the Lease Certificate Assets in accordance with the Conditions, and the sole right of the Issuer, the Representative and the Certificateholders against Türkiye Finans shall be to enforce the obligation of Türkiye Finans to perform its obligations under the Transaction Documents to which it is a party.

The Certificates may be subject to early dissolution

The Certificates may be redeemed prior to their stated maturity if Türkiye Finans has or will become obliged to provide funding to ensure that the funds available to the Issuer are sufficient to pay the relevant Periodic Distribution Amount or the relevant Dissolution Distribution Amount by reason of Condition 10 (*Taxation*) and such obligation cannot be avoided by the Issuer taking reasonable measures available to it. In such circumstances, Türkiye Finans has the option to require the Issuer to redeem the Certificates prior to their scheduled maturity. Early dissolution in either instance may reduce the return that a Certificateholder would have realised had the Certificates been redeemed at maturity.

An early dissolution feature of any Certificate is likely to limit its market value. During any period when the Issuer may elect to redeem Certificates, the market value of those Certificates generally will not rise substantially above the dissolution amount payable. This also may be true prior to any dissolution period.

Certificates where denominations involve integral multiples: Definitive Certificates

As the Certificates have a denomination consisting of a minimum Specified Denomination (as defined in the Conditions) plus one or more higher integral multiples of another smaller amount, it is possible that such Certificates may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a Certificateholder who, as a result of trading such amounts, holds a face amount of less than the minimum Specified Denomination would need to purchase an additional amount of Certificates such that it holds an amount equal to at least the minimum Specified Denomination to be able to trade such Certificates.

If a Certificateholder holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to a Specified Denomination.

If Definitive Certificates are issued, holders should be aware that Definitive Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

No third-party guarantees

Investors should be aware that no guarantee is or will be given in relation to the Certificates by the shareholders of the Issuer or Türkiye Finans or any other person.

Risks relating to the Sukuk Assets and limited rights of enforcement

Liability attaching to owners of Sukuk Assets

In order to comply with the requirements of *Shari'a*, the proceeds of issuance of the Certificates are required to be applied by the Issuer towards the acquisition of Sukuk Assets and, once the Issuer acquires the Sukuk Assets (in the manner described herein), the Certificateholders will have the right to receive from the Issuer the economic benefit of the use of the Sukuk Assets. The Issuer is required to hold its interests in the Sukuk Assets in its own name and on its own behalf and for the account and benefit of the Certificateholders pursuant to the Representative Agreement. Each Certificate will evidence the entitlement of each Certificateholder to an undivided interest in the Sukuk Assets on a *pro rata* basis unless transfer of such interests and rights in, to and under the Sukuk Assets is prohibited by, or ineffective under, any Turkish law that may be applicable (see "— *Transfer of the Portfolio Assets*" below). However, the Certificateholders will have no direct recourse over the Sukuk Assets under Turkish law. The income from the Sukuk Assets, together with any capital arising from the disposal of any Sukuk Assets, shall be for the Issuer and for the account and benefit of the Certificateholders.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Portfolio Asset. Only limited representations will be obtained from Türkiye Finans in respect of the Portfolio Assets. In particular, the precise terms of the Portfolio Assets sold will not be known (including whether there are any restrictions on transfer or any further obligations required to be performed by Türkiye Finans to give effect to the transfer of its interests in the Portfolio Assets). No steps will be taken to perfect any transfer of any interests or rights in the Portfolio Assets or otherwise give notice to any lessee or obligor in respect thereof. Obligors and lessees may have rights of set-off or counterclaim against Türkiye Finans in respect of the Portfolio Assets.

In addition, if and to the extent that a third party is able to establish a direct claim against the Issuer, the Representative or any Certificateholders on the basis of a legal or other interest in the Sukuk Assets, Türkiye Finans has agreed in the Representative Agreement to indemnify the Issuer, the Representative and the Certificateholders against any such liabilities. In the event that Türkiye

Finans is unable to meet any such claims then the Certificateholders may suffer losses in respect of both the principal amount invested in the Certificates, as well as any profit amounts that would have been payable in respect of the Certificates.

Transfer of the Portfolio Assets

No assurance has been or will be given as to whether any interest, rights, benefits and entitlements in, to and under any of the Portfolio Assets may be transferred as a matter of the law governing the Portfolio Assets, the law of the jurisdiction where such assets are located or any other relevant law. Furthermore, no opinion will be provided by Turkish or other counsel that the Initial Asset Portfolio Sale and Purchase Agreement is effective to transfer any interests, rights, benefits and entitlements in, to and under the assets described therein. In any event, the Certificateholders will not have any rights of enforcement as against the Portfolio Assets and their rights are limited to the proceeds of enforcement against Türkiye Finans of its obligation to purchase the Issuer's interests, rights, benefits and entitlements in, to and under the Portfolio Assets pursuant to the terms of the Purchase Undertaking.

In the event that the transfer to the Issuer of specified interests, rights, benefits and entitlements in, to and under the Portfolio Assets is for any reason found to have been, or is alleged to have been, ineffective so that the Issuer is unable to deliver such interests, rights, benefits and entitlements (or part thereof) to Türkiye Finans in accordance with the terms of the Purchase Undertaking, Türkiye Finans has agreed in the Purchase Undertaking to fully indemnify the Issuer. In such a situation, the Certificateholders will not have any rights of enforcement as against the Portfolio Assets and their rights are limited to the proceeds of enforcement against Türkiye Finans of its obligation to indemnify the Issuer pursuant to the terms of the Purchase Undertaking, and consequently the effectiveness of any transfer of any interests, rights, benefits and entitlements in, to and under the Portfolio Assets to the Issuer is likely to be of limited consequence to the rights of the Certificateholders.

In the event that the Portfolio Assets are not repurchased by Türkiye Finans for any reason, the Representative will seek to enforce the payment and indemnity obligations of Türkiye Finans under the Purchase 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 — Investors may experience difficulty in enforcing foreign judgments in Turkey*").

Limited Recourse

The Certificateholders shall have no recourse against the Issuer other than in respect of the proceeds of the Lease Certificate Assets in accordance with the Transaction Documents. The sole right of the Certificateholders against the Lease Certificate Assets shall be the right to have the Representative enforce the respective obligations of the Issuer and Türkiye Finans under the Transaction Documents.

Certificateholders have no recourse to any other assets of the Issuer or Türkiye Finans or the Representative or any agent or any of their respective affiliates in respect of any shortfall in the expected amounts from the Lease Certificate Assets to the extent the Lease Certificate Assets have been enforced, realised and fully discharged following which all obligations of the Issuer shall be extinguished.

Risk factors relating to taxation

Taxation risks on payments

Payments made by Türkiye Finans to the Issuer under the Transaction Documents, by the Issuer in respect of the Certificates, or revenues generated by the Sukuk Assets and received by the Managing Agent, could become subject to withholding or deduction for or on account of taxation. The Initial Asset Portfolio Sale and Purchase Agreement, the Murabaha Agreement, the Management Agency Agreement, the Redemption Undertaking and the Purchase Undertaking each require Türkiye Finans to pay additional amounts in the event that any withholding or deduction is required to be made by Turkish law in respect of payments made by it to the Issuer under those documents. Condition 10 (*Taxation*) provides that the Issuer is required to pay additional amounts in respect of any such withholdings or deductions imposed by Turkey in certain circumstances. In the event that the Issuer fails to gross-up for any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, Türkiye Finans has, pursuant to the Representative Agreement, unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Issuer (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 10 (*Taxation*) in respect of any withholding or deduction in respect of any tax as set out in that Condition.

If Türkiye Finans has or will become obliged to provide funding to ensure that the funds available to the Issuer are sufficient to pay the relevant Periodic Distribution Amount or the relevant Dissolution Distribution Amount pursuant to Condition 10 (*Taxation*) and such obligation cannot be avoided by the Issuer taking reasonable measures available to it, then Condition 9(c) (*Capital Distributions — Redemption following a Tax Event*) provides that, in such circumstances, Türkiye Finans has the option to require the Issuer to redeem the Certificates prior to their scheduled maturity.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income, which may include Periodic Distribution Amounts) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries including Turkey, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Council formally adopted a Council Directive amending the EU Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above (see also "*Taxation – The proposed financial transactions tax*"). Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the EU Savings Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest. Investors who are in any doubt as to their position should consult their professional advisers.

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

Risk factors relating to enforcement

Turkish Bankruptcy Law

Investors should note that if any bankruptcy proceedings were to be initiated against either the Issuer or Türkiye Finans, they would be subject to Turkish bankruptcy law. In the event of Türkiye Finans' or the Issuer's insolvency, Turkish bankruptcy law may adversely affect Türkiye Finans' or the Issuer's ability to perform their respective obligations under the Purchase Undertaking and the Management Agency Agreement and therefore the Issuer's ability to make payments to Certificateholders. There is no precedent to predict how the claims on behalf of Certificateholders would be resolved in the case of any insolvency of Türkiye Finans or the Issuer.

Claims for specific enforcement

In the event that Türkiye Finans fails to perform its obligations under any Transaction Document to which it is a party, the potential remedies available to the Issuer and the Representative include obtaining an order for specific enforcement of Türkiye Finans' obligations or a claim for damages. There is no assurance that a court will provide an order for specific enforcement, which is a discretionary matter.

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 Issuer and the 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 Türkiye Finans to perform its obligations set out in the Transaction Documents to which it is a party.

Investors may experience difficulty in enforcing foreign judgments in Turkey

Ultimately the payments under the Certificates are dependent upon Türkiye Finans making payments to the Issuer in the manner contemplated under the Transaction Documents. If Türkiye Finans fails to do so, it may be necessary to bring an action against Türkiye Finans to enforce its obligations which could be both time consuming and costly.

Türkiye Finans is a joint stock company organised under the laws of Turkey. Certain of the directors and officers of Türkiye Finans 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 Türkiye Finans are, located in Turkey. As a result, it may not be possible for investors to effect service of process upon such persons or entities 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 in the past 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 in the future. Moreover, there is uncertainty as to the ability of an investor to bring an original action in Turkey based on any other non-Turkish securities 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 and the defendant brought an objection before the Turkish courts against the request for enforcement on any of these grounds;

(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 had no actual relationship with the parties or the subject matter at hand.

If any action or proceeding is instituted in Turkey arising out of or relating to a Transaction Document (as defined below), it may be necessary for a foreign plaintiff or plaintiffs under Law of Charges No. 492 (as amended) to pay, among other amounts (including amounts in relation to security for court costs), court fees in the amount of 6.83 per cent. of the TRY equivalent of the amount claimed plus a fixed application fee to the relevant courts.

In connection with the issuance of Certificates, Türkiye Finans will appoint Jordans Trust Company Limited, 20-22 Bedford Row, London WC1R 4JS as its agent upon whom process may be served in connection with any proceedings in England.

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 conditions of the Certificates, the structure and certain Transaction Documents are 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 judicial decision or change to English or Turkish law or administrative practice after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Certificates or of Türkiye Finans or the Issuer to comply with their respective obligations under the Transaction Documents.

Additional risks

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 structure, market, additional factors discussed above and other factors that may affect the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

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. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

Investors must make their own determination as to Shari'a compliance

Members of the *Sharia* Supervisory Board of Citi Islamic Investment Bank E.C., the *Sharia'a* Supervisory Board of QInvest LLC and the HSBC Saudi Arabia Executive Shari'ah Committee have issued a fatwa in respect of the Certificates and the related structure and mechanism described in the Transaction Documents and their compliance with *Shari'a* principles. However, a fatwa is only an expression of the view of the relevant *Shari'a* advisory board based on its experience in the subject and is not a binding opinion. There can be no assurance as to the Shari'a permissibility of the structure or the issue and the trading of the Certificates and neither the Issuer, Türkiye Finans, the Representative nor the Managing Agent make any representation as to the same. Investors are reminded that, as with any *Shari'a* views, differences in opinion are possible. Investors are advised to obtain their own independent *Shari'a* advice as to whether the structure meets their individual standards of compliance and make their own determination as to the future tradeability of the Certificates on any secondary market. Questions as to the *Shari'a* permissibility of the structure or the issue and the trading of the Certificates may limit the liquidity and adversely affect the market value of the Certificates.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties in the transaction would be, if in dispute, the subject of court proceedings under the laws of Turkey or England and Wales. In such circumstances, the judge may first apply the relevant law rather than *Shari'a* principles in determining the obligations of the parties.

Consents to variation of Transaction Documents and other matters

The Conditions and the Representative Agreement contain provisions permitting the Issuer (or Representative as the case may be) from time to time and at any time without any consent or sanction of the Certificateholders to make any modification of, or agree to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Representative Agreement or of any other Transaction Document, or determine, without any such consent as aforesaid, that any Dissolution Event shall not be treated as such, if, in the opinion of the Issuer (or the Representative as the case may be): (a) such modification is of a formal, minor or technical nature; (b) such modification is made to correct a manifest error; (c) such modification, waiver, authorisation or determination is not materially prejudicial to the interests of Certificateholders and does not relate to a Reserved Matter (as such term is defined in the Conditions); or (d) such modification is required to effect cancellation of Certificates in accordance with Condition 17 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*). Unless the Issuer (or Representative as the case may be) otherwise decides, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders. The Issuer (or the Representative as the case may be) may not consent to such modification, waiver, authorisation or determination in contravention of an express direction given by an Extraordinary Resolution (as such term is defined in the Conditions) of the Certificateholders or a request made pursuant to Condition 13 (*Dissolution Events*).

Exchange rate risks and exchange controls

The Issuer will pay Periodic Distribution Amounts and Dissolution Distribution Amounts on the Certificates in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars.

These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls.

An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease: (i) the Investor's Currency equivalent yield on the Certificates; (ii) the Investor's Currency equivalent value of the Dissolution Distribution Amount payable on the Certificates; and (iii) the Investor's Currency equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive a lower Dissolution Distribution Amount than expected, or no Dissolution Distribution Amount.

Reliance on Euroclear and Clearstream, Luxembourg procedures

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

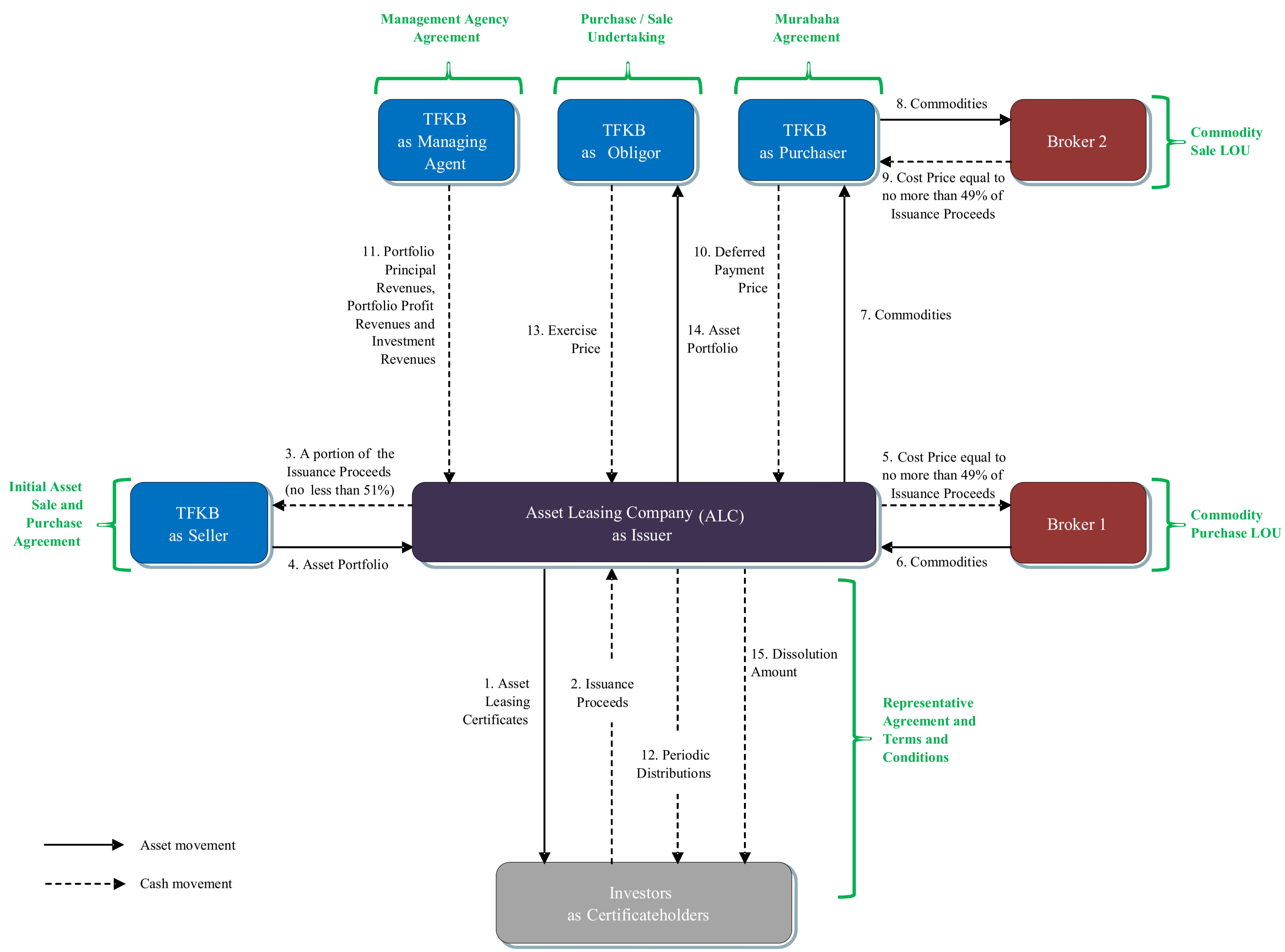
While the Certificates are represented by the Global Certificate, the Issuer will discharge its payment obligation under the Certificates by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of an interest in the Global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

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

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



Cashflows

Payments by the Certificateholders and the Issuer

On the Closing Date, the Certificateholders will pay the issue price in respect of the Certificates to the Issuer. The Issuer will:

(a) use at least fifty one per cent. (51%) of the proceeds of the issuance of the Certificates (the "**Initial Asset Portfolio Purchase Price**"), to purchase Türkiye Finans' interests, rights, benefits and entitlements in, to and under the Initial Portfolio Assets pursuant to the Initial Asset Portfolio Sale and Purchase Agreement; and

(b) use the remaining portion of the proceeds of the issuance of the Certificates (the "**Commodity Purchase Price**") to purchase Commodities from the Supplier and subsequently sell them to Türkiye Finans pursuant to the Murabaha Contract entered into pursuant to the Murabaha Agreement.

Periodic Distribution Payments

Pursuant to the Management Agency Agreement, the Managing Agent will credit all Profit Revenues to the Profit Collection Account and will, on the Business Day prior to each Periodic Distribution Date apply amounts standing to the credit of the Profit Collection Account to pay the Periodic Distribution Amounts payable by the Issuer under the Certificates and such amounts shall be paid to the Transaction Account and shall be applied by the Issuer for that purpose.

"**Profit Revenues**" means: (a) all revenues generated by, or in connection with, the Portfolio Assets and payable to the Managing Agent in the nature of profit; (b) all amounts payable to the Issuer under the Murabaha Contract as the Profit Amount; (c) all revenues in the nature of profit generated by the Shari'a Compliant Investments; and (d) all amounts payable by the Obligor, in the nature of profit, pursuant to clause 3 (*Duties and Rights of the Seller in Respect of the Initial Portfolio Assets*) of the Initial Asset Portfolio Sale and Purchase Agreement or any equivalent clause in any sale and purchase agreement entered into in connection with the sale and purchase of Eligible Portfolio Assets from time to time.

Dissolution Payment by Türkiye Finans

On the Scheduled Dissolution Date, the Issuer will have the right under the Purchase Undertaking to require Türkiye Finans, following the service of a Purchase Undertaking Exercise Notice by or on behalf of the Issuer, to pay to the Issuer the Dissolution Event Exercise Price. Upon payment of the Dissolution Event Exercise Price in accordance with the terms of the Purchase Undertaking, Türkiye Finans will, as consideration therefore, purchase the Issuer's interests, rights, benefits and entitlements in, to and under the Portfolio Assets, in which case the Dissolution Event Exercise Price shall be the purchase price for such Portfolio Assets. On the Business Day prior to the Scheduled Dissolution Date: (i) Türkiye Finans (as Commodity Purchaser) shall pay the outstanding Deferred Payment Price to the Issuer in accordance with the terms of the Murabaha Agreement; and (ii) Türkiye Finans (as Managing Agent) shall pay the Investment Liquidation Amount and the amounts standing to the credit of the Principal Collection Account at that time to the Issuer in accordance with the terms of the Management Agency Agreement.

The Dissolution Event Exercise Price, together with the outstanding Deferred Payment Price, any Investment Liquidation Amount and the amounts standing to the credit of the Principal Collection Account at that time, will be used to fund the Dissolution Distribution Amount payable by the Issuer under the Certificates.

The Certificates may be redeemed prior to the Scheduled Dissolution Date by reason of: (i) the occurrence of a Dissolution Event (as defined in Condition 13 (*Dissolution Events*)) that is continuing; (ii) the occurrence of a Tax Event that is continuing; (iii) the occurrence of a Change of Control and the exercise of the Change of Control Put Option by holders of 100 per cent. of the Certificates (see below for further details); (iv) at the option of the Issuer, in the event that holders of 75 per cent. or more of the aggregate outstanding face amount of the Certificates exercise the Change of Control Put Option; or (v) upon redemption and cancellation of all of the outstanding Certificates as a result of Türkiye Finans holding all of the Certificates and delivering a Redemption and Cancellation Notice (see below for further details).

In the case of paragraphs (i) and (ii) above, the amounts payable by the Issuer on the Dissolution Event Redemption Date or, as the case may be, the Tax Redemption Date will be part funded by Türkiye Finans' obligation to pay the Dissolution Event Exercise Price or, as the case may be, the Sale Undertaking Exercise Price to the Issuer in accordance with the terms of the Purchase Undertaking or, as the case may be, the Sale Undertaking. The remainder of the amounts payable by the Issuer on the Dissolution Event Redemption Date or, as the case may be, the Tax Redemption Date shall be funded by: (i) the payment by Türkiye Finans (as Commodity Purchaser) of the outstanding Deferred Payment Price on the Business Day prior to the Dissolution Date in accordance with the terms of the Murabaha Agreement; and (ii) the payment by Türkiye Finans (as Managing Agent) to the Issuer of the Investment Liquidation Amount and all amounts standing to the credit of the Principal Collection Account at that time on the Business Day prior to the Dissolution Date in accordance with the terms of the Management Agency Agreement.

Change of Control

Following the occurrence of a Change of Control and service of a change of control exercise notice (the "**Change of Control Exercise Notice**") by or on behalf of the Issuer, Türkiye Finans will pay the Change of Control Exercise Price to the Issuer. Following the payment of the Change of Control Exercise Price in accordance with the terms of the Purchase Undertaking, Türkiye Finans will purchase and accept the transfer of the Issuer's interests, rights, benefits and entitlements in, to and under the Change of Control Redemption Assets, in which case the Change of Control Exercise Price will represent the purchase price for the relevant Change of Control Redemption Assets. The remainder of the amounts payable by the Issuer on the Change of Control Redemption Date shall be funded by: (i) the payment by Türkiye Finans (as Commodity Purchaser) of an amount of the outstanding Deferred Principal Amount equal to the Murabaha Contract Change of Control Amount plus any Deferred Profit Amount relating to the relevant Certificates in accordance with the terms of the Murabaha Agreement; and (ii) the payment by Türkiye Finans (as Managing Agent) to the Issuer of the Shari'a Compliant Investments Change of Control Amount and the Principal Collections Change of Control Amount no later than the Change of Control Redemption Date in accordance with the terms of the Management Agency Agreement.

In the case of the exercise of the Change of Control Put Option by holders of 100 per cent. of the Certificates, the amounts payable by the Issuer on the relevant Change of Control Redemption Date will be funded in the same way as on the occurrence of a Dissolution Event, as described above.

Cancellation of Certificates held by Türkiye Finans

In accordance with Condition 12 (*Purchase and Cancellation of Certificates*), Türkiye Finans may at any time purchase Certificates at any price in the open market or otherwise.

Where Türkiye Finans has purchased Certificates and wishes to cancel those Certificates (the "**Redemption Certificates**"), Türkiye Finans may deliver a Redemption and Cancellation Notice to the Issuer pursuant to the Redemption Undertaking obliging the Issuer to purchase and cancel the Redemption Certificates. Following the exercise of such right, the Issuer will: (i) purchase the Redemption Certificates from Türkiye Finans; (ii) cancel such Redemption Certificates; (iii) sell to Türkiye Finans the Issuer's interests, rights, benefits and entitlements in, to and under the Redemption and Cancellation Assets (in which case the redemption and cancellation of the relevant proportion of the Redemption Certificates shall be the consideration for such purchase); (iv) pay the Redemption Amount (in which case the redemption and cancellation of the remaining proportion of the Redemption Certificates shall be the consideration for such payment); and (v) enter into a Redemption Sale Agreement pursuant to which the Redemption and Cancellation Assets will be sold to Türkiye Finans.

"**Redemption Amount**" means an amount to be paid by the Issuer to Türkiye Finans which is equal to the aggregate of: (a) an amount equal to the product of the amount standing to the credit of the Principal Collection Account and the Redemption and Cancellation Percentage (the "**Principal Collections Redemption Amoun**t"); (b) an amount equal to the product of the principal amount invested in any Shari'a Compliant Investments and the Redemption and Cancellation Percentage (the "**Shari'a Compliant Investments Redemption Amount**"); and (c) an amount equal to the product of the outstanding Deferred Principal Amount under the Murabaha Contract and the Redemption and Cancellation Percentage (the "**Murabaha Contract Redemption Amoun**t"), in each case, as determined on the relevant Redemption and Cancellation Date immediately prior to the redemption and cancellation of the relevant Redemption Certificates and specified in the relevant Redemption and Cancellation Notice.

Türkiye Finans will acknowledge in the Redemption Undertaking that the Redemption Amount to be paid by the Issuer shall be paid as follows:

(i) the amount equal to the Principal Collections Redemption Amount shall be paid, and be deemed to have been paid, by the Issuer authorising the Managing Agent to debit such amount from the Principal Collection Account and retain it for its own account in accordance with the Management Agency Agreement;

(ii) the amount equal to the Shari'a Compliant Investments Redemption Amount shall be paid, and be deemed to have been paid, by the Issuer authorising the Managing Agent to liquidate a corresponding amount of the Shari'a Compliant Investments and retain such amount for its own account in accordance with the Management Agency Agreement; and

(iii) the amount equal to the Murabaha Contract Redemption Amount shall be set-off against the amount of the Deferred Principal Amount to be paid by Türkiye Finans (as Commodity Purchaser) to the Issuer on the Redemption and Cancellation Date under the Murabaha Agreement.

TERMS AND CONDITIONS OF THE CERTIFICATES

The following are the Terms and Conditions of the Certificates which will be incorporated by reference into the Global Certificate and each Definitive Certificate (as defined below), in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Managers at the time of issue but, if not so permitted and agreed, such Definitive Certificates will have endorsed thereon or attached thereto such Terms and Conditions.

TF Varlık Kiralama A.Ş. (in its capacity as issuer, the "**Issuer**") has authorised the issue of its U.S.$500,000,000 certificates due 2019 (the "**Certificates**").

In these Conditions, references to "**Certificates**" shall be references to the U.S.$500,000,000 lease certificates issued by the Issuer pursuant to the Sukuk Communiqué whether in global form as a global Certificate (each a "**Global Certificate**") or in definitive form as definitive Certificates (each a "**Definitive Certificate**").

Each Certificate will be issued pursuant to the Sukuk Communiqué and will be subject to an agreement (the "**Representative Agreement**") to be dated on or about 24 April 2014 (the "**Closing Date**") entered into by the Issuer and Citibank N.A., London Branch (in its capacity as representative of the Certificateholders pursuant to the Representative Agreement, the "**Representative**", which expression shall include any co-representative, any replacement representative and any successor thereto from time to time).

Payments relating to the Certificates will be made pursuant to a paying agency agreement to be dated on or about the Closing Date (the "**Paying Agency Agreement**") made between Türkiye Finans Katılım Bankası A.Ş. ("**Türkiye Finans**"), the Issuer, the Representative and Citibank N.A., London Branch., 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**") and as transfer agent (in such capacity, the "**Transfer Agent**" and, together with any further or other transfer agents appointed from time to time in respect of the Certificates, the "**Transfer Agents**") and Citigroup Global Markets Deutschland AG as registrar (in such capacity, the "**Registrar**"). The Paying Agents, the Registrar and the Transfer Agents are together referred to in these Conditions as the "**Agents**". References to the Agents or any of them shall include their successors from time to time.

The Certificateholders have the benefit of, are bound by, and are deemed to have notice of the following documents (copies of which are available for inspection during usual business hours at the designated office of the Issuer at Yakaclık Mevki, Adnan Kahveci Cad. No: 139 Kartal, Istanbul, Turkey and at the Specified Offices of the Principal Paying Agent):

(i) the Representative Agreement;

(ii) the Paying Agency Agreement;

(iii) an initial asset portfolio sale and purchase agreement between the Issuer (in its capacity as purchaser), Türkiye Finans (in its capacity as seller) and the Representative to be dated on or about the Closing Date (the "**Initial Asset Portfolio Sale and Purchase Agreement**");

(iv) a murabaha agreement between the Issuer (in its capacity as seller), Türkiye Finans (in its capacity as purchaser) and the Representative to be dated on or about the Closing Date (the "**Murabaha Agreement**");

(v) a notice of request to purchase submitted by Türkiye Finans to the Issuer pursuant to the Murabaha Agreement (the "**Notice of Request to Purchase**");

(vi) an offer notice from the Issuer, countersigned by Türkiye Finans pursuant to the Murabaha Agreement (the "**Offer Notice**");

(vii) a commodity sale letter of understanding dated on or about the Closing Date between Condor Trading Limited (the "**On-Sale Broker**") as purchaser of Commodities and Türkiye Finans as seller of the Commodities (the "**Commodity Sale Letter of Understanding**");

(viii) a commodity purchase letter of understanding dated on or about the Closing Date between the Issuer as purchaser of Commodities and the Supplier as seller of the Commodities (the "**Commodity Purchase Letter of Understanding**");

(ix) a netting deed dated on or about the Closing Date between the Issuer, Türkiye Finans, the Supplier and the On-Sale Broker (the "**Netting Deed**");

(x) a management agency agreement between the Issuer, the Representative and Türkiye Finans (in its capacity as Managing Agent) to be dated on or about the Closing Date (the "**Management Agency Agreement**");

(xi) a purchase undertaking granted by Türkiye Finans in favour of the Issuer and the Representative to be dated on or about the Closing Date (the "**Purchase Undertaking**");

(xii) a sale undertaking granted by the Issuer in favour of Türkiye Finans and acknowledged by the Representative to be dated on or about the Closing Date (the "**Sale Undertaking**"); and

(xiii) a redemption undertaking granted by the Issuer in favour of Türkiye Finans and acknowledged by the Representative to be dated on or about the Closing Date (the "**Redemption Undertaking**"),

each as may be amended and restated from time to time.

The Issuer will, and by its acquisition and holding of the Certificates each of the Certificateholders shall be deemed to authorise and direct the Issuer to: (a) apply the proceeds of the issuance towards the acquisition of each of the Initial Portfolio Assets and the Commodities comprised in the Murabaha Contract; and (b) enter into each other Transaction Document to which it is a party. The Issuer will hold its interests in the Lease Certificate Assets in its own name and on its own behalf and for the account and benefit of the Certificateholders and the income accruing to the Issuer from the purchased Sukuk Assets, together with any capital arising from the disposal of such Sukuk Assets, shall be for the benefit of, and shall be accounted by the Issuer to the Certificateholders.

Pursuant to the Representative Agreement the Representative shall: (a) enter into the Transaction Documents to which it is a party and; (b) enforce its rights thereunder, subject to the terms and conditions of the Representative Agreement as supplemented by these Conditions.

These Conditions include summaries of, and are subject to, the detailed provisions of the Representative Agreement and the Paying Agency Agreement.

1. INTERPRETATION

Words and expressions defined in the Representative Agreement and the Paying Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated. In addition, in these Conditions the following expressions have the following meanings:

"**Additional Portfolio Asset Date**" means the date specified as such in an Additional Portfolio Asset Exercise Notice;

"**Additional Portfolio Asset Exercise Notice**" means a notice substantially in the form set out in Schedule 4 (*Form of Additional Portfolio Asset Exercise Notice*) of the Purchase Undertaking;

"**Additional Portfolio Asset Purchase Price**" means the amount specified as such in an Additional Portfolio Asset Exercise Notice;

"**Appointee**" has the meaning given in clause 11.1.10 of the Representative Agreement;

"**Asset Portfolio**" means the Initial Asset Portfolio together with any Eligible Portfolio Assets which (i) have been acquired by the Issuer pursuant to the terms of the Initial Asset Sale and Purchase Agreement or the Purchase Undertaking (and any corresponding New Asset Sale Agreement); or (ii) may have been substituted for any Portfolio Assets, from time to time, in accordance with the terms of the Initial Asset Sale and Purchase Agreement, the Purchase Undertaking and any related Transfer Agreement or the Sale Undertaking and any related Transfer Agreement but excluding any Portfolio Assets in relation to which clause 2.3

of the Initial Asset Portfolio Sale and Purchase Agreement or any equivalent provision in any sale and purchase agreement relating to any Eligible Portfolio Assets acquired by the Asset Purchaser pursuant to the Purchase Undertaking or the Sale Undertaking has become applicable and the Seller has paid an amount equal to the relevant purchase price for such Portfolio Asset to the Asset Purchaser;

"**Asset Purchaser**" means the Issuer in its capacity as purchaser pursuant to the Initial Asset Portfolio Sale and Purchase Agreement;

"**Asset Seller**" means Türkiye Finans in its capacity as seller pursuant to the Initial Asset Portfolio Sale and Purchase Agreement;

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

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

"**Certificateholder**" means a person in whose name a Certificate is registered in the Register (or in the case of joint holders, the first person named thereof) and the expressions "**holder**" and "**holder of Certificates**" and related expressions shall (where appropriate) be construed accordingly;

"**Change of Control**" means:

(i) The National Commercial Bank ceases to have the power to direct the management and policies of Türkiye Finans (whether through the ownership of voting capital, by contract, decree or otherwise); or

(ii) there is a reduction in the principal share ownership of The National Commercial Bank in Türkiye Finans to less than fifty one per cent. (51%) of the issued share capital of Türkiye Finans;

"**Change of Control Amount**" means, in respect of the Change of Control Redemption Certificates, an amount equal to the sum of:

(a) the outstanding face amount of such Certificates as of such date; and

(b) any accrued but unpaid Periodic Distribution Amounts as of such date;

"**Change of Control Asset Value**" means:

(a) the aggregate Outstanding Principal Value of the Portfolio Assets immediately prior to the sale and purchase of the Change of Control Redemption Assets; and

(b) the Change of Control Percentage;

"**Change of Control Call Option**" has the meaning given to it in Condition 9(d) (*Capital Distributions — Redemption at the Option of the Certificateholders (Change of Control Put Option)*);

"**Change of Control Call Option Date**" means the date specified in a Sale Undertaking Exercise Notice (which shall be no less than 45 days and no more than 60 days after the date on which the Sale Undertaking Exercise Notice is delivered to the Issuer);

"**Change of Control Exercise Notice**" means a notice substantially in the form set out in Schedule 2 (*Form of Change of Control Exercise Notice*) to the Purchase Undertaking;

"**Change of Control Exercise Price**" means an amount equal to the aggregate Outstanding Principal Value of each Change of Control Redemption Asset on the Change of Control Redemption Date;

"**Change of Control Notice**" has the meaning given to it in Condition 9(d) (*Capital Distributions — Redemption at the Option of the Certificateholders (Change of Control Put Option)*);

"**Change of Control Percentage**" means the aggregate face amount of the Change of Control Redemption Certificates divided by the aggregate face amount of all of the Certificates then outstanding expressed as a percentage, as determined on the relevant Change of Control Redemption Date immediately prior to the redemption of the Change of Control Redemption Certificates;

"**Change of Control Put Option**" has the meaning given to it in Condition 9(d) (*Capital Distributions — Redemption at the Option of the Certificateholders (Change of Control Put Option)*);

"**Change of Control Put Option Notice**" has the meaning given to it in Condition 9(d) (*Capital Distributions — Redemption at the Option of the Certificateholders (Change of Control Put Option)*);

"**Change of Control Put Option Period**" has the meaning given to it in Condition 9(d) (*Capital Distributions — Redemption at the Option of the Certificateholders (Change of Control Put Option)*);

"**Change of Control Redemption Assets**" means those Portfolio Assets as Türkiye Finans may select in accordance with the terms of the Purchase Undertaking and specified as such in a Sale Agreement;

"**Change of Control Redemption Certificates**" means those Certificates that are being redeemed by the relevant Certficateholders upon a Change of Control in accordance with Condition 9(d) (*Capital Distributions — Redemption at the Option of the Certificateholders (Change of Control Put Option)*);

"**Change of Control Redemption Date**" means the date specified in the Purchase Undertaking Exercise Notice or, as the case may be, the Change of Control Exercise Notice (which shall be no less than 45 days and no more than 60 days after the date on which the Purchase Undertaking Exercise Notice or, as the case may be, the Change of Control Exercise Notice, is delivered to Türkiye Finans);

"**Commodities**" means Copper, Platinum, Palladium, Zinc, Lead, Aluminium, Aluminium alloy, Iridium, Nickel, Rufinium and Rhodium or such other Shari'a compliant commodities as may be agreed upon by the Commodity Seller and the Commodity Purchaser and as specified in a Notice of Request to Purchase;

"**Commodity Purchase Price**" means, in relation to the Murabaha Contract, an amount in U.S. Dollars equal to the aggregate of:

(a) the amount payable by the Commodity Seller to the Supplier for the purchase of Commodities described in the relevant Notice of Request to Purchase (including any fees, costs and expenses payable by the Commodity Seller to the Supplier);

(b) any Commodity Taxes applicable to that purchase; and

(c) any other actual direct or indirect costs and expenses including, without limitation, insurance and transport expenses applicable to that purchase;

"**Commodity Purchaser**" means Türkiye Finans as purchaser of Commodities under the Murabaha Agreement;

"**Commodity Seller**" means the Issuer as seller of Commodities under the Murabaha Agreement;

"**Commodity Tax**" means any tax payable in connection with the purchase or sale of Commodities including, without limitation, any value added tax, sales tax, goods and service tax, import or excise tax or any other similar tax or duty;

"**Deferred Payment Price**" means, in relation to the Murabaha Contract, the applicable deferred price which is required to be paid by the Commodity Purchaser in U.S. Dollars (as set out in the relevant Offer Notice in accordance with the terms of the Murabaha Agreement), being the aggregate of: (a) the Commodity Purchase Price (being the "**Deferred Principal Amount**"); and (b) the Profit Amount;

"**Dissolution Date**" means, as the case may be:

(a) the Scheduled Dissolution Date;

(b) the Dissolution Event Redemption Date;

(c) the Tax Redemption Date;

(d) the Change of Control Call Option Date;

(e) a Redemption and Cancellation Date where Türkiye Finans has purchased and wishes to redeem all of the outstanding Certificates; and

(f) a Change of Control Redemption Date, following the exercise of the Change of Control Put Option by holders of 100 per cent. of the outstanding Certificates;

"**Dissolution Distribution Amount**" means, as of the Dissolution Date, the sum of:

(a) the outstanding face amount of the Certificates as of such date; and

(b) any accrued but unpaid Periodic Distribution Amounts as of such date;

"**Dissolution Event**" has the meaning given to it in Condition 13 (*Dissolution Events*);

"**Dissolution Event Exercise Price**" means an amount equal to the aggregate of:

(a) the Outstanding Principal Value of each Portfolio Asset on the Dissolution Date;

(b) without duplication or double-counting, an amount equal to any accrued but unpaid Management Costs; and

(c) without duplication or double-counting, an amount representing any prior ranking claims (as described in items (i) and (ii) of Condition 5(b) (*The Asset Leasing Corporation — Application of Proceeds from Lease Certificate Assets)*) in accordance with Condition 5(b) (*The Asset Leasing Corporation — Application of Proceeds from Lease Certificate Assets*);

"**Dissolution Event Redemption Date**" has the meaning given to it in Condition 13 (*Dissolution Events*);

"**Dissolution Request**" has the meaning given to it in Condition 13 (*Dissolution Events*);

"**Eligible Portfolio Asset**" means a Lease Asset or an Investment Sukuk:

(a) which, in the case of a Lease Asset, has been originated or, in the case of an Investment Sukuk, is held or owned by the Asset Seller in a manner consistent with its usual credit, origination and investment policies;

(b) which constitutes legal, valid, binding and, subject to any general principles of law limiting the obligations of the obligor, enforceable obligations of the obligor under the related Lease Finance Documents or, as the case may be, the Investment Sukuk Documents in the jurisdiction in which such obligor is located and the jurisdiction in which any related asset is located;

(c) in respect of which the Asset Seller is entitled to receive all payments due to it;

(d) in respect of which there has not occurred any default, acceleration or analogous event (howsoever described);

(e) which is capable of being sold and transferred to the Asset Purchaser by the Asset Seller in accordance with the terms set out in the Initial Asset Portfolio Sale and Purchase Agreement, pursuant to the terms of the Purchase Undertaking and any related New Asset Sale Agreement or any related Transfer Agreement or pursuant to the terms of the Sale Undertaking and any related Transfer Agreement; and

(f) in respect of which the Outstanding Principal Value is equal to or greater than the value of the consideration given for such Eligible Portfolio Asset as at the date the asset is sold and transferred to the Asset Purchaser under the Initial Asset Portfolio

Sale and Purchase Agreement, pursuant to the terms of the Purchase Undertaking and any related New Asset Sale Agreement or any related Transfer Agreement or pursuant to the terms of the Sale Undertaking and any related Transfer Agreement;

"**Extraordinary Resolution**" has the meaning given to it in Schedule 4 (*Provisions for Meetings of Certificateholders*) to the Representative Agreement;

"**Financial Indebtedness**" means any indebtedness for or in respect of:

(a) moneys borrowed;

(b) any amount raised by acceptance under any acceptance credit facility;

(c) any amount raised pursuant to any note purchase facility or the issue of sukuk or any similar instrument;

(d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with IFRS, be treated as a finance or capital lease;

(e) receivables sold (other than any receivables to the extent they are sold on a nonrecourse basis);

(f) any amount raised under any other transaction (including any purchase agreement) having the commercial effect of a borrowing;

(g) 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

(h) (without double counting) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (g) above;

"**Group**" means Türkiye Finans and its subsidiaries taken as a whole;

"**Guarantee**" means, in relation to any Financial Indebtedness of any person, any obligation of another person to pay such Financial Indebtedness following valid demand or claim on that person and includes (without limitation):

(i) any obligation to purchase such Financial Indebtedness;

(ii) any obligation to extend financing, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Financial Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Financial Indebtedness;

(iv) any obligation to pay an exercise price or other amount under any undertaking or indemnity given in favour of the obligor in respect of such Financial Indebtedness as part of an Islamic financing transaction; and

(v) any other agreement to be responsible for such Financial Indebtedness;

"**Impaired Portfolio Asset**" means an asset in respect of which: (a) there has been a breach of any representations and warranty made by the Asset Seller in respect of a Portfolio Asset; or (b) any Portfolio Asset becomes subject to an encumbrance (except as otherwise permitted pursuant to the terms of the Transaction Documents, the Lease Finance Documents or the Investment Sukuk Documents, as applicable);

"**Impaired Portfolio Asset Substitution Date**" means the date specified as such in an Impaired Portfolio Asset Substitution Notice;

"**Impaired Portfolio Asset Substitution Notice**" means a notice substantially in the form set out in Schedule 3 (*Form of Impaired Portfolio Asset Substitution Notice*) of the Purchase Undertaking;

"**Initial Asset Portfolio Purchase Price**" has the meaning given to it in the Initial Asset Portfolio Sale and Purchase Agreement;

"**Initial Asset Portfolio**" means the portfolio comprised of the Initial Portfolio Assets;

"**Initial Portfolio Assets**" means the interests, rights, benefits and entitlements (except legal title, which shall remain with the Asset Seller) of Türkiye Finans as asset seller in, to and under certain Lease Assets and Investment Sukuk, each as identified in Schedule 1 (*Initial Asset Portfolio*) to the Initial Asset Portfolio Sale and Purchase Agreement;

"**Investment Liquidation Amount**" means an amount in U.S. Dollars equal to the aggregate principal amount invested in Shari'a Compliant Investments.

"**Investment Sukuk**" means *Shari'a* compliant sukuk or trust certificates that are fully backed by or, as the case may be, fully based on underlying tangible assets (together with the interests, rights, benefits and entitlements of the Asset Seller under the associated Investment Sukuk Documents);

"**Investment Sukuk Documents**" means, in relation to any Investment Sukuk, the terms and conditions applicable to, and governing, those Investment Sukuk and any transaction documents referred to therein;

"**Issuance Proceeds**" means the proceeds of issuance of the Certificates;

"**Joint Lead Managers**" means Citigroup Global Markets Limited, Emirates NBD Capital Limited, HSBC Bank plc and QInvest LLC and "**Joint Lead Manager**" means each of them;

"**Lease Asset**" means an asset held and leased by Türkiye Finans (as lessor) to a customer pursuant to the related Lease Finance Documents (together with the interests, rights, benefits and entitlements of the Asset Seller under the associated Lease Finance Documents);

"**Lease Certificate Assets**" means, so long as the Sukuk Communiqué permits:

(a) all of the Issuer's interest, rights, benefit and entitlements, present and future, in, to and under the relevant Sukuk Assets;

(b) the interest, rights, benefits and entitlements, present and future, of the Issuer in, to and under the Transaction Documents (excluding: (i) any representations given by Türkiye Finans to the Issuer and the Representative pursuant to any of the Transaction Documents; and (ii) the indemnities given by Türkiye Finans to the Issuer pursuant to the Representative Agreement); and

(c) all monies standing to the credit of the Transaction Account;

and all proceeds of the foregoing *pro rata* according to the face amount of Certificates held by each holder;

"**Lease Finance Documents**" means, in relation to a Lease Asset, the lease contract (howsoever described) between the Asset Seller and a customer, pursuant to which the Asset Seller (as lessor) has leased that Lease Asset to the customer (as lessee), the related service agency agreement, purchase undertaking and sale undertaking (in each case, howsoever described and whether forming part of the lease contract or not) and any other documents related to that lease contract or the transactions contemplated by that lease contract;

"**Liability**" means any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever (including, without limitation in respect of taxes) and including any value added tax or similar tax charged or chargeable in respect thereof and legal or other fees and expenses on a full indemnity basis and references to "**Liabilities**" shall mean all of these;

"**Management Costs**" means the amount of any unpaid claims, losses, costs and expenses properly incurred or suffered by the Managing Agent in providing the Services during the Services Term;

"**Murabaha Contract**" means the individual contract for the sale of Commodities at a deferred purchase price and made pursuant to the provisions of the Murabaha Agreement by the delivery of an Offer Notice by the Commodity Seller to the Commodity Purchaser and the subsequent countersignature of such Offer Notice by the Commodity Purchaser in accordance with the terms of the Murabaha Agreement;

"**Murabaha Contract Change of Control Amount**" means an amount equal to the product of:

(a) the outstanding Deferred Principal Amount under the Murabaha Contract as of the Change of Control Redemption Date; and

(b) the Change of Control Percentage;

"**Murabaha Contract Redemption Amount**" means an amount equal to the product of the outstanding Deferred Principal Amount under the Murabaha Contract and the Redemption and Cancellation Percentage;

"**New Asset Sale Agreement**" has the meaning given to it in the Purchase Undertaking;

"**New Assets**" means the Lease Assets or Investment Sukuk specified as such in a Transfer Agreement or a New Asset Sale Agreement (as applicable), the identity of which shall be determined by Türkiye Finans in its sole and absolute discretion subject to the terms of the Purchase Undertaking;

"**Notice of Request to Purchase**" means, in relation to a proposed Murabaha Contract, the notice from the Commodity Purchaser to the Commodity Seller requesting that the Commodity Seller purchase certain Commodities from the Supplier and containing the Commodity Purchaser's irrevocable undertaking to purchase the specified Commodities from the Commodity Seller in accordance with the terms of the Murabaha Agreement, substantially in the form set out in Schedule 1 (*Form of Notice of Request to Purchase*) of the Murabaha Agreement;

"**Outstanding Principal Value**" means at any time, in relation to a Portfolio Asset, an Eligible Portfolio Asset or an Impaired Portfolio Asset:

(a) which is a Lease Asset, an amount in U.S. Dollars equal to all unpaid, due or scheduled, fixed rental instalment amounts payable to the Asset Seller under the related Lease Finance Documents which have accrued or will accrue on and from the date on which the Asset Seller sells that Lease Asset to the Asset Purchaser; and

(b) which is an Investment Sukuk, an amount in U.S. Dollars equal to the outstanding face amount of that Investment Sukuk;

"**Payment Business Day**" means: (a) a day on which commercial banks in the relevant place of surrender of any Certificate are open for presentation and payment of registered securities and for dealings in foreign currencies; and (b) in the case of payment by transfer to an account, any day which is a day on which commercial banks are open for general business and for dealings in foreign currencies in Istanbul, London and New York;

"**Periodic Distribution Amount**" has the meaning given to it in Condition 7(a) (*Periodic Distribution Provisions — Periodic Distribution Amount*);

"**Periodic Distribution Date**" has the meaning given to it in Condition 7(a) (*Periodic Distribution Provisions — Periodic Distribution Amount*);

"**person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Portfolio Asset**" means the interests, rights, benefits and entitlements of the Asset Seller in, to and under any Investment Sukuk or any Lease Asset sold and transferred to the Asset Purchaser and comprised in the Asset Portfolio from time to time;

"**Principal Collection Account**" means the principal collections account ledger maintained by the Managing Agent in accordance with the Managing Agency Agreement;

"**Principal Collections Change of Control Amount**" means an amount equal to the product of:

(a) the amount standing to the credit of the Principal Collection Account on the Business Day preceding the Change of Control Redemption Date; and

(b) the Change of Control Percentage;

"**Principal Collections Redemption Amount**" means an amount equal to the product of the amount standing to the credit of the Principal Collection Account and the Redemption and Cancellation Percentage;

"**Profit Amount**" has the meaning given to it in the Murabaha Agreement;

"**Profit Collection Account**" means the profit collections account ledger maintained by the Managing Agent in accordance with the Managing Agency Agreement;

"**Profit Rate**" means 5.375 per cent. per annum;

"**Purchase Undertaking Exercise Notice**" means a notice substantially in the form set out in Schedule 1 (*Form of Purchase Undertaking Exercise Notice*) to the Purchase Undertaking;

"**Record Date**" has the meaning given in Condition 8(a) (*Payment — Payments in Respect of Certificates*);

"**Redemption Amount**" means an amount to be paid by the Issuer to Türkiye Finans which is equal to the aggregate of:

(a) the Principal Collections Redemption Amount;

(b) the Shari'a Compliant Investments Redemption Amount; and

(c) the Murabaha Contract Redemption Amount),

in each case, as determined on the relevant Redemption and Cancellation Date immediately prior to the redemption and cancellation of the relevant Redemption Certificates and specified in the relevant Redemption and Cancellation Notice;

"**Redemption and Cancellation Asset Value**" means an amount equal to the product of:

(a) the aggregate Outstanding Principal Value of the Portfolio Assets immediately prior to the redemption and cancellation of the relevant Redemption Certificates; and

(b) the Redemption and Cancellation Percentage;

"**Redemption and Cancellation Assets**" means those Portfolio Assets (as Türkiye Finans may select in its sole and absolute discretion in accordance with the terms of the Redemption Undertaking) specified as such in a Redemption and Cancellation Notice and a Redemption Sale Agreement;

"**Redemption and Cancellation Date**" means the date specified as such in a Redemption and Cancellation Notice;

"**Redemption and Cancellation Notice**" means a redemption and cancellation notice in substantially the form set out at Schedule 1 (*Form of Redemption and Cancellation Notice*) to the Redemption Undertaking;

"**Redemption and Cancellation Percentage**" means the aggregate face amount of the relevant Redemption Certificates divided by the aggregate face amount of all of the Certificates then outstanding expressed as a percentage, as determined on the relevant Redemption and Cancellation Date immediately prior to the redemption and cancellation of the Redemption Certificates;

"**Redemption Certificates**" has the meaning given in Condition 12(b) (*Purchase and Cancellation of Certificates — Cancellation of Certificates held by Türkiye Finans*);

“**Redemption Sale Agreement**” means an agreement to be executed by Türkiye Finans and the Issuer in respect of any Redemption and Cancellation Assets pursuant to the exercise of the Redemption Undertaking (if applicable) substantially in the form set out at Schedule 2 (*Form of Redemption Sale Agreement*) to the Redemption Undertaking;

“**Register**” means the register maintained by the Registrar on which, among other things, the names and addresses of the holders from time to time of the Certificates, together with the particulars of the Certificates held by them respectively, and all transfers of Certificates are recorded;

“**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 relevant Paying Agent or the Issuer or the Registrar on or before the due date, it means the date on which the full amount of the money having been so received, notice to that effect shall have been duly given to Certificateholders by the Issuer in accordance with Condition 16 (*Notices*);

“**Relevant Jurisdiction**” means Turkey or, any political subdivision or authority thereof or therein having the power to tax;

“**Reserved Matter**” has the meaning given to it in Schedule 4 (Provisions for Meetings of Certificateholders) to the Representative Agreement;

“**Return Accumulation Period**” has the meaning given to it in Condition 7(b) (*Periodic Distribution Provisions — Determination of Periodic Distribution Amount*);

“**Sale Agreement**” means any sale agreement entered into in connection with the Purchase Undertaking or Sale Undertaking;

“**Sale Undertaking Exercise Notice**” means a notice substantially in the form set out in Schedule 1 (*Form of Sale Undertaking Exercise Notice*) to the Sale Undertaking;

“**Sale Undertaking Exercise Price**” means an amount equal to the aggregate of:

(a) the Outstanding Principal Value of each Portfolio Asset on the Dissolution Date;

(b) without duplication or double-counting, an amount equal to any accrued but unpaid Management Costs; and

(c) without duplication or double-counting, an amount representing any prior ranking claims (as described in items (i) and (ii) of Condition 5(b) (*The Asset Leasing Corporation — Application of Proceeds from Lease Certificate Assets*) in accordance with Condition 5(b) (*The Asset Leasing Corporation — Application of Proceeds from Lease Certificate Assets*);

“**Scheduled Dissolution Date**” means 24 April 2019;

“**Security Interest**” means any mortgage, charge, pledge, lien, or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect;

“**Services**” means each of the services specified in Clause 4 (*Services*) of the Management Agency Agreement, in each case, in accordance with the terms and conditions of the Management Agency Agreement;

“**Services Term**” means the period from and including the date of the Management Agency Agreement to and including the date on which all of the Certificates have been redeemed in full in accordance with the Conditions and the other Transaction Documents;

“**Shari’a**” means the principles of *Shari’a* as interpreted by the Shari’a Board;

“**Shari’a Board**” means the Shari’a Board of Türkiye Finans from time to time;

“**Shari’a Compliant Investments**” has the meaning given to it in the Management Agency Agreement;

“**Shari’a Compliant Investments Change of Control Amount**” means an amount equal to the product of:

(a) the principal amount invested in Shari'a Compliant Investments as of the Business Day preceding the Change of Control Redemption Date; and

(b) the Change of Control Percentage;

"**Shari'a Compliant Investments Redemption Amount**" means an amount equal to the product of the principal amount invested in any Shari'a Compliant Investments and the Redemption and Cancellation Percentage;

"**Specified Denomination(s)**" means a minimum denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof;

"**Specified Office**" means the initial specified offices of the Agents as set out in Condition 8(d) (*Payment — Agents*) or any other specified offices notified pursuant to Condition 8(d) (*Payment — Agents*);

"**Subsidiary**" means an entity of which a person has direct or indirect control or owns directly or indirectly more than 50 per cent. of the voting capital or similar right of ownership or which has been decreed to it or constituted as a subsidiary entity under applicable law and "**control**" for this purpose means the power to direct the management and the policies of the entity whether through the ownership of voting capital, by contract or otherwise;

"**Substituted Impaired Portfolio Assets**" means the Portfolio Assets specified as such in an Impaired Portfolio Asset Substitution Notice;

"**Supplier**" means the vendor of Commodities as specified in the relevant Notice of Request to Purchase;

"**Sukuk Assets**" means the Portfolio Assets, the right to receive the outstanding Deferred Payment Price under the Murabaha Contract and the amounts standing to the credit of the Principal Collection Account and Profit Collection Account from time to time;

"**Tax Event**" has the meaning given to it in Condition 9(c) (*Capital Distributions — Redemption following a Tax Event*);

"**Tax Redemption Date**" means the date specified in the Sale Undertaking Exercise Notice which must also be a Periodic Distribution Date;

"**Taxes**" has the meaning given to it in Condition 10 (*Taxation*);

"**Transaction Account**" means the account opened by the Issuer with the Principal Paying Agent prior to the Closing Date and operated by the Principal Paying Agent on behalf of the Issuer;

"**Transaction Documents**" means the Initial Asset Portfolio Sale and Purchase Agreement, the Murabaha Agreement, the Commodity Purchase Letter of Understanding, the Commodity Sale Letter of Understanding, the Netting Deed, the Notice of Request to Purchase, the Offer Notice, the Management Agency Agreement, the Purchase Undertaking, the Sale Undertaking, the Redemption Undertaking, the Representative Agreement, the Paying Agency Agreement, the Costs Undertaking and the Certificates and any other agreements, deeds, undertakings, or documents entered into pursuant to any of the foregoing or which can be entered into by the parties to any of the foregoing from time to time and are designated as such by the parties thereto and the Representative; and

"**Transfer Agreement**" means an agreement substantially in the form set out at Schedule 6 (*Form of Transfer Agreement*) of the Purchase Undertaking or at Schedule 4 (*Form of Transfer Agreement*) of the Sale Undertaking, as applicable;

"**Türkiye Finans Event**" has the meaning given to it in Condition 13 (*Dissolution Events*).

All references in these Conditions to "**U.S. dollars**", "**U.S.$**" and "**$**" are to the lawful currency of the United States of America.

The rules of interpretation set out in the Representative Agreement shall apply to these Conditions as if set out herein, *mutatis mutandis*.

2. FORM, DENOMINATION AND TITLE

(a) Form and Denomination

The Certificates are issued in registered form in the Specified 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**") which the Issuer will cause to be kept by the Registrar outside the Republic of Turkey and the United Kingdom in accordance with the provisions of the Paying Agency Agreement.

Upon issue, 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 S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants.

(b) Title

Title to the Certificates passes only by registration in the Register. Subject to the terms of any relevant Global Certificate, 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, obligation or any interest or any writing on, or the theft or loss of, the Certificate) and no person will be liable for so treating the holder of any Certificate. The registered holder of a Certificate will be recognised by the Issuer as entitled to his Certificate free from any equity, set off or counterclaim on the part of the Issuer against the original or any intermediate holder of such Certificate.

3. TRANSFERS OF CERTIFICATES

(a) Transfers

Subject to Condition 3(d) (*Transfers of Certificates — Closed Periods*), Condition 3(e) (*Transfers of Certificates — Regulations*), the limitations as to transfer set out in Condition 2(b) (*Form, Denomination and Title — Title*) and the provisions of the Paying Agency Agreement, a Certificate may be transferred in whole or in an amount equal to the Specified Denomination or any integral multiple thereof by depositing the Certificate, with the form of transfer on the back, duly completed and signed, at the Specified Office of the Registrar or the Transfer Agent together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the individuals who have executed the forms of transfer.

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

(b) Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within three (3) business days of receipt by the Registrar or the Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition 3(b) (*Transfers of Certificates — Delivery of New Certificates*), "**business day**" shall mean a day on which banks are open for business in the city in which the Specified Office of the Registrar or the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five (5) business days of receipt by the Registrar or the Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

Except in the limited circumstances described in the Global Certificate, owners of interests in a Global Certificate will not be entitled to receive physical delivery of Certificates.

(c) **Formalities Free of Charge**

Registration of any transfer of Certificates will be effected without charge on behalf of the Issuer by the Registrar or the Transfer Agent but upon payment (or the giving of such indemnity as the Issuer, Registrar or 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.

(d) **Closed Periods**

No Certificateholder may require the transfer of a Certificate to be registered during the period of fifteen (15) days ending on (and including) the due date for any payment of the Dissolution Distribution Amount or any Periodic Distribution Amount.

(e) **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 (as amended from time to time). 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.

Unless otherwise requested by him, each Certificateholder shall be entitled to receive, in accordance with Condition 2(b) (*Form, Denomination and Title — Title*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3(b) (*Transfers of Certificates — Delivery of New Certificates*).

4. STATUS AND LIMITED RECOURSE

(a) **Status**

Each Certificate will constitute a limited recourse obligation of the Issuer to pay each Certificateholder Periodic Distribution Amounts and any Dissolution Distribution Amount. Each Certificate will rank *pari passu*, without preference or priority, with all other Certificates issued in accordance with these Conditions and with any other lease certificates issued by the Issuer in accordance with the Sukuk Communiqué. Each Certificate will evidence the entitlement of each Certificateholder to the economic benefit of the use of the Sukuk Assets on a *pro rata* basis and the income accruing to the Issuer from the purchased Sukuk Assets, together with any capital arising from disposal of such Sukuk Assets, shall be for the benefit of, and shall be accounted by the Issuer to, the Certificateholders in the proportion which the face amount of such Certificateholder's Certificates bears to the aggregate outstanding Certificates and will rank *pari passu*, without any preference, with the other Certificates.

(b) **Limited Recourse**

The proceeds of the Lease Certificate Assets are the sole source of payments due in respect of the Certificates. Save as provided in the next sentence, the Certificates do not represent an interest in or obligation of any of the Issuer, the Representative, Türkiye Finans, any of the Agents or any of their respective affiliates. Accordingly, by subscribing for or acquiring the Certificates, Certificateholders acknowledge that they will have no recourse to any assets of the Issuer (and/or its authorised representatives, officers, administrators, employees or shareholders) or Türkiye Finans (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), the Representative or the Agents or any of their respective affiliates in respect of any shortfall in the expected amounts from the Lease Certificate Assets to the extent their obligations under the Lease Certificate Assets have been exhausted in accordance with the Transaction Documents following which all obligations of the Issuer, Türkiye Finans, the Representative and the Agents shall be extinguished.

Türkiye Finans is obliged to make payments under the relevant Transaction Documents to which it is a party directly to the Issuer or to the Representative (pursuant to the Representative Agreement) and/or the Agents, as may be specified in the Transaction Documents. The Representative will, acting pursuant to the Purchase Undertaking, have direct recourse against Türkiye Finans to recover payments due to the Issuer from Türkiye Finans pursuant to such Transaction Documents. The aggregate of the net proceeds following: (i) the exercise of the Purchase Undertaking with respect to the Portfolio Assets; (ii) the payment of the Deferred Payment Amount under the Murabaha Contract; (iii) the liquidation of any Shari'a Compliant Investments; and (iv) the payment of any amounts standing to the credit of the Principal Collection Account may not be sufficient to make all payments due in respect of the Certificates. If, following distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 14 (*Enforcement and Exercise of Rights*), no Certificateholder will have any claim against the Issuer (and/or its authorised representatives, officers or shareholders), Türkiye Finans (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), the Representative, the Agents or any of their respective affiliates, or against any assets (other than the Lease Certificate Assets in accordance with the provisions of the Transaction Documents) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. Under no circumstances shall the Issuer, the Representative or any Certificateholder have any right to cause the sale or other disposition of any of the Sukuk Assets other than to Türkiye Finans or its designee in accordance with the Transaction Documents and the sole right of the Representative and the Certificateholders against the Issuer or Türkiye Finans shall be to enforce their respective obligations under the Transaction Documents. Subject to Condition 4(c) (*Status and Limited Recourse — Agreement of Certificateholders*), no Certificateholders 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 (and/or its authorised representatives), the Representative, the Agents or any of their respective affiliates as a consequence of such shortfall or otherwise.

(c) **Agreement of Certificateholders**

Notwithstanding anything to the contrary contained in these Conditions or any Transaction Document, the rights and entitlement of each Certificateholder under the Certificates are subject to the following provisions which are binding on each of them:

(i) no payment of any amount whatsoever shall be made by or on behalf of the Issuer, or any of its agents on its behalf except to the extent funds are available therefor from the Lease Certificate Assets;

(ii) no recourse shall be had for the payment of any amount owing hereunder or under any relevant Transaction Document, whether for the payment of any fee, indemnity or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Issuer (and/or its directors, officers, administrators or shareholders), Türkiye Finans (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), the Representative, any Agent or any of their respective agents or affiliates to the extent the Lease Certificate Assets have been exhausted following which all obligations of the Issuer, the Representative, Türkiye Finans, any Agents and their respective agents or affiliates shall be extinguished;

(iii) 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, each Certificateholder will not institute against, or join with any other person in instituting against, the Issuer any bankruptcy, concordat, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law;

(iv) no recourse under any obligation, covenant or agreement contained in any Transaction Document shall be had against any shareholder, member, officer, employee, agent or director of the Issuer, by the enforcement of any assessment or by any proceeding, by virtue of any statute or otherwise. The obligations of the Issuer under the Transaction Documents to which it is a party are corporate limited recourse obligations of the Issuer and no personal liability shall attach to or be incurred by the shareholders, members, officers, agents or directors of the Issuer save in the case of their wilful default or actual fraud;

(v) no Certificateholder shall be entitled to claim or exercise any right of set off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Certificate. No collateral is or will be given for the payment obligations under the Certificates; and

(vi) under no circumstances will the Issuer or the Representative be entitled to sell or shall the Representative or any Certificateholder be entitled to cause the sale or other disposition of any of the Sukuk Assets otherwise than to Türkiye Finans in accordance with the terms of the Transaction Documents and the Certificateholders shall only be entitled to enforce their rights against the Issuer under the Lease Certificate Assets in accordance with the Transaction Documents and the Representative shall only be entitled to enforce its rights against the Issuer or Türkiye Finans in accordance with the Transaction Documents.

Reference in these Conditions to wilful default or actual fraud or gross negligence means a finding to such effect by a court of competent jurisdiction in relation to the conduct of the relevant party.

5. THE ASSET LEASING CORPORATION

(a) Summary

Pursuant to the Representative Agreement entered into between Türkiye Finans, the Issuer and the Representative on the Closing Date, the Issuer confirms that it has been established pursuant to the Sukuk Communiqué as an 'asset leasing corporation' and that it will hold the Lease Certificate Assets in its own name and on its own behalf and for the account and benefit of the Certificateholders and the income accruing to the Issuer from the Sukuk Assets, together with any capital arising from disposal of such Sukuk Assets, shall be for the benefit of, and shall be accounted by the Issuer to, the Certificateholders.

On the Closing Date, the Issuer will apply: (i) at least fifty one per cent. (51%) of the Issuance Proceeds (the "**Initial Asset Portfolio Purchase Price**"), to purchase Türkiye Finans' interests, rights, benefits and entitlements in, to and under the Initial Asset Portfolio pursuant to the Initial Asset Portfolio Sale and Purchase Agreement; and (ii) the remaining portion of the Issuance Proceeds (the "**Commodity Purchase Price**") to purchase the Commodities comprised in the Murabaha Contract entered into pursuant to the Murabaha Agreement.

Under the Management Agency Agreement to be entered into on the Closing Date, the Issuer will appoint Türkiye Finans as the Issuer's agent (in such capacity, the "**Managing Agent**") to perform certain Services in respect of the Sukuk Assets for the duration of the Services Term.

On the Closing Date, Türkiye Finans will grant the Purchase Undertaking in favour of the Issuer and the Representative, pursuant to which Türkiye Finans will undertake to pay the Dissolution Event Exercise Price or the Change of Control Exercise Price (as the case may be) to the Issuer in the circumstances specified in the Purchase

Undertaking. Following the payment of the Dissolution Event Exercise Price or the Change of Control Exercise Price (as the case may be) to the Issuer, Türkiye Finans and the Issuer will purchase and sell, respectively, all of the Issuer's interests, rights, benefits and entitlements in, to and under the Portfolio Assets or the Change of Control Redemption Assets (as the case may be). Türkiye Finans and the Issuer shall enter into a Sale Agreement to effect such sales.

Pursuant to the Purchase Undertaking, Türkiye Finans will also grant the Issuer the right to require Türkiye Finans: (i) to transfer to the Issuer on an Impaired Portfolio Asset Substitution Date all of Türkiye Finans' interests, rights, benefits and entitlements in, to and under certain New Assets against the transfer to Türkiye Finans' of all of the Issuer's interests, rights, benefits and entitlements in, to and under certain Substituted Impaired Portfolio Assets; and (ii) to sell and transfer to the Issuer on an Additional Portfolio Asset Date all of Türkiye Finans' interests, rights, benefits and entitlements in, to and under certain New Assets against the payment by the Issuer of an amount equal to the Additional Portfolio Asset Purchase Price.

On the Closing Date, the Issuer will grant the Sale Undertaking in favour of Türkiye Finans, pursuant to which the Issuer will undertake, upon the occurrence of a Tax Event which is continuing, to accept payment of the Sale Undertaking Exercise Price from Türkiye Finans on the date specified in the Exercise Notice. Following the payment of the Sale Undertaking Exercise Price to the Issuer, Türkiye Finans and the Issuer will purchase and sell, respectively, all of the Issuer's interests, rights, benefits and entitlements in, to and under the Portfolio Assets. Türkiye Finans and the Issuer shall enter into a Sale Agreement to effect such sale. Pursuant to the Sale Undertaking, the Issuer will also grant Türkiye Finans the right to substitute Portfolio Assets from time to time in accordance with the terms thereof.

Following the exercise of the Purchase Undertaking or the Sale Undertaking (as applicable) on a Dissolution Event or a Tax Event respectively, in addition to paying the Dissolution Event Exercise Price, Türkiye Finans will: (i) pay, as Commodity Purchaser, the outstanding Deferred Payment Price to the Issuer in accordance with the terms of the Murabaha Agreement; and (ii) pay, as Managing Agent, the Investment Liquidation Amount and all amounts standing to the credit of the Principal Collection Account to the Issuer on the Business Day prior to the Dissolution Date in accordance with the terms of the Management Agency Agreement.

Following the exercise of the Purchase Undertaking upon a Change of Control where the Change of Control Put Option has been exercised by holders of less than one hundred per cent. (100%) of the Certificates then outstanding, in addition to paying the Change of Control Exercise Price, Türkiye Finans will: (i) pay, as Commodity Purchaser, an amount of the outstanding Deferred Principal Amount equal to the Murabaha Contract Change of Control Amount to the Issuer on the Business Day prior to the Dissolution Date in accordance with the terms of the Murabaha Agreement; and (ii) pay, as Managing Agent, the Shari'a Compliant Investments Change of Control Amount and the Principal Collections Change of Control Amount to the Issuer no later than the Change of Control Redemption Date in accordance with the terms of the Management Agency Agreement.

If, following a Change of Control, 75 per cent. or more of the Certificateholders exercise the Change of Control Put Option, Türkiye Finans may, by exercising its option under the Sale Undertaking, oblige the Issuer to accept payment of the Sale Undertaking Exercise Price from Türkiye Finans on the date specified in the Exercise Notice. Following the payment of the Sale Undertaking Exercise Price to the Issuer, Türkiye Finans and the Issuer will purchase and sell, respectively, all of the Issuer's interests, rights, benefits and entitlements in, to and under the Portfolio Assets. Türkiye Finans and the Issuer shall enter into a Sale Agreement to effect such sale. Following such exercise of the Sale Undertaking, Türkiye Finans will also: (i) pay, as Commodity Purchaser, the outstanding Deferred Payment Price to the Issuer in accordance with the terms of the Murabaha Agreement; and (ii) pay, as Managing

Agent, the Investment Liquidation Amount and all amounts standing to the credit of the Principal Collection Account to the Issuer on the Business Day prior to the Dissolution Date in accordance with the terms of the Management Agency Agreement.

On the Closing Date, the Issuer will grant the Redemption Undertaking in favour of Türkiye Finans, pursuant to which the Issuer will undertake to: (i) purchase the Redemption Certificates from Türkiye Finans; (ii) cancel such Redemption Certificates; (iii) sell to Türkiye Finans the Issuer's interests, rights, benefits and entitlements in to and under the Redemption and Cancellation Assets (in which case the redemption and cancellation of the relevant proportion of the Redemption Certificates shall be the consideration for such purchase); (iv) subject to the terms of the Redemption Undertaking, pay the Redemption Amount (in which case the redemption and cancellation of the remaining proportion of the Redemption Certificates shall be the consideration for such payment); and (v) enter into a Redemption Sale Agreement pursuant to which the Redemption and Cancellation Assets will be sold to Türkiye Finans.

(b) **Application of Proceeds from Lease Certificate Assets**

On each Periodic Distribution Date or any Dissolution Date the relevant Paying Agent will apply the monies standing to the credit of the Transaction Account in the following order of priority:

(i) *first*, (to the extent not previously paid) to pay the Representative or any Appointee all amounts owing to it or any Appointee under the Transaction Documents in its capacity as Representative;

(ii) *second*, (to the extent not previously paid) to pay *pro rata* and *pari passu*: (i) the Issuer in respect of all amounts properly incurred and documented owing to it under the Transaction Documents in its capacity as Issuer; and (ii) to the extent not paid by Türkiye Finans in accordance with the terms of the Paying Agency Agreement, each Agent in respect of all amounts owing to such Agent on account of its fees, costs, charges, expenses and liabilities properly incurred by such Agent pursuant to the Paying Agency Agreement or the other Transaction Documents in its capacity as Agent;

(iii) *third*, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;

(iv) *fourth*, only if such payment is made on a Change of Control Redemption Date (where the Change of Control Put Option has been exercised by less than 100 per cent. of the Certificateholders), to the Principal Paying Agent for application in or towards payment of the relevant Change of Control Amount;

(v) *fifth*, only if such payment is made on a Dissolution Date, to the Principal Paying Agent for application in or towards payment of the Dissolution Distribution Amount; and

(vi) *sixth*, only if such payment is made on a Dissolution Date, payment of any residual amount to the Managing Agent as an incentive amount for its performance.

6. **COVENANTS**

The Issuer covenants that, among other things, for so long as any Certificate is outstanding (as defined in the Representative Agreement), except as contemplated in the Transaction Documents, it shall not:

(i) save in respect of the Outstanding Certificates and New Certificates, incur any indebtedness in respect of borrowed money whatsoever, or give any guarantee or indemnity 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) create any Security Interest for any of its present or future indebtedness upon any of its present or future assets, properties or revenues (other than those arising by operation of law (if any));

(iii) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by Security Interest (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 interests in any of the Sukuk Assets except pursuant to any of the Transaction Documents;

(iv) subject to Condition 17 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*), amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof) or its constitutional documents without prior approval of the Representative or of the Certificateholders by way of Extraordinary Resolution;

(v) other than acting for the account and benefit of the Certificateholders as provided in the Representative Agreement, act as agent in respect of any other party save in respect of the Outstanding Certificates and the new Certificates;

(vi) have any subsidiaries or employees;

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

(viii) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;

(ix) 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; or

(x) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party 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;

   (C) the service of the Outstanding Certificates or the issuance of New Certificates; and

   (D) such other matters which are incidental thereto.

For the purposes of these Conditions:

"**New Certificates**" means lease certificates to be issued by the Issuer from time to time pursuant to the Sukuk Communiqué and ranking *pari passu* with the Certificates, whether represented by a Global Certificate or a Definitive Certificate, in each case, only where Türkiye Finans is the sole obligor; and

"**Outstanding Certificates**" means all other lease certificates issued by the Issuer which are for the time being outstanding on the date of issuance of the Certificates.

7. **PERIODIC DISTRIBUTION PROVISIONS**

(a) **Periodic Distribution Amount**

Subject to Condition 5(b) (*The Asset Leasing Corporation — Application of Proceeds from Lease Certificate Assets*) and Condition 8 (*Payment*), the Principal Paying Agent shall distribute to holders of the Certificates, *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the applicable Periodic Distribution Amount. The "Periodic Distribution Amount" payable on each Periodic Distribution Date shall be U.S.$26.88 per U.S.$1,000 in face amount of Certificates. For this purpose, "**Periodic Distribution Date**" means the twenty fourth day of April and the twenty fourth day of October in each year commencing on 24 October 2014 and, subject to Condition 7(c) (*Periodic Distribution Provisions — Cessation of Accrual*), ending on 24 April 2019.

(b) **Determination of Periodic Distribution Amount**

The Periodic Distribution Amount payable in respect of each Certificate for any Return Accumulation Period shall be an amount equal to the product of: (a) the Profit Rate; (b) the outstanding face amount of the relevant Certificate; and (c) the number of days in such Return Accumulation Period (calculated on the basis of twelve 30-day months) divided by 360 (such amount being the "**Periodic Distribution Amount**"). "**Return Accumulation Period**" means the period from and including 24 April 2014 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.

If any Periodic Distribution Amount is required to be calculated for a period other than a Return Accumulation Period, such Periodic Distribution Amount shall be calculated by multiplying: (a) the Profit Rate; (b) the face amount of the relevant Certificate; and (c) the number of days in the relevant period (calculated on the basis of twelve 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).

(c) **Cessation of Accrual**

No further amounts will be payable on any Certificate from and including its due date for redemption, unless default is made in payment of the Dissolution 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 (*Periodic Distribution Provisions*).

8. **PAYMENT**

(a) **Payments in Respect of Certificates**

Payment of each Periodic Distribution Amount and, subject to Condition 8(c) (*Payment — Payment only on a Payment Business Day*), the relevant Dissolution Distribution Amount will be made to the holder shown on the Register at the close of business on the relevant Record Date and will be made by the relevant Paying Agent in U.S. dollars, by wire transfer in same day funds to the registered account of each Certificateholder. Payments of the Dissolution Distribution Amount will only be made against surrender of the relevant Certificate at the Specified Office of the relevant Paying Agent.

For the purposes of these Conditions:

(i) a Certificateholder's "**registered account**" means an account denominated in U.S. dollars 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;

(ii) a Certificateholder's "**registered address**" means its address appearing on the Register at that time; and

(iii) "**Record Date**" means:

(A) in the case of the payment of a Periodic Distribution Amount, the close of business on the day prior to the relevant Periodic Distribution Date; and

(B) in the case of the payment of the Dissolution Distribution Amount, the date falling two Payment Business Days before the Dissolution Date or other due date for the payment of the Dissolution Distribution Amount.

(b) **Payments subject to Applicable Laws**

Payments in respect of Certificates are subject in all cases to any fiscal or other laws, regulations and directives applicable in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*).

(c) **Payment only on a Payment Business Day**

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

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

If the amount of the Dissolution 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 actually paid.

(d) **Agents**

In acting under the Paying Agency Agreement and in connection with the Certificates, the Agents act solely as agents of the Issuer and (to the extent provided in the Representative Agreement and the Paying Agency Agreement) the Representative and do not assume any obligations towards or relationship of agency with any of the Certificateholders or any other party to the Transaction Documents.

The names of the initial Agents and their initial Specified Offices are set out in this Condition 8 (*Payment*). The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and/or to appoint additional or other Agents **provided that**: (a) it will at all times maintain a Principal Paying Agent, Calculation Agent and a Registrar; (b) so long as any Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, there will at all times be a Paying Agent and a Transfer Agent having its Specified Office in such place (if any) as may be required by the rules of such listing authority, stock exchange and/or quotation system; and (c) there will at all times be a Paying Agent (which may be the Principal Paying Agent) located in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any such change or any change of any Specified Office shall be given to the Certificateholders in accordance with Condition 16 (*Notices*) and to the Issuer and the Representative in accordance with the provisions of the Paying Agency Agreement.

The name and specified office of the Principal Paying Agent and Transfer Agent:

Citibank N.A., London Branch
Citigroup Centre
Canary Wharf
London E14 5LB
United Kingdom

The name and specified office of the Registrar:

Citigroup Global Markets Deutschland AG
Reuterweg 16
D-60323 Frankfurt am Main
Germany

9. CAPITAL DISTRIBUTIONS

(a) **Redemption on the Scheduled Dissolution Date**

Unless the Certificates are previously redeemed or purchased and cancelled, the Issuer will redeem the Certificates on the Scheduled Dissolution Date at the Dissolution Distribution Amount.

(b) **Redemption following a Dissolution Event**

If, following the occurrence of a Dissolution Event, the Certificates shall become due and payable in accordance with Condition 13 (*Dissolution Events*), the Issuer shall redeem the Certificates at the Dissolution Distribution Amount on the Dissolution Event Redemption Date in accordance with Condition 13 (*Dissolution Events*).

(c) **Redemption following a Tax Event**

If a Tax Event occurs, where "**Tax Event**" means:

(i) (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*) 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 the Closing Date; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) (A) the Issuer has received notice from Türkiye Finans or the Managing Agent (as the case may be) that it has or will become obliged to pay additional amounts pursuant to the terms of the Transaction Documents to which it is a party 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 the Closing Date; and (B) such obligation cannot be avoided by taking reasonable measures available to it,

then Türkiye Finans may exercise its option granted under the Sale Undertaking and deliver a Sale Undertaking Exercise Notice to the Issuer and the Principal Paying Agent specifying the Tax Redemption Date on which the Certificates shall be redeemed (in whole, but not in part). Pursuant to the Sale Undertaking, the Tax Redemption Date specified in the Sale Undertaking Exercise Notice must be a Periodic Distribution Date and any such Sale Undertaking Exercise Notice must be delivered to the Issuer and the Principal Paying Agent in the prescribed form set out in the Sale Undertaking not less than 45 nor more than 60 Business Days prior to the Tax Redemption Date stated therein.

Upon the service of the Sale Undertaking Exercise Notice to the Issuer, Türkiye Finans shall deliver to the Issuer and the Representative an opinion of independent legal advisers of recognised standing or of independent accountants of recognised standing, to the effect either that such circumstances do exist or that, upon a change in or amendment to the laws (including any regulations pursuant thereto), or in the interpretation or application thereof, of any Relevant Jurisdiction, which at the date of such opinion is proposed and in the opinion of such legal adviser or accountant is reasonably expected to become effective on or prior to the date on which the relevant Periodic Distribution Amount or, as the case may be, Dissolution Distribution Amount in respect of the Certificates would otherwise be made, becoming so effective, such circumstances would exist. The delivery of such opinion shall be sufficient to establish that the conditions precedent set out in this Condition 9(c) (*Capital Distributions — Redemption following a Tax Event*) to the right of the Issuer to redeem the Certificates have occurred and the Issuer or the Representative shall be entitled to accept such opinion as sufficient evidence of the satisfaction of such conditions precedent, in which event they shall be conclusive and binding on the Certificateholders.

Following receipt by the Issuer and the Principal Paying Agent of a duly completed Sale Undertaking Exercise Notice from Türkiye Finans in accordance with the Sale Undertaking, the Issuer or the Principal Paying Agent acting on its behalf shall, on giving not less than 30 Business Days' notice to the Certificateholders in accordance with Condition 16 (*Notices*) (which notice shall be irrevocable), redeem the Certificates (in whole, but not in part) on the Tax Redemption Date at their Dissolution Distribution Amount.

Upon the expiry of any such notice period after the publication by or on behalf of the Issuer of such notice to the Certificateholders as are referred to above, the Issuer shall be bound to redeem the Certificates in accordance with this Condition 9(c) (*Capital Distributions — Redemption following a Tax Event*) **provided that** all the amounts due by Türkiye Finans under the Sale Undertaking, the Murabaha Agreement and the Management Agency Agreement are received by the Principal Paying Agent in accordance therewith. Upon such redemption as aforesaid, no further amounts shall be payable in respect of the Certificates and the Issuer shall have no further obligations in respect thereof.

(d) **Redemption at the Option of the Certificateholders (Change of Control Put Option)**

Türkiye Finans has undertaken in the Representative Agreement to promptly notify the Issuer and the Representative in writing upon the occurrence of a Change of Control and to provide details in respect thereof. The Issuer, upon receipt of such a notice from Türkiye Finans or otherwise upon becoming aware of the occurrence of a Change of Control, shall promptly give notice (a "**Change of Control Notice**") of the occurrence of a Change of Control to the Certificateholders in accordance with Condition 16 (*Notices*).

A Change of Control Notice shall provide a description of the Change of Control and shall require Certificateholders, if so they wish, to elect within 60 Business Days (the "**Change of Control Put Option Period**") of the date of the Change of Control Notice to have all or any of their Certificates redeemed on the Change of Control Redemption Date (the "**Change of Control Put Option**").

To elect to redeem all or any of its Certificates in accordance with this Condition 9(d) (*Capital Distributions — Redemption at the Option of the Certificateholders (Change of Control Put Option)*), a Certificateholder must:

1. if such Certificates are in definitive form or are held outside Euroclear and Clearstream, Luxembourg, on any day which is a business day in the city of the Specified Office of the Registrar or the Transfer Agent falling within the Change of Control Put Option Period, deposit its Certificate(s) with the Registrar or Transfer Agent at its Specified Office, together with a duly completed change of control put option notice ("**Change of Control Put Option Notice**") in the form obtainable from the relevant Paying Agent, Registrar or Transfer Agent (as applicable); or

2. if Certificates are held through Euroclear or Clearstream, Luxembourg, within the Change of Control Put Option Period, give notice to a Paying Agent of its

intention to exercise its right to require the redemption of its Certificates in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to a Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if its Certificates are represented by a Global Certificate, at the same time present or procure the presentation of the relevant Global Certificate to a Paying Agent for notation or entry in the Register accordingly.

No Certificate so deposited and notice so given may be withdrawn (except as otherwise provided in the Paying Agency Agreement) without the prior consent of the Issuer.

The Issuer (or the Principal Paying Agent acting on its behalf) shall serve on Türkiye Finans, pursuant to the terms of the Purchase Undertaking, on the last day of the Change of Control Put Option Period:

(i) in the event that less than one hundred per cent. of the Certificateholders have exercised the Change of Control Put Option, a Change of Control Exercise Notice; or

(ii) in the event that one hundred per cent. of the Certificateholders have exercised the Change of Control Put Option, a Purchase Undertaking Exercise Notice.

On the Change of Control Redemption Date, the Issuer shall redeem the Change of Control Redemption Certificates at the Change of Control Amount.

In the event that, following a Change of Control, holders of 75 per cent. or more in face amount of the Certificates have been redeemed pursuant to this Condition 9(d) (*Capital Distributions — Redemption at the Option of the Certificateholders (Change of Control Put Option)*), the Issuer may, on giving not less than 30 days' notice to the Certificateholders in accordance with Condition 16 (*Notices*) (such notice to be given within 20 days of the Change of Control Redemption Date), redeem the remaining Certificates (in whole, but not in part) at their Dissolution Distribution Amount (the "**Change of Control Call Option**"), **provided however that** no such notice of redemption shall be given unless the Issuer has received a Sale Undertaking Exercise Notice from Türkiye Finans under the Sale Undertaking and **provided that** all the amounts due by Türkiye Finans under the Sale Undertaking, the Murabaha Agreement and the Management Agency Agreement are received by the Principal Paying Agent in accordance therewith. Upon such redemption as aforesaid, no further amounts shall be payable in respect of the Certificates and the Issuer shall have no further obligations in respect thereof.

(e) **No other Redemption or Capital Distributions**

The Issuer shall not be entitled to redeem the Certificates, and the Certificateholders shall not be entitled to receive capital distributions, otherwise than as provided in this Condition 9 (*Capital Distributions*).

(f) **Cancellations**

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

10. **TAXATION**

All payments in respect of the Certificates by the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, imposed or levied, collected, withheld or assessed 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 such additional amounts as shall be necessary in order that the full amount which otherwise would have been due and payable under the Certificates is received by the Certificateholders, except that no such additional amount shall be payable in relation to any payment in respect of any Certificate presented for payment (where presentation is required):

(i) by or on behalf of a holder who 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

(ii) where such withholding or deduction is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iii) by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union; or

(iv) more than 30 Business Days after the Relevant Date 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 Business Days.

The Initial Asset Portfolio Sale and Purchase Agreement, the Murabaha Agreement and the Purchase Undertaking provide that Türkiye Finans shall bear all applicable taxes in connection with or incidental to the execution, delivery, filing, recording, registration, performance, amendment, release, discharge, enforcement or otherwise of the Initial Asset Portfolio Sale and Purchase Agreement, Murabaha Agreement, Purchase Undertaking and any Sale Agreement.

In the event that the Issuer fails to gross up for any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, Türkiye Finans has, pursuant to the Representative Agreement, unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Issuer (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 this Condition 10 (Taxation) in respect of any withholding or deduction in respect of any tax as set out in that Condition.

11. PRESCRIPTION

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within a period of ten (10) years (in the case of the Dissolution Distribution Amount) and five (5) years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof. None of the Issuer, the Agents or the Representative shall be responsible or liable for any amounts so prescribed.

12. PURCHASE AND CANCELLATION OF CERTIFICATES

(a) Purchases

Türkiye Finans may at any time purchase Certificates at any price in the open market or otherwise.

(b) Cancellation of Certificates held by Türkiye Finans

If Türkiye Finans wishes to cancel any Certificates purchased by it pursuant to Condition 12(a) (*Purchase and Cancellation of Certificates — Purchases*) (the "**Redemption Certificates**"), Türkiye Finans may, in accordance with the terms of the Redemption Undertaking, deliver a Redemption and Cancellation Notice to the Issuer and require the Issuer to purchase the Redemption Certificates from Türkiye Finans and cancel them on the date specified in such Redemption and Cancellation Notice (the "**Redemption and Cancellation Date**"). Pursuant to the Redemption Undertaking, the Redemption and Cancellation Date must be a Periodic Distribution Date and any such Redemption and Cancellation Notice must be delivered to the Issuer and the Principal Paying Agent in the prescribed form set out in the Redemption Undertaking not less than 5 nor more than 30 Business Days prior to the date stated therein.

Following the purchase and cancellation of the Redemption Certificates, Türkiye Finans and the Issuer shall: (i) enter into one or more Redemption Sale Agreements to purchase and sell, respectively, the Issuer's interests, rights, benefits and entitlements in, to and under the relevant assets specified by Türkiye Finans (the "**Redemption and Cancellation Assets**"), in which case the redemption and cancellation of the relevant proportion of the Redemption Certificates shall be the consideration for those Redemption and Cancellation Assets; and (ii) subject to the terms of the Redemption Undertaking, pay the Redemption Amount, in which case the redemption and cancellation of the remaining proportion of the Redemption Certificates shall be the consideration for such payment. Türkiye Finans may select, in its sole and absolute discretion the Redemption and Cancellation Assets, **provided that** following the sale of any Redemption and Cancellation Assets to Türkiye Finans:

(i) the Outstanding Principal Value of the Redemption and Cancellation Assets immediately prior to the redemption and cancellation of the Redemption Certificates is equal to the Redemption and Cancellation Asset Value; and

(ii) on the relevant Redemption and Cancellation Date, immediately following the redemption and cancellation of the relevant Redemption Certificates, the transfer of the Redemption and Cancellation Assets and the payment of the Redemption Amount in accordance with the terms of the Redemption Undertaking and the other Transaction Documents, the aggregate of:

(A) the Outstanding Principal Value of the remaining Portfolio Assets;

(B) the amount standing to the credit of the Principal Collection Account (if any) as reduced pursuant to the Management Agency Agreement;

(C) the remaining principal amount invested in the remaining Shari'a Compliant Investments (if any); and

(D) the outstanding Deferred Principal Amount under the Murabaha Contract, will be equal to the outstanding face amount of the Certificates then outstanding.

(c) **Cancellations**

All Certificates which have been purchased by Türkiye Finans and cancelled pursuant to Condition 12(b) (*Purchase and Cancellation of Certificates — Cancellation of Certificates held by Türkiye Finans*) may not be held, reissued or resold by the Issuer.

13. DISSOLUTION EVENTS

If (in the sole opinion of the Representative) any of the following events (each a "**Dissolution Event**") occurs and is continuing:

(a) default is made by the Issuer in the payment of the Dissolution Distribution Amount on the date fixed for payment thereof or default is made in the payment of any Periodic Distribution Amount on the due date for payment thereof and, in the case of the Dissolution Distribution Amount, such default continues unremedied for a period of seven (7) Business Days and, in the case of a Periodic Distribution Amount, such default continues unremedied for a period of fourteen (14) Business Days; or

(b) the Issuer defaults in the 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 (in the opinion of the Representative) is not capable of remedy or (if capable of remedy (in the opinion of the Representative)) is not remedied within thirty (30) Business Days after written notice of such default shall have been given to the Issuer by the Representative, **provided that** the Representative shall have certified in writing to Türkiye Finans that such event is, in its opinion, materially prejudicial to the interests of the holders of the Certificates; or

(c) a Türkiye Finans Event 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 (otherwise than as a result of its insolvency) 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, **provided that** the Representative shall have certified in writing to Türkiye Finans that such event is, in its opinion, materially prejudicial to the interests of the holders of the Certificates; or

(f) either: (a) the Issuer becomes insolvent or is unable to pay its debts as they fall due; (b) an administrator or liquidator of the whole or substantially the whole of the undertaking, assets and revenues of the Issuer is appointed (or application for any such appointment is made); (c) 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; or (d) 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 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) and (g) above,

the Representative shall (subject to it being indemnified and/or secured and/or prefunded to its satisfaction), give notice in writing of the occurrence of such Dissolution Event to the Certificateholders in accordance with Condition 16 (*Notices*) with a request to such holders to indicate if they wish the Certificates to be redeemed.

If so requested in writing by the holders of at least 25 per cent., of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the Certificateholders (a "**Dissolution Request**") the Representative shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer and Türkiye Finans of the Dissolution Request (the "**Dissolution Event Notice**"), specifying the date on which the Certificates shall be redeemed (which shall be a date at least 1 Business Day after the date on which the Dissolution Request is delivered to the Representative, such date being the "**Dissolution Event Redemption Date**") and, upon receipt of such notice: (i) the Issuer shall exercise its rights under the Purchase Undertaking; and (ii) the Certificates shall become immediately due and payable at the Dissolution Distribution Amount.

For the purposes of this Condition 13 (*Dissolution Events*), a "**Türkiye Finans Event**" will occur if one or more of the following events occurs:

(i) ***Non-payment***: Türkiye Finans does not pay on the due date any amount payable pursuant to a Transaction Document and such default continues unremedied for a period of seven (7) days, in the case of any such amounts payable for the payment of the Dissolution Distribution Amount under the Certificates and fourteen (14) days in the case of any such amounts payable for the payment of any Periodic Distribution Amount under the Certificates unless such failure to pay is caused by administrative or technical error; or

(ii) ***Breach of other obligations***: Türkiye Finans defaults in the performance or observance of or compliance with any of its other obligations or undertakings under the Transaction Documents (other than: (i) the obligation set out in paragraph (iii) below; the obligation set out in clause 4.1.5 of the Management Agency Agreement; and the obligations set out in clause 4.2 of the Management Agency Agreement), to which it is a party which default is incapable of remedy or, if in the opinion of the

Representative capable of remedy, is not in the opinion of the Representative remedied within 30 Business Days of the Representative giving notice to Türkiye Finans requiring such default to be remedied; or

(iii) ***Cross default***: (i) any Financial Indebtedness of Türkiye Finans is not paid when due or, as the case may be, within any originally applicable grace period; or (ii) any Financial Indebtedness of Türkiye Finans becomes due and payable prior to its stated maturity by reason of any non-payment event of default (howsoever described) or other event of default (howsoever described); or (iii) Türkiye Finans 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 subparagraph and/or (ii) above and/or the Financial Indebtedness guaranteed by the Guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds U.S.$10,000,000 (or its equivalent in any other currency or currencies); or

(iv) ***Insolvency***: (i) Türkiye Finans is unable or admits inability to pay its debts as they fall due, suspends making payments on all or a substantial part of its debts or calls a meeting with one or more of its creditors to consider a proposal for rescheduling all or a substantial part of its indebtedness; (ii) the value of the assets of Türkiye Finans is less than its liabilities (taking into account contingent and prospective liabilities); or (iii) a moratorium is declared in respect of any indebtedness of Türkiye Finans;

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

(A) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise), concordat or bankruptcy of Türkiye Finans;

(B) a composition, compromise, assignment or arrangement with any creditor of Türkiye Finans;

(C) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of Türkiye Finans or any of its assets; or

(D) enforcement of any Security over any assets of Türkiye Finans (where the aggregate value of such assets is in excess of U.S.$10,000,000 or its equivalent in another currency or currencies), or

(E) any analogous procedure or step is taken in any jurisdiction; or

(vi) ***Unlawfulness***: it is or becomes unlawful for Türkiye Finans to perform any of its obligations under the Transaction Documents; or

(vii) ***Repudiation***: Türkiye Finans repudiates a Transaction Document or declares an intention to repudiate a Transaction Document; or

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

(ix) ***Winding-up***: an order is made or an effective resolution passed for the winding-up or dissolution of Türkiye Finans, or Türkiye Finans ceases or threatens to cease to carry on all or substantially all 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 an Extraordinary Resolution of the Certificateholders; or

(x) ***Banking Licence***: the banking licence of Türkiye Finans is revoked, suspended or withdrawn; or

(xi) ***Failure to pay final judgments***: Türkiye Finans 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

(xii) ***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 Türkiye Finans lawfully to exercise its rights and perform and comply with its obligations is under or in respect to the Transaction Documents is not taken, fulfilled or done; or

(xiii) ***Nationalisation and expropriation***: all or substantially all of the undertaking or assets of Türkiye Finans are expropriated, nationalised, compulsorily acquired or taken into public ownership or Türkiye Finans ceases to be able or entitled to exercise its rights of control or ownership of the same.

14. ENFORCEMENT AND EXERCISE OF RIGHTS

14.1 Upon the occurrence of a Dissolution Event, to the extent that the Dissolution Distribution Amount payable in respect of the Certificates has not been paid in full, the Issuer (or, subject to it being indemnified and/or secured and/or pre-funded to its satisfaction, the Representative shall (acting pursuant to the Representative Agreement on behalf of the Certificateholders)) take one or more of the following steps:

(a) enforce the provisions of the Purchase Undertaking against Türkiye Finans; and/or

(b) enforce the provisions of the Management Agency Agreement against Türkiye Finans in its capacity as Managing Agent; and/or

(c) enforce the provisions of the Murabaha Agreement against Türkiye Finans in its capacity as Purchaser; and/or

(d) take such other steps as the Issuer or the Representative may consider necessary or desirable to exercise all of the rights of the Issuer or the Representative under the Purchase Undertaking, the Management Agency Agreement and any of the other Transaction Documents and make such distributions from the Sukuk Assets as the Issuer is bound to make in accordance with the Sukuk Communiqué and the Representative Agreement.

14.2 Following the enforcement and ultimate distribution of the net proceeds of the Lease Certificate Assets in respect of the Certificates to the Certificateholders in accordance with these Conditions and the Representative Agreement, neither the Issuer nor the Representative shall be liable for any amounts which remain unpaid under the Certificates and, accordingly, Certificateholders may not take any action against the Issuer, the Representative or any other person to recover any such sum or asset in respect of the relevant Certificates.

14.3 The Representative shall not be bound in any circumstances to take any action to enforce the Lease Certificate Assets or take any action against the Issuer or Türkiye Finans under any Transaction Document to which either of the Issuer or Türkiye Finans (as applicable) is a party unless directed or requested to do so: (a) by an Extraordinary Resolution; or (b) in writing by the holders of at least 25 per cent. of the then outstanding aggregate face amount of the Certificates and in either case then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction by the Certificateholders against all Liabilities which it may thereby render itself liable to incur or which it may incur by so doing.

14.4 No Certificateholder shall be entitled to proceed directly against the Issuer or Türkiye Finans unless: (a) the Representative, having become bound so to proceed, fails to do so within thirty (30) Business Days of becoming so bound and such failure is continuing; and (b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against the Issuer or Türkiye Finans, as the case may be) holds at least 25 per cent. of the then outstanding aggregate face amount of the Certificates.

14.5 Notwithstanding any provision contained in any Transaction Document, under no circumstances shall the Issuer, the Representative or any Certificateholder have any right to cause the sale or other disposition of any of the Lease Certificate Assets other than to Türkiye Finans or its designee in accordance with the Purchase Undertaking and the sole right of the Representative and the Certificateholders against the Issuer or of the Issuer and the Representative against Türkiye Finans shall be to enforce their respective obligations under the Transaction Documents.

14.6 The foregoing paragraphs in this Condition 14 (*Enforcement and Exercise of Rights*) are subject to this paragraph. After enforcing the Lease Certificate Assets and distributing the net proceeds of the Lease Certificate Assets in accordance with Condition 5(b) (*The Asset Leasing Corporation — Application of Proceeds from Lease Certificate Assets*), the obligations of the Issuer in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Issuer (or any steps against the Representative) to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding up of the Issuer.

15. REPLACEMENT OF CERTIFICATES

If any Definitive Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and/or the relevant Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence, security and indemnity as the Issuer, the Representative and the Registrar and/or the relevant Paying Agent may reasonably require. Mutilated or defaced Definitive Certificates must be surrendered before replacements will be issued.

16. NOTICES

Save as provided in this Condition 16 (*Notices*) notices to the Certificateholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day (being a day other than Saturday or Sunday) after the date of mailing.

Until such time as any Definitive Certificates are issued, so long as the Global Certificate representing the Certificates is held in its entirety on behalf of Euroclear and/or Clearstream, Luxembourg, there may be substituted for such mailing(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Certificates. In such case. any such notice shall be deemed to have been given to the holders of the Certificates on the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

The Issuer shall also ensure that notices are duly given in a manner which complies with the rules and regulations of any stock exchange on which the Certificates are for the time being listed. In such case, any notice shall be deemed to have been given on the fourth day (being a day other than Saturday or Sunday) after being so mailed.

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 the Principal Paying Agent.

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

(a) The Representative Agreement 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 Representative Agreement. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Representative and shall be convened by the Issuer upon the request in writing of Certificateholders holding not less than one tenth of the then aggregate face amount of the Certificates outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be one or more Certificateholders, proxies or representatives holding or representing in the aggregate more than half of the then outstanding aggregate face amount of the Certificates or at any adjourned such meeting one or more Certificateholders, proxies or representatives, representing in the aggregate more than one quarter of the then outstanding aggregate face amount of the Certificates **provided however that** any meeting the business of which includes a Reserved Matter, the quorum shall be one or more Certificateholders, proxies or representatives holding or representing in the aggregate not less than three quarters of the then aggregate outstanding face amount of the Certificate or at any adjourned such meeting one or more Certificateholders, proxies or representatives holding or representing not less than one quarter of the then aggregate outstanding face amount of the Certificates. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than three quarters of the persons voting on a show of hands or, if a poll is duly demanded, a majority of not less than three quarters of the votes cast on such poll and, if duly passed, will be binding on all Certificateholders, whether or not they are present at the meeting and whether or not voting.

(b) The Representative Agreement provides that a resolution in writing signed by or on behalf of all the holders of the Certificates then outstanding who for the time being are entitled to receive notice of a meeting in accordance with Schedule 4 (*Provisions for Meetings of Certificateholders*) of the Representative Agreement shall take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Certificateholders.

(c) The Representative Agreement, the Conditions, any other Transaction Document and the Issuer's memorandum and articles of association may only be amended by the Issuer with the consent of the Representative and the Representative may agree, without the consent or sanction of the Certificateholders, to any modification of any of the Representative Agreement, the Conditions, any other Transaction Document or the Issuer's memorandum and articles of association if, in the opinion of the Representative: (i) such modification is of a formal, minor or technical nature; (ii) such modification is made to correct a manifest error; or (iii) such modification is not materially prejudicial to the interests of the outstanding Certificateholders and is other than in respect of a Reserved Matter or any provisions of the Representative Agreement referred to in the definition of a Reserved Matter. Any such modification may be made on such terms and subject to such conditions (if any) as the Representative may determine, shall be binding on the Certificateholders and, unless the Representative otherwise decides, shall be notified by the Issuer to the Certificateholders in accordance with Condition 16 (*Notices*) as soon as practicable thereafter.

(d) The Representative may, without the consent or sanction of the Certificateholders and without prejudice to its rights in respect of any subsequent breach from time to time and at any time: (i) give its consent under the Conditions or any other Transaction Document and agree to waive or to authorise any breach or proposed breach of any provision of the Representative Agreement or any other Transaction Document; or (ii) determine that any Dissolution Event shall not be treated as such, **provided that**: (A) in the opinion of the Representative, such consent, waiver, authorisation or determination is not materially prejudicial to the interests of the outstanding Certificateholders; and (B) the Representative will not do so in contravention of an express direction given by Extraordinary Resolution or a request made pursuant to Condition 13 (*Dissolution Events*). No such direction or request will affect a previous waiver, authorisation or determination. Any such waiver, authorisation or determination shall be binding on the Certificateholders and unless the Representative otherwise requires, shall be notified by the Issuer to the Certificateholders in accordance with Condition 16 (*Notices*) as soon as practicable thereafter.

(e) In connection with the exercise by it of any of its powers, trusts, authorities and discretions under the Representative Agreement (including, without limitation, any modification, waiver, authorisation or consent), the Representative shall have regard to the general interests of the Certificateholders as a class and shall not have regard to any interest arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Certificateholders (whatever their number) resulting from them 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 or taxing jurisdiction and the Representative shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Issuer, the Representative, Türkiye Finans or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders (except, in the case of the Issuer and Türkiye Finans, to the extent already provided for in Condition 10 (*Taxation*)).

18. **INDEMNIFICATION AND LIABILITY OF THE ISSUER AND THE REPRESENTATIVE**

The Representative has been appointed as trustee of the Certificateholders pursuant to the Representative Agreement.

The Representative Agreement contains provisions for the indemnification of the 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. In particular, in connection with the exercise of any of its rights in respect of the Lease Certificate Assets or any other right it may have pursuant to the Representative Agreement, the Representative shall in no circumstances be bound to take any action unless directed to do so in accordance with Condition 13 (*Dissolution Events*) or Condition 14 (*Enforcement and Exercise of Rights*), and then only if it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

The Representative makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Issuer or Türkiye Finans under the Transaction Documents to which each of them is a party 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 paid by Türkiye Finans 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 these Conditions or in the Representative Agreement.

The Representative may rely, without any liability to the Certificateholders on a report, confirmation, certificate or any advice of any lawyers, accountants, financial advisers, financial institution, auditors, insolvency officials or any other expert (whether or not addressed to the Representative and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Representative or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise) in accordance with or for the purposes of the Representative Agreement or the other relevant Transaction Documents. The Representative may accept and shall be entitled to rely on any such report, confirmation or certificate or advice as sufficient evidence of the facts stated therein and such report, confirmation, certificate or advice shall be binding on the Issuer and the Certificateholders. The Representative shall not be bound in any such case to call for further evidence or be responsible for any Liability or inconvenience that may be occasioned by its failure to do so.

Each of the Issuer and the Representative is exempted from: (a) any Liability in respect of any loss or theft of the Lease Certificate Assets or any cash (as applicable); (b) any obligation to insure the Lease Certificate Assets (other than, with respect to the Issuer, in accordance with the Transaction Documents) or any cash; and (c) any claim arising from the fact that the Lease Certificate Assets or any cash are held by or on behalf of the Issuer or on deposit or in an account with any depositary or account bank or clearing system or are registered in the name of the Issuer or its nominee, unless such loss or theft or claim arises as a result of gross negligence, wilful default or fraud by the Issuer or the Representative, as the case may be.

Nothing shall, in any case where the Representative has failed to show the degree of care and diligence required of it (having regard to the powers, authorities and discretions conferred on it by the Representative Agreement), exempt the Representative from or indemnify itself against any Liability for gross negligence, wilful default or fraud of which it may be guilty in relation to its duties under the Representative Agreement.

Each of the Issuer and the Representative shall be subject to such duties and only such duties as are specifically set forth in the Transaction Documents to which each of them is a party, **provided that**, in the case of the Representative, it is only subject to such duties with which it expressly agrees to comply as Representative and no duties of the Issuer (in its capacity as Issuer) shall be imposed on the Representative by virtue of its appointment pursuant to the Representative Agreement and no implied duties, covenants, undertakings or obligations shall be read into these Conditions against the Issuer or the Representative.

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, except and to the extent that these Conditions expressly provide for such Act to apply to any of its terms, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. GOVERNING LAW

(a) Governing Law

The Certificates (including these Conditions), the Representative Agreement, the Paying Agency Agreement and any non-contractual obligations arising out of or in connection therewith (including the remaining provisions of this Condition 20 (*Governing Law*)) are and shall be governed by, and construed in accordance with, English law.

(b) Jurisdiction

The courts of England have exclusive jurisdiction to settle a dispute, controversy or claim arising from or connected with the Certificates (including these Conditions), the Representative Agreement and the Paying Agency Agreement (a "**Dispute**").

The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, it will not argue to the contrary.

(c) Process agent

The Issuer agrees that the documents which start any proceedings and any other documents required to be served in relation to those proceedings may be served on it by being delivered to Jordans Trust Company Limited at its registered office at 20-22 Bedford Row, London WC1R 4JS, United Kingdom or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with Part 34 of the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Representative shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent. Nothing in this Condition 20 (*Governing Law*) shall affect the right of any party to serve process in any other manner permitted by law. This Condition 20 (*Governing Law*) applies to proceedings in England.

GLOBAL CERTIFICATE

The Certificates will be in registered form. Certificates will be issued outside the United States in reliance on Regulation S under the Securities Act.

Global Certificates

Certificates will initially be represented by a global certificate in registered form (a "**Global Certificate**"). Global Certificates will be deposited with a common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee for the Common Depositary. Persons holding interests in Global Certificates will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Certificates in fully registered form.

Holders

For so long as any Certificate is represented by a Global Certificate held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular face amount of such Certificate (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the face amount of such Certificate 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 face amount of such Certificate for all purposes other than: (i) with respect to any payment on such face amount of such Certificate; and (ii) confirming the appointment of the Representative as trustee of the Certificateholders, for which purpose the registered holder of the relevant Global Certificate shall be treated by the Issuer, the Representative and their respective agents as the holder of such face amount of such Certificate in accordance with and subject to the terms of the Global Certificate and the expressions "**Certificateholder**" and "**holder of Certificates**" and related expressions shall be construed accordingly.

Payments

Payments of any amount in respect of the Global Certificates will, in the absence of provision to the contrary, be made to the person shown in the Register as the registered Holder of the Certificates represented by a Global Certificate at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where the "**Clearing System Business Day**" means a day on which each clearing system for which the Global Certificate is being held is open for business. None of the Issuer, the Representative, Türkiye Finans, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such interests.

Payment of any amounts in respect of Certificates in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 1 (*Interpretation*)) immediately preceding the due date for payment in the manner provided in that Condition.

Exchange for definitives

Interests in a Global Certificate will be exchangeable (free of charge), in whole but not in part, for definitive Certificates upon the occurrence of an Exchange Event (as defined below). The Issuer will promptly give notice to Certificateholders in accordance with Condition 16 (*Notices*) if an Exchange Event occurs. For these purposes, an "**Exchange Event**" will occur if: (a) the Issuer or the Representative has been notified that both Euroclear and Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business and no successor clearing system is available; or (b) any of the circumstances described in Condition 13 (*Dissolution Events*) occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or any other person acting on their behalf, as the case may be, (acting on the instructions of any holder of an interest in such Global Certificate) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

It shall be a condition to each Certificateholder exchanging its interests in a Global Certificate for definitive Certificates that each such Certificateholder provides a confirmation to the Issuer and Representative that such Certificateholder confirm the appointment of Citibank N.A., London Branch as Representative of the Certificateholders for the purposes specified in and subject to the provisions of the Representative Agreement.

USE OF PROCEEDS

The issuance proceeds will be applied by the Issuer in the following manner:

(i) no less fifty one per cent. (51%) of the proceeds will be used to purchase the Initial Asset Portfolio from Türkiye Finans pursuant to the Initial Asset Portfolio Sale and Purchase Agreement; and

(ii) no more than forty nine per cent. (49%) will be used to purchase Commodities from the Supplier, which will be subsequently sold to Türkiye Finans pursuant to the Murabaha Contract entered into pursuant to the Murabaha Agreement.

DESCRIPTION OF THE ISSUER

TF Varlık Kiralama A.Ş. (the "**Issuer**") was incorporated in Turkey on 11 February 2013. The Issuer was incorporated under the laws of Turkey as an asset lease company in the form of a joint stock company and with limited liability. Its trade registration number is 854563.

The Issuer's registered office and principal place of business is at Yakacık Mevki, Adnan Kahveci Cad. No: 139 Kartal, Istanbul, Turkey. The Issuer's telephone number is +902123931110. The articles of association of the Issuer may be inspected at the registered office of the Issuer.

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

Shareholder	Percentage of Shares	Nominal Value of Shares in TL
Türkiye Finans Katilim Bankasi A.Ş	100%	50,000
Total	**100%**	**50,000**

Business of the Issuer and Principal Activities

The Sukuk Communiqué permits, amongst other things, asset leasing companies (such as the Issuer) to make multiple issuances of lease certificates. The Issuer's articles of association were amended accordingly on 29 July 2013 to ensure compliance with the Sukuk Communiqué.

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 each Outstanding Certificate, includes the ability of Turkiye Finans 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. In particular, in respect of issuances (3) and (4) listed below, where Turkiye Finans is not the originator of the relevant sukuk assets, Turkiye Finans has irrevocably and unconditionally guaranteed any amount to be demanded by the Issuer from time to time in relation to the discharge of the Issuer's obligations in respect of those Outstanding Certificates. See "*Risk Factors — Risks factors relating to the Issuer*".

Issuance	Description of lease certificates	Date of Issuance
1.	U.S.$500,000,000 Certificates due 2018	30 April 2013
2.	TRY 100,000,000 certificates due 2014	20 January 2014
3.	TRY 7,700,000 certificates due 2016	22 January 2014
4.	TRY 23,800,000 certificates due 2017	22 January 2014

Other than as disclosed above, the Issuer has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the issue of the Certificates and the Outstanding Certificates.

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

Directors

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

Name	Nationality	Business Address	Occupation
Abdüllatif Özkaynak	Turkish	Yakacik Mevki, Adnan Kahveci Cad. No: 139 Kartal, Istanbul, Turkey	Executive Vice President (Finance) of Türkiye Finans Katilim Bankasi A. Ş.
Ali Güney	Turkish	Kemeralti Cad. No: 46 Tophane Beyoglu Istanbul, Turkey	Executive Vice President (Treasury) of Türkiye Finans Katilim Bankasi A. Ş.
Alpaslan Ozen	Turkish	Kemeralti Cad. No: 46 Tophane Beyoglu Istanbul, Turkey	Legal Counsel to Türkiye Finans Katilim Bankasi A. Ş.

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 TL 50,000, comprising 50,000 shares of TL 1 each.

Financial Statements

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

DESCRIPTION OF TÜRKIYE FINANS KATILIM BANKASI A.Ş.

Overview

Türkiye Finans Katılım Bankası Anonim Şirketi ("**Türkiye Finans**") is a full service bank which has been operating in the Republic of Turkey ("**Turkey**") over the last 22 years, (see "*Description of Türkiye Finans Katılım Bankası A.Ş. — History*" for further details). Türkiye Finans' business is undertaken in compliance with the principles of interest-free banking, known as participation banking in Turkey

According to the BRSA and The Participation Banks Association of Turkey ("**PBAT**"), as at 31 December 2013, Türkiye Finans was Turkey's third largest participation bank measured by total assets with a 26 per cent. market share in assets held by all four participation banks in Turkey. Türkiye Finans also ranked second in terms of loans (with a market share of 26.90 per cent.), third in terms of depositors (with a market share of 24.05 per cent.) and first in terms of net profit (with a market share of 30.76 per cent.) each as at 31 December 2013 in accordance with data published by the BRSA Financial Statements.

Türkiye Finans' core business segments are:

(i) ***Consumer Banking***: which focuses on deposit taking (current and participation accounts), the granting of loans, credit card facilities, banking services, branchless banking services and fund transfer facilities (see "*Description of Türkiye Finans Katılım Bankası A.Ş.—Business Activities—Consumer Banking*" for further details);

(ii) ***Corporate Banking***: which focuses on servicing Türkiye Finans' corporate client base including granting cash loans, non-loan products, other credit facilities and banking services (see "*Description of Türkiye Finans Katılım Bankası A.Ş.—Business Activities—Corporate Banking*" for further details); and

(iii) ***Treasury:*** which focuses on: (A) providing a diverse range of treasury products and services, including money market and foreign exchange services, to Türkiye Finans' customers; (B) carrying out investment and trading activities, both local and international, on behalf of Türkiye Finans; and (C) managing Türkiye Finans' liquidity and market risk (see "*Description of Türkiye Finans Katılım Bankası A.Ş.—Business Activities—Treasury*" for further details).

In addition to ordinary banking activities, Türkiye Finans provides additional services through various branches including insurance agency (brokerage) services on behalf of third parties such as Eureko Sigorta, Işık Sigorta, Aviva Sigorta, HDI Sigorta and Neova Sigorta, loan related life insurance agency services on behalf of Groupama Sigorta private pension insurance agency (brokerage) services on behalf of Garanti Emeklilik, stock broker agency (brokerage) services on behalf of Bizim Menkul Değerler A.Ş. and investment and funds brokerage services. Türkiye Finans has grown loan volumes from TRY4.7 billion to approximately TRY18.2 billion between 2007 and 2013, which correlates to an average annual growth rate of 25 per cent. and an increase of 1.7 per cent. in market share of the Turkish banking industry (for statistical information on the Turkish banking sector, see "*Overview of the Turkish banking sector and regulations*"). In the same period, the size of Türkiye Finans' assets has grown by 28 per cent. annually, reaching TRY25 billion as at 31 December 2013. Consequently Türkiye Finans is now ranked as the 15th largest bank in the Turkish banking industry by assets.

Türkiye Finans' volume of deposits has grown by 23 per cent. annually since 2007, reaching TRY15.1 billion as at 31 December 2013. This figure corresponds to a market share of 1.6 per cent. of the Turkish banking industry.

Türkiye Finans increased its branch network from 137 branches in 2007 to 250 branches as at 31 December 2013. Türkiye Finans plans to open 30 more branches in Turkey during 2014, which will result in a branch network comprising 280 branches at the end of the current financial year.

Türkiye Finans seeks to provide innovative financing solutions for its customers which take into consideration their financing needs as well as Türkiye Finans' strategy on efficiency and profitability. Türkiye Finans has introduced "*Finansör*", a card-based financing solution for consumer financing, which is an innovation in interest-free banking. During 2012 Türkiye Finans also invested in product development and began to provide trending solutions such as "gold participation", "spot FX platform", "easy credit application" and "quick credit limit" (see "*Description of Türkiye Finans Katılım Bankası A.Ş.—Business Activities —Business Activities—Consumer Banking*" for further details).

As at 31 December 2013, Türkiye Finans had approximately 2.5 million consumer banking customers, 243,123 entrepreneur business customers and 26,902 commercial business customers, and 99.7 per cent. of its customers were based in Turkey, to whom it provided retail, corporate and international banking services. As at 31 December 2013, Türkiye Finans operates through a network of 250 branches across Turkey, approximately 40.4 per cent. of which are in Istanbul, with the rest spread across the country.

Türkiye Finans' commercial registration number is 401492. Its registered address is Adnan Kahveci Caddesi No: 139 34876 Yakacik – Kartal, Istanbul and its telephone number is +90 (0)216 586 70 00. As at the date of this Prospectus, Türkiye Finans is regulated by the Banking Regulation and Supervision Authority (the "**BRSA**") in accordance with Banking Law No. 5411, dated 1 November 2005 (as amended) (the "**Banking Law**").

Financing policy

Türkiye Finans operates in accordance with the principles of interest-free banking as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending such funds through product support, finance lease and profit/loss sharing partnerships.

Türkiye Finans has two ways of collecting funds: current accounts and profit sharing accounts.

Türkiye Finans classifies current accounts and profit sharing accounts in accordance with their maturities in its accounting system. Such accounts are categorised into five different maturity groups: one month; up to and including three months; up to and including six months; up to and including one year; and more than one year.

History

Türkiye Finans was established in accordance with the Provision on Establishment of Participation Banks of Decree No. 83/7506 dated 16 December 1983. Türkiye Finans (formerly Anadolu Finans Kurumu A.Ş ("**Anadolu Finans**")) was incorporated in Turkey and obtained permission from the Central Bank of Turkey on 24 October 1991 and commenced operations on 4 November 1991.

In accordance with the resolution of the board meeting of Anadolu Finans numbered 1047, on 31 May 2005, Anadolu Finans merged with Family Finans. Subsequently, in accordance with the BRSAs resolution dated 30 November 2005, and numbered 1747 related to the merger of both participation banks, the name of the merged entity was confirmed as "**Türkiye Finans Katilim A.Ş**".

The National Commercial Bank JSC ("**NCB**") acquired a majority stake in Türkiye Finans with the authorisation of the BRSA numbered 2489 and dated 28 February 2008. Türkiye Finans has increased its share capital through share capital increases on three occasions: from TRY292,047,000 to TRY800,000,000 in 2008, to TRY1,650,000,000 in 2012 and to TRY1,775,000,000 in 2013 (see "*Türkiye Finans Katılım Bankası A.Ş.—Business Activities — Shareholders and Capital Structure—Capital Structure*" for further details). As at the date of this Prospectus, NCB has a 66.27 per cent. shareholding in Türkiye Finans (see "*Türkiye Finans Katılım Bankası A.Ş.—Business Activities — Shareholders and Capital Structure—Shareholders*" for further details).

Shareholders and Capital Structure

Shareholders

As at 31 December 2013, Türkiye Finans' shareholders and their shareholdings are as follows:

Shareholders	Per cent.
NCB	66.27
Gözde Girişim Sermayesi Yatmm Ortakhği A.Ş (Gözde)	11.57
(Hacı) Mustafa Boydak	2.32
Boydak Holding AŞ	2.21
Bekir Boydak	1.87
Memduh Boydak	1.87
Mustafa Boydak (Sami)	1.87
Yusuf Boydak	1.76
Şukru Boydak	1.56
Hacı Boydak	1.50
Other shareholders	7.17
Total	**100**

NCB

As at 31 December 2013, NCB holds 66.27 per cent. of the share capital of Türkiye Finans. NCB is the first and the biggest bank in Saudi Arabia by total assets (as stated on NCB's website). As at 31 December 2013, NCB operates through its 312 branches, 17 retail service centres, 10 corporate service centres and 57 QuickPay remittance centres in two overseas branches (Lebanon and Bahrain). The headquarters of NCB are located in Jeddah. Pursuant to the Articles of Association of Türkiye Finans, NCB has the right to nominate five out of the seven Board members of Türkiye Finans. However, there are certain provisions in Türkiye Finans' Articles of Association which prevent controlling shareholders' abuse of minority rights, including the requirement of the votes of shares representing at least 80 per cent. of Türkiye Finans' share capital to resolve certain issues, including restricting pre-emption rights of any shareholder and amending certain provisions of the Articles of Association. In addition the Banking Law sets out certain protective measures preventing abuse by controlling shareholders.

NCB is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving NCB's conversion from a General Partnership to a Saudi Joint Stock Company. NCB has a number of direct domestic and foreign subsidiaries (together with NCB, the "**NCB Group**"), one of which is Türkiye Finans. NCB's head office is located at King Abdul Aziz street, P.O. Box 3555, Jeddah 21481, Kingdom of Saudi Arabia. The objective of the NCB Group is to provide a full range of banking services. The NCB Group also provides non-special commission based banking products in compliance with *Shari'a* rules, which are approved and supervised by an independent *Shari'a* board.

As at 31 December 2013, in addition to its 66.27 per cent. holding in the share capital of Türkiye Finans, the NCB Group was comprised of the following subsidiaries:

- NCB Capital Company, a Saudi Joint Stock Company, in which NCB held a 90.71 per cent. direct ownership interest as at 31 December 2013;
- Eastgate Capital Holdings Inc., a Middle East based private equity firm, in which the NCB Group had an effective ownership interest of 65.46 per cent. as at 31 December 2013;
- NCBC Investment Management Umbrellas Company Plc ("**NIMUC**"), a public limited company incorporated in Ireland, in which NCB had an effective interest of 96.5 per cent. as at 31 December 2013. NIMUC is the Undertaking Company for Collective Investment in Transferable Securities (UCITS) under the provisions of the European Communities (*Undertakings for Collective Investment in Transferable Securities*) Regulations 2011; and

- The Real Estate Development Company, a limited liability company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030146558, wholly owned by NCB. The objectives of the Real Estate Development Company primarily include keeping and managing title deeds and collateralised real estate properties on behalf of NCB.

Gözde/the Ülker Group

As at the date of this Prospectus, Gözde holds 11.57 per cent. of the share capital of Türkiye Finans. Gözde is a publicly traded private equity investment company that originates, structures and acts as lead equity investor in strategic minority equity investments, equity private placements, consolidations and build-ups, and growth capital financings. Gözde is headquartered in Istanbul, Turkey and is a subsidiary of Yıldız Holding A.Ş., the leading conglomerate in the food and beverage businesses in Turkey of which the Ülker Group is a part.

Capital Structure

After the merger in 2005, Türkiye Finans' share capital was TRY292,047,000. The following table sets out the capital increases which have been undertaken since the merger in 2005:

Date of registration	Capital (TRY)
November 2008	800,000,000
November 2012	1,650,000,000
January 2013	1,775,000,000

Türkiye Finans increased its share capital in November 2012 and January 2013 in order to support the fast growth of its asset portfolio.

As at the date of this Prospectus, Türkiye Finans' authorised and issued share capital was 1,775,000,000 divided into 1,775,000,000 shares of TRY1.00 each. The shares of Türkiye Finans are not listed. All shares issued by Türkiye Finans as at the date of this Prospectus carry equal rights.

Shareholdings

Türkiye Finans has a 0.0035 per cent. shareholding in Borsa Istanbul A.Ş. and a 1.75 per cent. shareholding in Kredi Garanti Fonu A.Ş. which is a company recently incorporated under the patronage of the Turkish Treasury in order to provide support to SMEs in Turkey and is predominantly owned by banks in Turkey.

Strategy

Türkiye Finans' primary objective is to increase its loan market share to grow above the market average. Türkiye Finans' strategy to achieve its objectives is set out below.

Vision 2017

Through its "Vision 2017" plan, Türkiye Finans aims to achieve a 2 per cent. market share of total financing in respect of the bank's total lending in Turkey by 2017 (compared to 1.70 per cent. as at 31 December 2013). In order to meet this target, Türkiye Finans plans to reach over 300 branches by 2017 and increase its deposit base by an average of 22 per cent. per annum during the period up to 2017.

Focus on core businesses, including income from fees and commissions

In response to market conditions which have led to a decrease in margins, Türkiye Finans plans to focus on income generating activities and high margin products rather than profit share income. Türkiye Finans has determined that income from banking services, point of sale terminals, credit cards and foreign trade have higher margins compared to other services and products and both the Directors and Senior Management of Türkiye Finans ("**Management**") believe that focusing on Türkiye Finans' key businesses will enable it to increase the income generated by its core activities. To achieve the targeted increases in fee and commission income, Türkiye Finans intends to specifically tailor the level of services offered to each of its different client segments by reference to the value of the relevant segment.

Further penetration in Consumer Banking and SME Banking

Consumer Banking and SME Banking are the two cornerstones of Türkiye Finans' growth plans in the medium-term.

Türkiye Finans has been predominantly active in the commercial banking sphere which is the traditional stronghold of participation banks in Turkey. On the other hand, consumer banking financing accounts for 20 per cent. of participation bank financing in Turkey compared to 35 per cent. for conventional banks (source BRSA). Accordingly, Management believe there is an opportunity for participation banks to increase growth in the consumer banking business and Türkiye Finans plans to tap the large and growing Turkish retail banking market by deepening its relationships with the "hidden affluent" segment, cross-selling lending products to mass customers and increasing its branch footprint as well as increasing penetration using alternative distribution channels. To achieve this, Türkiye Finans intends to expand and diversify its portfolio of products, both deposit based products and lending products, to attract retail customers, to increase the loyalty of existing customers and expand its customer base.

SME Banking is a fast-growing banking segment in Turkey, particularly in relation to manufacturing SMEs which are expected to grow with Turkey's anticipated increased manufacturing output over the coming years. Furthermore, Türkiye Finans' SME Banking segment has achieved higher profit margins when compared to its other banking segments and SMEs enable Türkiye Finans to better diversify geographically as well as industry-wide. Türkiye Finans intends to focus on building relationships with SMEs to increase returns from existing relationships as well as attracting greater numbers of SME customers.

Expansion of Branch Network

Türkiye Finans actively monitors and manages the performance and efficiency of its branches, and utilises such information in the context of its strategy on the expansion of its branch network. Türkiye Finans' new branch numbers for the last six years are as follows: 15 new branches in 2007, 37 new branches in 2008, 6 new branches in 2009, 3 new branches in 2010, no new branches in 2011 as Türkiye Finans focused on increasing efficiency and returned to expanding its network with 38 new branches in 2012 and 30 new branches in 2013. In order to penetrate the Consumer Banking and SME Banking markets, Türkiye Finans plans to expand its branch network further. Currently, Türkiye Finans has 250 branches throughout Turkey, the second highest among participation banks in Turkey and an increase from 220 in 2012. By 2017, Türkiye Finans plans to increase its branch network by approximately 40 per cent. to over 300 branches with 30 branch openings planned in 2014. Branch and staff efficiency and productivity will be key in making the decision to open new branches and effective expense management will be crucial to achieve sustainable growth of Türkiye Finans' branch network. In conjunction with this expansion strategy, Türkiye Finans intends to make increasing productivity of each branch a simultaneous priority.

Diversification of Assets and Liabilities

Management believe that further diversification of assets and liabilities will catalyse growth. The introduction of revenue indexed bonds has given participation banks, which are constrained to holding only *Shari'a* compliant assets, more options for diversification. Türkiye Finans is participating in a number of initiatives aimed at the development of a secondary market for such products, which includes liaising with the relevant regulatory authorities in Turkey in respect of allowing retail clients to have direct access to such products. Türkiye Finans' balance sheet growth traditionally had been limited to the collection of funds through deposits. Consequently, Türkiye Finans prioritises access to funds from Gulf countries and other regions to diversify its funding sources. In this regard, a debut Turkish Lira sukuk has been executed for the first time and the Treasury and Capital Markets Board of Turkey are collaborating to facilitate further sukuk offerings.

Focus on Alternative Distribution Channels

Türkiye Finans aims to further develop and utilise alternative distribution channels ("**ADC**") by transforming these channels to include all key functionalities and provide a convenient and intuitive user experience by understanding and tracking customer preferences. Türkiye Finans also aims to use ADC more efficiently in sales and marketing activities as well as rebranding its corporate logo and embarking on intense advertising campaigns. Management believe that automation and information technology will be key to the successful sale of banking products to its customers in the future. Türkiye Finans is increasingly targeting customers through social media including the promotion of online payments and the settlement of arrears online and through mobile technology. Türkiye Finans is working to enable its customers to apply for loans without going to a physical branch, for example, by applying via SMS or online, or at retail outlets.

Competition and Competitive Advantages

As at 31 December 2013, according to the BRSA there were 49 banks operating in Turkey including four participation banks and 4 branches of foreign banks established and licensed outside Turkey. The private commercial banks in Turkey can be divided into three groups: (i) large private banks (with a bank-only asset size between 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.

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

In addition to the three other participation banks in Turkey, Türkiye Finans considers its main competitors to be the medium-sized commercial banks (in terms of asset size). Türkiye Finans 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, SME banking and import/export trade finance. However, unlike Türkiye Finans, the commercial banks do not have Islamic windows and do not operate in accordance with interest-free principles. This provides Türkiye Finans with an advantage which, along with its reputation for the various innovative products which it has introduced, contributes to customer awareness of Türkiye Finans' brand and services.

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

Türkiye Finans believes that it enjoys a number of key competitive advantages, including the following:

A strong and resilient banking industry

The Turkish banking sector has been one of the fastest growing in Europe, Middle East and Africa region. Between 2003 and 2008, the Turkish banking sector grew by approximately 40 per cent. annually in terms of loan volume. In 2009, growth slowed to 7 per cent. with the onset of the global economic crisis but returned to a level of 34 per cent. in 2010. This growth pattern continued in 2011, 2012 and 2013 with growth of 21 per cent., 13 per cent. and 26 per cent. respectively. See "*Overview of the Turkish Banking Sector and Regulations*" for further details on the development of the Turkish banking sector.

Management believe that the Turkish banking sector will continue to grow, driven by strong economic growth in Turkey as a whole supported by, among other factors, relatively high asset quality, banks with strong capital bases and low leverage coupled with low banking penetration, lower inflation, a relatively stable currency, positive demographics, low interest rates, and a relatively sophisticated regulatory environment. Türkiye Finans believes that it is uniquely placed to benefit from the current and future anticipated growth of the banking sector in Turkey as it focuses on its key strengths of consumer and SME banking (two of the fastest growing sectors of the Turkish banking industry) and it implements its expansion plan across the country.

Participation banking is an industry with demonstrated and potential high growth

Market data indicates that participation banking in Turkey is growing at a faster rate than conventional banking in terms of assets. The average growth rate of participation banks' total assets in Turkey was approximately 37 per cent. more than the growth rate of total banking assets during the period 2002 to 2013. Türkiye Finans believes that participation banking has significant further growth potential given that assets held by participation banks in Turkey only account for 5.6 per cent. of total banking assets in Turkey as at 31 December 2013. Management believe that the breadth of its current and future products and services, its experience in the participation banking sector and its expanding branch network make it well positioned to take advantage of this growth potential.

Clear growth strategy

Türkiye Finans has a clear strategy for achieving its growth objectives, including through implementation of its "Vision 2017" plan, with SME Banking and Consumer Banking at the core of this strategy. Türkiye Finans is looking to boost its income by focusing on higher margin loan products, personal loans and credit cards and on fees and commission intensive products for SMEs and Consumer Banking customers and to leverage its branch network, focusing on ADCs (see "*Strategy—Further penetration in Consumer Banking and SME Banking*" for further details).

Diversified and balanced financing portfolio

Türkiye Finans' financing portfolio comprises financings in 16 different industries (in accordance with BRSA classifications) and its largest industry exposure is to the trade and commerce sector (comprising 28 per cent. of its credit risk exposure as at 31 December 2013). Furthermore, Türkiye Finans has a favourable financing mix with just over half of its financing portfolio (comprising 50.2 per cent. of its exposure) drawn from high-yielding SMEs and retail lending as a result of its strong distribution capability with a large network of branches.

Strong shareholder structure

Türkiye Finans' majority shareholder, NCB, is one of the most prominent Saudi Arabian banks and was the first bank established in Saudi Arabia, in 1953. NCB is the largest bank in the Arab world in terms of capital. As at 31 December 2013, NCB's total assets were U.S.$100.6 billion, net income totalled U.S.$2.1 billion and shareholders' equity stood at U.S.$11.3 billion. NCB operates from 312 branches dedicated to the provision of conventional and Islamic banking services throughout the Kingdom of Saudi Arabia and has overseas offices in Bahrain, Beirut, Singapore and South Korea. (See "*Shareholders and Capital Structure—Shareholders—NCB*" for further details.) The two remaining shareholders, the Ülker Group and Boydak Group, are among the most prominent business groups in Turkey. Türkiye Finans has been able to utilise the experience of these shareholders when developing and introducing new products to the Turkish markets, as well as in adopting best practices within its operations, including practices relating to reporting and risk management systems. Management believe that the support that Türkiye Finans' shareholders provide (including the global expertise represented by directors appointed by them) has been important to Türkiye Finans' current and future growth. Management also believe that Türkiye Finans benefits from being associated with its shareholders' brands providing Türkiye Finans with a competitive advantage.

Management team with a proven track record

Türkiye Finans has a highly experienced management team with a proven track record in growing Türkiye Finans' operations and profitability in a competitive market. Türkiye Finans' Chief Executive Officer and its ten Executive Vice Presidents have an average experience of 22 years in banking and business administration. Management believe that the combined experience of Türkiye Finans' management team will support its ongoing strategy.

Prudent risk management policy

Management believe that proper assessment and control of risk is crucial to Türkiye Finans' success. As a result of changes made in relation to policies for non-performing loans ("**NPLs**") and capital adequacy ratios, Türkiye Finans' NPL ratio only marginally decreased from 2.7 per cent. at 31 December 2012 to 2.4 per cent. at 31 December 2013 despite the on-going effects of the financial crisis on the world economy (see "*Selected Financial Overview*" for further details). Furthermore, Türkiye Finans' capital adequacy ratio decreased from 14.24 per cent. total regulatory capital at 31 December 2011 to 12.81 per cent. at 31 December 2013, which however remains significantly above the 8 per cent. minimum and above the 12 per cent. target capital adequacy ratios required by the BRSA. The majority of Türkiye Finans' regulatory capital comprised Tier 1 capital (see "*Description of Türkiye Finans Katılım Bankası A.Ş. — Key Risks of Türkiye Finans—Capital Adequacy*" for further details).

Business Activities

Türkiye Finans' principal business activities are focused around its core business segments: (i) Consumer Banking; (ii) Corporate Banking; and (iii) Treasury.

The following table sets out Türkiye Finans' total operating income for its core business segments for the years ended 31 December 2013, 2012 and 2011.

	Consumer Banking	**Corporate Banking**	**Treasury**	**Total**
		(TRY in thousands)		
Year ended 31 December 2013	345,248	615,197	137,618	1,098,064
Year ended 31 December 2012	234,698	476,968	211,909	923,575
Year ended 31 December 2011	177,036	426,235	49,465	652,736

Consumer Banking

The Consumer Banking Department core business includes consumer lending, current accounts and consumer products which are offered in accordance with *Shari'a* principles. The Consumer Banking Department comprises the Sales Management Division, the Payment Systems Marketing Division, the Participation Fund and the Investment Products Marketing Division, the Housing Finance Marketing Division, the Individual Product Coordination and the Customer Analytics Service.

The Consumer Banking Department comprises two main segments, the "*Mass Segment*" and the "*Affluent Segment*". The Affluent Segment is composed of customers with an average deposit balance and credit card limit above TRY50,000 and TRY15,000 respectively whereas the Mass Segment is composed of customers with an average deposit balance and credit card limit below TRY50,000 and TRY15,000 respectively.

The Consumer Banking Department serves approximately 2.5 million customers. The aim of the Consumer Banking Department is to provide quality services to its customers across various products and services and to focus on increasing cross-sales. Such products include investment products, credit cards, personal credits, and collection and payment systems.

The Consumer Banking Department also focuses on developing innovative products to complement and add value to its existing product base. Türkiye Finans has recently brought several new products to the market, including Finansör, specially designated gram bars, "Instant limit", "Quick credit", Haremeyn cards and paid military service products. Türkiye Finans' retail products include mortgage, vehicle, and consumer products. As at 31 December 2013, the total retail financing of Türkiye Finans was TRY3.3 billion.

For the year ended 31 December 2013, Consumer Banking accounted for 17.2 per cent. of Türkiye Finans' total assets, and 44.4 per cent. of Türkiye Finans' total liabilities, compared to 17.6 per cent. of total assets and 52.5 per cent. of total liabilities as at 31 December 2012, and 25.2 per cent. of total assets, and 61.2 per cent. of total liabilities as at 31 December 2011.

For the year ended 31 December 2013, Consumer Banking accounted for 31.4 per cent. of Türkiye Finans' operating income, compared to 25.4 per cent. as at 31 December 2012 and 27.1 per cent. as at 31 December 2011.

Türkiye Finans conducts its consumer banking operations through its 250 branches located throughout Turkey, as well as its ADCs including ATMs, internet banking, 24-hour telephone banking, and point-of-sale ("**POS**") terminal payment locations.

Türkiye Finans' Consumer Banking products are supported by the adoption of stringent credit criteria, including specified lending limits for each retail product (see "*Description of Türkiye Finans Katılım Bankası A.Ş.—Risk Management*" for further details).

Türkiye Finans offers its customers a range of retail products, including:

- TRY/U.S.$/EUR denominated participation accounts, gold accounts, gold compiling, investment funds, private pension schemes and insurance products;
- consumer loans, mortgages and car financing; and
- credit cards.

TRY/U.S.$/EUR denominated current and participation accounts, gold participation accounts and gold compiling and insurance products.

Türkiye Finans' deposits from customers are primarily denominated in Turkish Lira, Euro and U.S. dollars. The current accounts and participation accounts offered by Türkiye Finans also comply with interest-free banking principles. Türkiye Finans 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 Türkiye Finans in accordance with a pre-agreed profit-sharing ratio. As at 31 December 2013, Türkiye Finans had recorded an average 86.6 per cent. renewal rate of participation accounts by its customers. As at the date of this Prospectus, the minimum amount required to open a participation account was TRY250.0 (or equivalent in other currencies).

The average maturity of all deposits as at 31 December 2013 stood at 83.5 days per deposit account. As at 31 December 2013, the average profit share percentage attributable to Türkiye Finans stood at 82.5 per cent. per participation account.

Türkiye Finans' gold participation accounts are opened by customers depositing gold with the bank. The gold is analysed and evaluated by the specialists at the Istanbul Gold Refinery. The collected gold can be deposited either to the customer's gold current account to protect the gold from larceny or to a gold participation account, a new type of account which provides interest-free yield for account holders. Türkiye Finans trades the gold and at maturity of the account, returns the gold to the customer. If any profit is generated during the trading activity, part of the profit is passed onto the customer according to a pre-agreed ratio. As at 31 December 2013, the total deposited gold in gold participation accounts stood at 3 tons.

Financing Security Insurance ("**FGI**") is an insurance protection scheme established by Türkiye Finans for the benefit of its retail customers that are unable to make repayment on their loans due to death, or full or partial disability. Under the FGI, Türkiye Finans compensates its customers' creditors on behalf of its customers or their successors. The total insurance premium generated by FGI as at the date of this Prospectus is 8.7 million, with a total 16,343 FGI policies having been issued between 10 September 2012 and 31 December 2013.

Consumer loans, mortgages and car financing

For the year ended 31 December 2013, Türkiye Finans had over 700,000 active retail customers with outstanding cash or non-cash credit balances (as compared to 633,442 active retail customers for the same period in 2012). The customers of Türkiye Finans' Consumer Banking Department had total cash credits outstanding as at 31 December 2013 of TRY3.3 billion, as compared to TRY2.3 billion as at 31 December 2012 and TRY1.5 billion as at 31 December 2011.

Based on Türkiye Finans' BRSA financial statements, home financings accounted for 79.9 per cent., or TRY2,628 million of Türkiye Finans' total retail credit portfolio, as at 31 December 2013 compared to 81.8 per cent., or TRY1,922 million, as at 31 December 2012 and 77.8 per cent., or TRY1,136 million, as at 31 December 2011. Auto financings accounted for 7.5 per cent., or TRY246 million of Türkiye Finans' total retail credit portfolio, as at 31 December 2013, as compared to 8.6 per cent., or TRY202 million, as at 31 December 2012, 11.1 per cent., and TRY162 million, as at 31 December 2011. All of Türkiye Finans' home and vehicle financings are collateralised by the property or vehicles purchased with the proceeds of such credits, with an average loan to value ratio of around 60 per cent. The maximum loan to value ratio allowed by Turkish law for home financings by the BRSA is 75 per cent.

As at 31 December 2013, the remaining 12.6 per cent. of Türkiye Finans' retail credit portfolio was comprised of TRY120 million in retail consumer loans and TRY295 million in retail credit cards.

The principles underlying participation banking products determine the ways in which the proceeds from Türkiye Finans' 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 counterparty to the transaction. Repayments of retail credits are effected in a similar way as at conventional banks, with a larger proportion of the earlier payments being applied to the profit element of the product and, subsequently, a greater proportion applied to the principal closer to the end of the term. Under Article 5 of the Regulation regarding the Prepayment Decrease of the Retail Credit and the Procedures and Principles of the Calculation of the Annual Cost Rate of the Credit published in the Official Gazette on 1 August 2003 and numbered 25186, Türkiye Finans is required to permit retail customers to pre-pay in part or in full. In the event that a retail customer makes an early payment, Türkiye Finans commits to making a reduction of the profit share and commission payable *pro rata* to the sums that are repaid early.

Credit/debit cards

Traditionally, participation bank financing was less attractive than conventional bank financing because participation banks are restricted to financing the seller of goods and services rather than the customer purchasing such goods and services directly. However, Türkiye Finans has developed a debit card product, "*Finansör*", which gives customers sufficient flexibility to allow them to make purchases of a wide range of products in a *Shari'a* compliant manner. Debit cards may only be used for purchases and not for cash advances.

Based on Türkiye Finans' BRSA financial statements, credit card financings accounted for 9 per cent., or TRY295 million, of Türkiye Finans' total retail credit portfolio as at 31 December 2013, as compared to 7.9 per cent., or TRY185 million, as at 31 December 2012 and to 9.9 per cent., or TRY144 million, as at 31 December 2011. As at 31 December 2013, Türkiye Finans had issued approximately 380,000 credit card compared to just over 350,000 as at 31 December 2012. By the end of 2014, Türkiye Finans hopes to have issued approximately 480,000 credit cards to increase its profit derived by way of earning fees from the customers' use of credit cards.

The average spend per transaction on Türkiye Finans' credit cards was TRY193 as at 31 December 2013 compared to a national average spend on credit cards of TRY190.

Türkiye Finans participates in a country-wide promotion platform called "Bonus" whereby the customer is rewarded for loyalty dependent on purchases made using their credit card. Furthermore, credit card customers do not need to have a participation account with Türkiye Finans to be issued with a credit cards but must pay an annual fee of TRY10.0 to maintain a TFKB Classic Card, TRY15.0 for a TFKB Gold Card, TRY35 for a Happy Classic Card, TRY45.0 for Happy Gold Card, TRY55.0 for a Happy Platinum card, TRY80 for a Harmeyn Shua card and nil for a Happy Zero card.

In addition to earning fees from the customers' use of credit cards, Türkiye Finans has POS terminals in stores throughout Turkey from which Türkiye Finans earns a small fee from each transaction in which the cards are used (regardless of whether they are used by a customer of Türkiye Finans or not). The number of Türkiye Finans POS terminals through which transactions using Türkiye Finans' own debit or credit cards and the credit cards of other banks are effected has slightly decreased from 29,205 units as at 31 December 2011 and 30,569 as at 31 December 2012 to a total of 24,242 as at 31 December 2013. The volume of transactions has increased to TRY2.3 billion as at 31 December 2013 from TRY2.1 billion for the same period in 2012 and TRY2.0 billion for the same period in 2011. The decrease in 2013 was mainly due to the technological and efficiency consolidation on POS devices made in the same year.

Customers

Türkiye Finans' Consumer Banking customers are categorised primarily based on the amount of such customers' deposits with Türkiye Finans and the amount of total credit extended to them. As the status of the customer improves, Türkiye Finans offers the customer a wider variety of products with more attractive terms, thereby encouraging customers to concentrate their banking business with Türkiye Finans. Türkiye Finans intends to increase the number of customers of its Consumer Banking business by cross-selling new products and services and expanding the branch network (see "*Description of Türkiye Finans Katılım Bankası A.Ş. —Strategy*" for further details). In 2013, Türkiye Finans opened 30 new branches (13 in Istanbul, 1 in Ankara, 2 in Izmir, 1 in Bursa and 13 in other cities in Turkey). In 2014, Türkiye Finans expects to open 30 new branches (see "*Description of Türkiye Finans Katılım Bankası A.Ş. — Strategy*" above).

Türkiye Finans' Consumer Banking Department primarily targets professionals and owners of businesses that use Türkye Finan's services primarily for their non-business related banking needs. Based on Türkiye Finans' BRSA financial statements for the year ended 31 December 2013, Türkiye Finans provided Consumer Banking services to approximately 2.5 million individuals. For the year ended 31 December 2013, the total amount of its outstanding cash credits to individuals represented 18.8 per cent. of the total cash credit portfolio, amounting to TRY3,290 million. For the year ended 31 December 2012, the total amount of its outstanding cash credits to individuals represented 18.3 per cent. of the total cash credit portfolio, amounting to TRY2,348 million. As at 31 December 2011, the total amount of its outstanding cash credits to individuals represented 14.7 per cent. of the total cash credit portfolio of Türkiye Finans' Consumer Banking Department, amounting to TRY1,460 million.

Türkiye Finans further subdivides its Consumer Banking customers into two main segments "Mass Segment" and "Affluent Segment". The table below sets out the number of customers by each sub-category and the amount held by such customers in deposit accounts according to Türkiye Finans' BRSA accounts as at 31 December 2013, for illustrative purposes.

	No. of Customers	Amount
		(TRY thousands)
Mass	2,393,005	3,992,019
Affluent	106,398	5,525,986
Total Retail	**2,499,403**	**9,518,005**

Corporate Banking

Türkiye Finans' Corporate Banking Department provides banking services for medium and large establishments and companies including all credit-related products and financing products in compliance with Islamic principles. It also offers its customers international banking services. 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 principal bank of such companies.

The Corporate Banking segment is divided into two principal areas:

(a) ***Entrepreneur Business***: focuses on granting cash loans and non-loan products including financing goods and services, special banking support and services, cash management, commercial credit card facilities, securities (including foreign trade and financing) to small and medium sized retail enterprises with an annual turnover of less than TRY2 million and where the level of credit allocated is below TRY250,000 ("**Micro SMEs**") and banking services and products in relation to such enterprises ("**Micro Banking**"), and to small and medium sized retail enterprises with an annual turnover of between TRY2 million and TRY15 million and where the level of credit allocated is between TRY250,000 and TRY5 million ("**SMEs**") and banking services and products in relation to such enterprises ("**SME Banking**"); and

(b) ***Commercial Business***: focuses on granting of loans, other credit facilities and banking services, including international banking services, to commercial clients with an annual turnover of between TRY15 million and TRY150 million and where the level of credit allocated is greater than TRY5 million ("**Commercial Clients**") including institutional customers of Türkiye Finans and to corporate clients with an annual turnover in excess of TRY150 million ("**Corporate Clients**").

For the year ended 31 December 2013, Corporate Banking accounted for 58.5 per cent. of Türkiye Finans' total assets (excluding unallocated assets) and 28.9 per cent. of Türkiye Finans' total liabilities. For the year ended 31 December 2012, Corporate Banking accounted for 58.3 per cent. of Türkiye Finans' total assets (excluding unallocated assets) and 28.1 per cent. of Türkiye Finans' total liabilities. For the year ended 31 December 2011, Corporate Banking accounted for 62.5 per cent. of Türkiye Finans' total assets (excluding unallocated assets) and 21.9 per cent. of Türkiye Finans' total liabilities.

For the year ended 31 December 2013, Corporate Banking accounted for 56 per cent. of Türkiye Finans' operating income, compared to 51.6 per cent. as at 31 December 2012 and 65.3 per cent. as at 31 December 2011.

For the year ended 31 December 2013, Entrepreneur Business and Commercial Business accounted for 14.8 per cent. and 24.3 per cent. of Türkiye Finans' total deposits respectively. According to Türkiye Finans' BRSA accounts, for the year ended 31 December 2013, Entrepreneur Business and Commercial Business accounted for 43.7 per cent. and 37.4 per cent. of Türkiye Finans' total loans respectively. For the year ended 31 December 2012, Entrepreneur Business and Commercial

Business accounted for 49.2 per cent. and 32.5 per cent. of Türkiye Finans' total loans respectively. For the same period, Entrepreneur Business and Commercial Business accounted for 12.9 per cent. and 21.0 per cent. of Türkiye Finans' total deposits respectively. For the year ended 31 December 2011, Entrepreneur Business and Commercial Business accounted for 40 per cent. and 45.3 per cent. of Türkiye Finans' total loans respectively. For the same period, Entrepreneur Business and Commercial Business accounted for 9.8 per cent. and 12.0 per cent. of Türkiye Finans' total deposits respectively.

Corporate and Commercial Banking in Participation Banks

In accordance with the principles underlying Türkiye Finans' 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, Türkiye Finans does not provide credits to fund a business' general working capital which does not have any underlying assets. Instead, when a loan 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 for instance, the corporate customer applies for credit for the purpose of purchasing a product/service that it will use in its business. If the credit is granted, Türkiye Finans buys the product directly from the vendor and sells this product/service for credit at a marked-up price to Türkiye Finans' corporate customer. The customer repays the principal of the credit plus the fixed mark-up, profit element through instalment payments made over time. Türkiye Finans also offers credits in Istisna'a (akin to procurement) transactions where the product being purchased by the customer does not yet exist at the time the credit is granted.

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

Customers

For the year ended 31 December 2013, Türkiye Finans' Commercial Business customers amounted to 26,902, to whom designated corporate relationship managers provide a dedicated point of contact throughout, assessing their cash management, treasury, trade finance, working capital finance, asset and project finance requirements (as compared to 23,799 Commercial Business customers for the same period in 2012 and 16,781 in 2011). Based on Türkiye Finans' BRSA financial statements, as at 31 December 2013, Türkiye Finans' Commercial Business customers had total cash credits outstanding with Türkiye Finans of TRY6.5 billion and total non-cash credits (comprising letters of credit and letters of guarantee) outstanding with Türkiye Finans of TRY6.85 billion (as compared to TRY4.1 billion cash credits and TRY5.7 billion non-cash credits and TRY5.2 billion cash credits and TRY4.8 billion non-cash credits for the same periods in 2012 and 2011, respectively).

For the year ended 31 December 2013, Turkiye Finans' Entrepreneur Business customers amounted to 243,123, to whom designated corporate relationship managers provide a dedicated point of contact throughout, assessing their cash management, treasury, trade finance, working capital finance, asset and project finance requirements (as compared to 191,425. Entrepreneur Business customers for the same periods in 2012 and 170,504 in 2011). Based on Turkiye Finans' BRSA financial statements as at 31 December 2013, Turkiye Finans' Entrepreneur Business customers had total cash credits outstanding with Turkiye Finans of TRYL 4.6 billion and total non-cash credits (comprising letters of credit and letters of guarantee) outstanding with Turkiye Finans of TRY 2.0 billion (as compared to TRY 6.3 billion cash credits and TRY 1.5 billion non-cash credits and TRY 4.0 billion cash credits and TRY 1.24 billion non-cash credits for the same periods in 2012 and 2011, respectively).

Corporate Banking Products, Services and Approaches

Türkiye Finans' Banking Clients Department designs and offers business solutions to SMEs as well as large institutional corporate entities (operating primarily in the manufacturing, construction, wholesale and trade industries) through dedicated client care teams. Operating within an interest-free banking framework, Türkiye Finans' Corporate Banking Department seeks to provide innovative, practical and cost-effective financing solutions for the specific requirements of its corporate customers. Türkiye Finans' principal commercial products and services are categorised into two sections: (i) cash loans; and (ii) and non-cash loans.

Cash Loans

Türkiye Finans provides a broad range of cash credit facilities (principally loans and overdraft facilities) and financial leasing products (which together are referred to as cash loans) to its corporate customers to meet their short and long-term financing requirements. Türkiye Finans' cash loans are used to support the business activities of Türkiye Finans' corporate customers and consist principally of loans that are denominated in Turkish Lira, U.S. dollars and Euros.

Türkiye Finans 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 profit rate fluctuations.

In line with the expanding corporate customer portfolio of Türkiye Finans, the level of cash loans which were made available by Türkiye Finans to its corporate customers retained its growth trend during the year ended 31 December 2013, in line with previous years. As at 31 December 2013, the number of Entrepreneur Business customers was 243,123 and the corporate risk (which relates to Türkiye Finans' outstanding cash loans and advances) allocated to each customer was TRY20,000. As at 31 December 2013, the number of Commercial Business customers was 26,902 and the corporate risk (which relates to Türkiye Finans' outstanding cash loans and advances) allocated to each customer was TRY335,000. Profitability was monitored and the terms to maturity in projects were taken into consideration during 2013 for the purposes of evaluating the appropriate level of available funds and extension of credit. The average term of corporate cash funds was 246 days in the Entrepreneur Business segment and 263 days in the Commercial Business segment. A corporate financing support of TRY21.6 billion in 116,875 projects was provided during the year ended 31 December 2013 in the Entrepreneur Business segment (compared to TRY5 billion in 65,000 projects in 2012 and TRY4.1 billion in 49,500 projects in 2011). A corporate financing support of TRY15.89 billion in 51,534 projects was provided during the year ended 31 December 2013 in the Commercial Business segment (compared to TRY12 billion in approximately 40,000 projects in 2012 and TRY9.0 billion in just over 32,000 projects in 2011). All principles of participation banking were adhered to in respect of these activities.

Türkiye Finans also provides a broad range of finance leasing products. Through its leasing products, commercial customers are able to obtain machinery, equipment and other goods from both domestic and international vendors. Under the Banking Law, conventional banks are not allowed to engage directly in leasing activities and are only permitted to do so through their subsidiaries. Consequently, Türkiye Finans (as a participation bank) can enter into leasing transactions more efficiently with its customers than conventional banks can. Türkiye Finans has also introduced a basket loans product which allows customers who seek to reduce foreign exchange risk with foreign exchange indexed loans, to borrow in two or three different currencies for the same project. For the year ended 31 December 2013, Türkiye Finans had TRY841.6 million (excluding unearned profit share) in outstanding finance leases, as compared to TRY304.3 million for the same period in 2012 and TRY56.3 million in 2011. As at 31 December 2013, Türkiye Finans had a market share of just over 44.5 per cent. of the leasing sector amongst participation banks compared to approximately 37.5 per cent. as at 31 December 2012. Principally, this was the result of Türkiye Finans' shift in focus towards its finance leasing operations and product range, leveraging off traditional strengths in this area.

Türkiye Finans also provides commercial customers with a variety of credit card services, pay roll services, POS services and direct collection systems enabling corporate clients to collect amounts due to them by their own customers and to remit funds to their suppliers with ease.

Non-cash Loans

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

Türkiye Finans 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 Türkiye Finans has developed a "forward" product, whereby Türkiye Finans offers its customers the ability to fix future exchange rates in order to protect the customer from exchange rate fluctuations. Türkiye Finans utilises relationships developed with established financial institutions in various countries to assist with channelling and distributing these tailor-made financial products.

According to Türkiye Finans' BRSA Financial Statements, for the year ended 31 December 2013, Türkiye Finans' risk volume (which relates to the outstanding non-cash loans) in non-cash financing support in respect of the Entrepreneur Business segment reached TRY2 million with a 33 per cent. increase compared to the previous financial year and in respect of the Commercial Business segment reached TRY6,859 million with a 21 per cent. increase compared to the previous financial year. The bank's risk volume in non-cash financing support in respect of the Entrepreneur Business segment reached TRY1,493 million with a 23.2 per cent. increase in the year ended 2012 as compared to the preceding financial year and in respect of the Commercial Business segment reached TRY5,689 million with a 20 per cent. increase in the year ended 2012 as compared to the previous year. Approximately 41 per cent. risk distribution of the letters of guarantee related to public tenders.

According to Türkiye Finans' BRSA Financial Statements, as at 31 December 2013, Türkiye Finans' total cash and non-cash loans to its top 10, top 20 and top 100 corporate customers amounted to 3.57 per cent., 5.38 per cent. and 12.70 per cent. of its total cash and non-cash loans portfolio respectively.

Foreign Trade and Exchange Services

Türkiye Finans has continued to act as intermediary in international loans in order to provide cost-effective and long-term financing resources to its customers. In addition the Export Credit Agency ("**ECA**") loans, the Saudi Export Programme ("**SEP**"), the International Islamic Trade Finance Corporation ("**IITFC**") and the GSM (a U.S. export credit guarantee programme) loans were also introduced for use by Türkiye Finans' customers. The increase of the volume of transactions within the scope of the SEP, which was set up for the purpose of providing low cost financing resources for companies importing non-oil products from Saudi Arabia, continued over the last three financial years. The transaction volume executed through SEP totalled U.S.$12 million during 2013 and the GSM transactions totalled U.S.$29 million during that same year. The IITFC is a subsidiary of the Islamic Development Bank. Its primary objective is to facilitate intra-trade among the Islamic Development Bank's member countries using *Shari'a* compliant instruments and it is mandated to mobilise funds from the market to complement its financing requirements. In respect of the IITFC transactions, Türkiye Finans has allocated a new limit in the amount of U.S.$25 million for such transactions. In addition, there are ongoing marketing activities and new pending related transactions. In addition, the agreement put in place between Türkiye Finans and the IITFC enables Türkiye Finans to offer its corporate customers a new method of financing foreign trade transactions. In respect of its forward foreign exchange purchase and sale operations, Türkiye Finans provides its customers with the ability to conduct foreign currency purchasing or selling operations through the entry into forward swap arrangements which protect its customers against negative foreign exchange price fluctuations that may arise in the future. Banking services on the basis of Russian Roubles continue to be provided by Türkiye Finans during 2013 to effect currency exchanges for the benefit of the customers.

New products

Since its establishment, Türkiye Finans has continually focused on providing new products and services to its customers, as well as striving to improve existing products and increasing the levels of support it offers customers. Recent new products include a business card which can be used for expenses incurred by a corporate entity and/or its key staff, the service offered by the Credit

Guarantee Fund (a public organisation which Türkiye Finans has been a partner of since 2009) whereby a credit guarantee may be offered to a corporate entity which requires funding but cannot provide a guarantee, the service offered by KOSGEB (the small and medium enterprises development organisation) which supports SMEs by helping to make credit available to them and the commercial debit card, which was developed in 2012 to enable commercial customers to make cash withdrawals and deposits.

Türkiye Finans introduced the Siftah Card specifically targeting its SME customers during the second half of 2013. The Siftah Card provides SME customers with the ability to make spot purchases as well as specify their own deferred repayment schedule and the number of instalments as per their convenience. In addition to the Siftah Card, in order to meet the urgent financial needs of micro-sized companies, the Faal Card was launched in May 2013. The Faal Card is an instalment card whereby limit allocations can be made and can be delivered to customers immediately at a Türkiye Finans branch. Customers are provided with pre-determined limit amounts and limit periods, along with an instalment repayment schedule based on the customer's need and credit approval process. All spot purchases have to be repaid as per the pre-specified instalment payment schedule and any amounts repaid within the limit period can be re-utilized under the same terms.

Treasury

Türkiye Finans' Treasury Department focuses on: (i) providing a diverse range of treasury products and services, including money market and foreign exchange services, to Türkiye Finans' customers; (ii) carrying out investment and trading activities, both local and international, on behalf of Türkiye Finans; and (iii) managing Türkiye Finans' liquidity and market risk. The Treasury Department also has a supportive function in relation to product control and management.

Türkiye Finans' Treasury Department has played a significant role in the increase of the profitability of Türkiye Finans, in addition to the realisation of foreign exchange targets and the effective management of Türkiye Finans' liquidity and foreign currency position.

For the year ended 31 December 2013, Treasury assets accounted for 21.1 per cent. of Türkiye Finans' total assets (excluding unallocated assets) and Treasury liabilities accounted for 24.3 per cent. of Türkiye Finans' total liabilities. For the year ended 31 December 2012, Treasury assets accounted for 21.4 per cent. of Türkiye Finans' total assets (excluding unallocated assets) and Treasury liabilities accounted for 16.8 per cent. of Türkiye Finans' total liabilities. As at 31 December 2011, Treasury assets accounted for 10.1 per cent. of Türkiye Finans' total assets (excluding unallocated assets) and Treasury liabilities accounted for 13.1 per cent. of Türkiye Finans' total liabilities. These increases were principally the result of introducing new products and expanding it's customer base.

For the year ended 31 December 2013, Treasury products and services accounted for 12.6 per cent. of Türkiye Finans' operating income, compared to 22.9 per cent. as at 31 December 2012 and 7.6 per cent. as at 31 December 2011.

Treasury products and services

The Treasury Department markets the treasury products that Türkiye Finans offers to customers as well as conducting proprietary trading for Türkiye Finans itself. These products include currency spot trading, precious metals trading and currency forwards and swaps. The Treasury Department also contributed to the increase in Türkiye Finans' customer base through its competitive currency policy whereby foreign currencies were offered to customers at favourable rates. Türkiye Finans also concentrated on marketing activities by explaining the treasury products to its customers, with an emphasis being placed on meeting their needs.

The number of customers subject to direct pricing by the Treasury Department increased from 63 in 2011 and 87 in 2012 to 113 in 2013. The total volume of customer foreign currency transactions exceeded U.S.$37.4 billion in 2013 (compared to U.S.$28.75 billion in 2012 and U.S.$17 billion in 2011). Volumes of customer foreign exchange and usury transactions increased in domestic as well as international money and commodity markets.

Liquidity and market risk management

The Treasury Department is responsible for managing Türkiye Finans' liquidity risk and acts under the supervision of the Assets and Liabilities Committee ("**ALCO**") (see "*Description of Türkiye Finans Katılım Bankası A.Ş.—Risk Management*" for further details).

The Treasury Department of Türkiye Finans receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within Türkiye Finans as a whole. The liquidity requirements of business departments are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the ALCO. Daily reports cover the liquidity position of Türkiye Finans. A summary report, including any exceptions and remedial action taken, is submitted regularly to the ALCO. Türkiye Finans heavily relies on deposits from customers and banks as its primary sources of funding. Deposits from customers and banks generally have shorter maturities and a significant proportion of them are repayable on demand. The short-term nature of these deposits increases Türkiye Finans' liquidity risk and Türkiye Finans actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

International Banking Division

Türkiye Finans' International Banking Division is an independent business division which supports Türkiye Finans' key business segments. To cater for the worldwide needs of both its corporate and retail customers, Türkiye Finans' International Banking Department offers customers a wide range of services, including international payments, international documentary credits, letters of guarantee and other services involving counterparties outside of Turkey. To provide these services, as at 31 December 2013, Türkiye Finans has established relationships with approximately 1,000 correspondent banks in 132 countries including international banks such as Citibank, HSBC, Standard Chartered Bank and Deutsche Bank.

The number of correspondent banks with whom Türkiye Finans has established relationships has grown considerably in recent years. Türkiye Finans' primary goal is to leverage and strengthen the existing relationships it has with existing correspondent banks while adding new correspondent banks on an opportunistic basis in regions where it does not yet have a relationship and where Management believe it can capture trade flows and leverage Türkiye Finans' trade finance experience. These regions include the Middle East, Far East and Africa.

Risk Management

Türkiye Finans has exposure to the following risks in its business and operations including:

- credit risk;
- operational risk;
- market risk;
- liquidity risk; and
- profit rate risk.

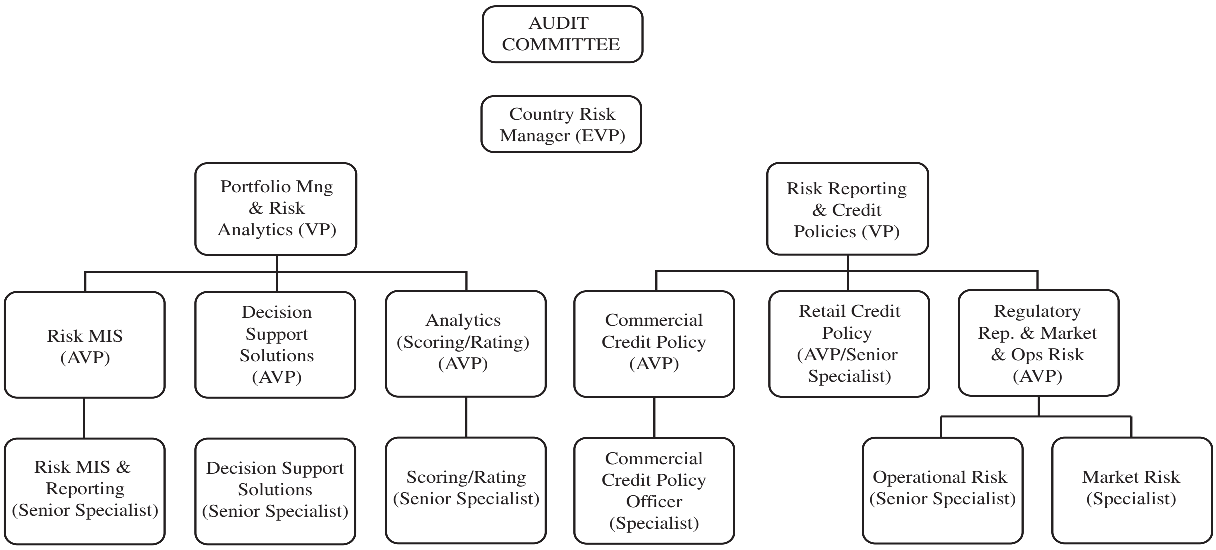
(See "*Description of Türkiye Finans Katılım Bankası A.Ş. —Key Risks for Türkiye Finans*" for further details).

The Board of Directors (the "**Board**") has overall responsibility for the establishment and oversight of Türkiye Finans' risk management framework. The Board has established an ALCO committee, a Credit Committee and a Risk Management Department, which are responsible for monitoring Türkiye Finans' risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board on their activities.

Türkiye Finans' risk management policies are established to identify and analyse the risks faced by Türkiye Finans, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. Türkiye Finans, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. Pursuant to the Articles of Association of Türkiye Finans, NCB has the right to nominate five out of the seven Board members of Türkiye Finans.

Risk Management Structure

Türkiye Finans' risk management structure is headed by its Board and is organised as set out below



Risk Management – overview and key principles

The Risk Management Department ("**RM**") is comprised of the Audit Committee (the "**AC**") (see "*Description of Türkiye Finans Katılım Bankası A.Ş. —Risk Committees—Audit Committee*" and the Risk Management Centre which operates under the Board through the Audit Committee. As of 31 December 2013, the RM is composed of a total of 14 staff: 1 country risk manager; 2 vice presidents; 4 assistant vice presidents; and 7 specialists.

The main principles the RM considers in evaluating and addressing risk are summarised below:

Risk Identification and Reporting

Any changes in the cash flows of the business, changes to products or policies and new products are monitored, reviewed and investigations are conducted within relevant committees and departments. Risks in relation to support services are also analysed. Results of such risk identification investigations and risk assessment reports are drawn up. The RM reports the results of its risk analysis to the relevant units and committees as well as to Management and the AC. The reports relating to Basel II and Basel III are delivered to NCB at the end of each quarter. Statutory reporting is frequently made to the BRSA depending on the subject matter and urgency of the reports.

Documentation designating the policies, procedures and risk limits are reviewed on at least a yearly basis and any necessary revisions are made. Türkiye Finans bases such documents on standard terms in order to minimise risk in respect of arrangements it enters into with customers and counterparties.

Risk Assessment

In 2010, Türkiye Finans re-developed its rating models for rating SME, Commercial Client and Corporate Client loans in accordance with sectoral and international standards. Türkiye Finans uses a specific rating scale to publish its ratings opinions and these ratings are expressed as letter grades ranging from "AAA" to "C" to measure the creditworthiness of its customers and the probability of customers defaulting in meeting their financial obligations owed to Türkiye Finans. Such new rating models were operational from January 2011.

Türkiye Finans has also purchased a decision support system from Experian known as NBSM ("**New Business Strategy Manager**") which is widely used in Turkey to improve the personal loan and credit card allocation process. Following the incorporation of NBSM in 2011, manual processes have been minimised through increased automation, loan decisions are generated faster and more accurately, decision making processes adapt faster to varying market conditions, bank-wide policies are applied with greater consistency and information resources are used more effectively.

In addition to the integration of the NBSM, Türkiye Finans has carried out studies with the intention of developing scoring models for Consumer Banking loans and credit cards. As a result, a credit card scorecard has been developed on the basis of existing market experience and the statistical methods used have been redeveloped using Türkiye Finans' customer portfolio data. Consequently, stronger models which are specific to Türkiye Finans' loan portfolio have been implemented. Moreover, studies have been conducted for the development of a scoring model for Consumer Banking loans with the aim of producing an effective rating system for all retail portfolios. These new scoring models were put into operation as of June 2011.

In January 2011, Türkiye Finans completed the implementation of a systematic substructure of "*Target Market and Risk Acceptance Criteria*" policies for SME, Commercial Client and Corporate Client loans which improved the management of the entire credit risk system creating a more efficient, productive, traceable and reportable structure. This framework of the Target Market and Risk Acceptance Criteria has been applied throughout Türkiye Finans making target customer groups easier to ascertain by assigning rating grades of our customers and Türkiye Finans' risk appetite in the sectors in which they operate.

Risk Quantification

Credit, market and operational risks are calculated at the end of each month in accordance with BRSA regulations.

In respect of the foreign exchange purchase and sale operations against Turkish Lira and trading operations from cross rates which are realised during the course of each day, values in relation to daily risks are calculated by means of the historical analogy method and parametric methods. The validity and reliability of the calculations are checked with retrospective tests.

At the end of each quarter, stress tests are repeated and maximum losses which could be incurred in Türkiye Finans' portfolio and positions are predicted negatively and the effects thereof on Türkiye Finans' capital adequacy are analysed.

For the purposes of calculating compliance with statutory capital adequacy requirements, operational risk assessments are performed in line with the Basel II "Basic Indicator" approach and in accordance with BRSA regulations. Studies are also carried out in order to collect any missing operational risk data in accordance with the standard approach. In order to report such data in an effective manner Türkiye Finans has purchased the SAS OpRisk Monitor ("**SAS OpRisk**"), a web based operational risk monitoring system. Türkiye Finans implemented SAS OpRisk software in 2012 and the user manual of this software was published and was made available to staff on the bank's intranet. All SAS OpRisk users have been provided with adequate training in respect of the usage of the software. In addition, operational risk loss data collection was initiated throughout Türkiye Finans in 2012.

Risk Tracking

The RM monitors economic data and attempts to predict trends in relevant markets. Risk concentrations (for example, in relation to customers, sectors and industries) are monitored and compliance with the limits set out in Türkiye Finans' "Target Market and Risk Acceptance Criteria" is checked on a monthly basis. Any changes in the risk levels Türkiye Finans is exposed to on the basis of the RM's assessment of market conditions are tracked and missing data is accumulated. Active and passive items are classified at set time intervals dependent on outstanding maturity terms and the liquidity gaps are monitored.

Compliance Department

Türkiye Finans' Compliance Department operates to ensure the effective, efficient and proper operation of Türkiye Finans' compliance policy. Products and services compliance control and compliance activities are set out by the Legislation Compliance Directorate of Türkiye Finans. The Compliance Department is responsible for ensuring that all activities conducted by Türkiye Finans (including new transactions and products) comply with law and other relevant legislation, internal bank policies and rules and banking practices. The Compliance Department is also responsible for the following:

- through the legal advisory department, promptly notifying banking personnel of changes in law and other relevant legislation and internal bank policies and rules. The Compliance Department also actively participates in the review of the legislation and documentation regulation;
- ensuring compliance with Türkiye Finans' compliance policies which have been developed within the framework of a risk-based approach to ensure compliance with relevant legislation and regulations enacted pursuant to laws and compliance with international regulations and standards for combating the laundering of the proceeds of crime and the financing of terrorism;
- co-ordinating the training of personnel within the framework of Türkiye Finans' ethical principles and by the relevant departments (see "*Description of Türkiye Finans Katılım Bankası A.Ş. —Training*" below);
- ensuring that suspicious transactions are inspected and notified within the framework of the Compliance Department policies by the relevant department and under the supervision of the compliance officer; and
- submitting reports to the AC which are prepared after the examination of the accounts that are risky due to their nature.

Risk Committees

Asset and Liability Committee

The Board has established the ALCO Committee, which is responsible for monitoring Türkiye Finans' risk management policies. The ALCO's role is to develop, monitor and review Türkiye Finans' implementation of its asset and liability management strategy.

The ALCO is mainly responsible for reviewing and approving all liquidity policies and procedures. Daily reports covering the liquidity position of Türkiye Finans and a summary report, including any exceptions and remedial action taken, are submitted to the ALCO on a monthly basis. In each case, the ALCO undertakes a profitability/risk analysis of each position. The ALCO meets on a monthly basis and is responsible for:

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

The ALCO has both executive and non-executive members and reports regularly to the Board on their activities. The ALCO comprises the following members: CEO, Executive Vice President ("**EVP**") of Finance, Head of RM, EVP of Treasury, EVP of Private Banking, EVP of Commercial Banking and EVP of Retail Banking.

Audit Committee

The AC is responsible for monitoring compliance with Türkiye Finans' risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by Türkiye Finans. The AC is assisted in these functions by Internal Audit (see "*Description of Türkiye Finans Katılım Bankası A.Ş. — Internal Audit*"). The AC oversees the coordination of the relationships between the Inspection Board, Internal Control and the RM. The AC ensures the regularity of information flow to the Board and prepares the relevant policies, procedures, and principles and submits the same for the approval of the Board. The AC provides the Board, on at least a semi-annual basis, with its report regarding the results of the activities it has carried out, the measures which it deems necessary to be taken at the bank, the applications required to be realised and other issues deemed as significant in terms of the maintenance of the activities of Türkiye Finans in a secure manner.

The AC convened a total of four times at the headquarters of Türkiye Finans in 2013 and a total of five times at the headquarters of the bank in 2012. Furthermore, it met four times during 2013 and four times during 2012 with its independent auditors (KPMG) and assessed the three quarterly and one year-end audit report. It evaluated the findings and assurances of the internal audit units of Türkiye Finans within the scope of these meetings and submitted the issues which have been considered as significant to the Board. Again, within the same framework, issues raised by KPMG and the inspection team of the BRSA are assessed by the AC and raised with the Board.

The AC is responsible for the following departments:

Internal Audit

Internal Audit ("**IA**") undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC. The IAs activities also cover Türkiye Finans' branches, regional directorates, head office units, banking processes and information systems.

The primary purpose of the IA is to review the activities of Türkiye Finans and to work with consulting services to provide an independent and objective review of Türkiye Finans' risk management. The IA audits the activities of Türkiye Finans in a manner which is independent from Türkiye Finans' daily work flows and objectives within the applicable internal and external regulations and by means of the application of modern audit techniques with a risk-focused approach.

The audits which were performed within the scope of the audit program for 2013 are summarised below:

- 74 branches were audited;
- 9 audits were performed at the head office; and
- 4 information system audits were performed.

As of 31 December 2013, the IA comprised 36 staff: 1 president; 4 vice presidents; 2 supervisors; 12 senior auditors; 2 auditors; 6 authorised assistant auditors; 8 assistant auditors; and 1 office assistant. The staff of the IA attended a total of 4,655 hours of vocational training programmes, congresses, seminars and conferences in 2013. The average amount of training given to the IA personnel was 129 hours per employee.

Internal Control

The Internal Control ("**IC**") of Türkiye Finans coordinates all activities of Türkiye Finans to ensure such activities are conducted in an effective and productive manner and according to all laws, regulations, internal policies, the rules of Türkiye Finans and standard banking practices. The

IC also ensures the reliability and integrity of Türkiye Finans' accounting and financial reporting systems and the timely distribution of information to Management. The IC further enables the measurement of risks which are likely to arise through the development of early warning systems.

As of 31 December 2013, the IC comprised 35 staff: 1 director; 2 managers; 15 assistant managers; 8 officers; 8 assistant officers; and 1 office attendant. Together with the new risk control structures outlined above, activities carried out by the business units are regularly controlled, via risk control matrices, which have been established to facilitate centralised management. Within this framework, fourteen key processes have been deemed critical (ADCs, banking transactions, personal loans, cheque clearing, external transactions, financial reporting, treasury, loan follow-up, loan tracking, accounting, payment systems, commercial loans, statutory reporting and financial control) and were tested in 2012. Within the scope of the control activities which have been conducted by the IC, a total of 319 control activities in 232 branches were carried out in 2013. Any deficiencies or erroneous applications ascertained are reported to the AC quarterly and all said deficiencies and erroneous applications are followed up.

In 2013, the staff of the IC attended a total of 4,193 hours of vocational trainings, congresses, seminars and conferences. The average amount of training given to the IC personnel was 118 hours per employee.

Compliance Department

The Compliance Department operates to ensure the effective, efficient and proper operation of Türkiye Finans' compliance policy ("**Compliance Policy**") and to ensure that the head office and the branches conform to the Compliance Policy, including its compliance system. The department is also responsible for maintaining and improving Türkiye Finans' Compliance Policy and for ensuring compliance controls issued by the BRSA are met. In accordance with Türkiye Finans' 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 "*Description of Türkiye Finans Katılım Bankası A.Ş. — Anti-Money Laundering and Combating the Finance of Terrorism (AML/CFT) Policies*" for further details).

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

In 2011, 2012 and 2013, the Compliance Department was voted the Best Compliance Team in Turkey by MASAK, the Turkish anti-money laundering regulatory authority.

Key risks for Türkiye Finans

Depending on the lending limit criteria, credit approval at Türkiye Finans is carried out at branch, regional and board levels. The Board has delegated credit approval authority as follows:

- *Cash loans* – there are three divisions in Türkiye Finans that are involved in approving cash loans (and, additionally, non-cash loans, see below); namely "Group A Branch", "Group B Branch" and "Group C Branch". Cash loans of up to and including TRY400,000 are approved by Group A Branch of the bank. Cash loans of up to and including TRY250,000 and TRY100,000 will require the approval of Group B Branch and Group C Branch, respectively.

- *Non-cash loans (only letters of guarantee addressed to public tenders)* – non-cash loans for an amount up to and including TRY800,000 will require the approval of Group A Branch. Non-cash loans for amounts up to and including TRY500,000 and TRY200,000 are approved by Group B Branch and Group C Branch, respectively.

- *Credit Regional* – loans of up to and including TRY4,000,000 are approved by the Credit Regional departments of Türkiye Finans.

- *Credit Division* – loans of up to and including TRY10,000,000 are approved by the Credit Division of Türkiye Finans.

- *Credit EVP* – loans of up to and including TRY8,000,000 are approved by the Credit EVP department of Türkiye Finans.

- *Head Office Credit Committee* – loans of up to and including TRY22.5 million and which represents 1 per cent. of Türkiye Finans' equity capital (currently applied as TRY25 million) are subject to the approval of the Head Office Credit Committee.
- *The Board* – loans equal to or in excess of 25 per cent. of the bank's equity capital must be approved by the Board.

Credit risk

Credit risk is defined as the current or prospective threat to Türkiye Finans' earnings and capital as a result of a counterparty's failure to comply with a financial or other contractual obligation in respect of the institution, including the possibility of restrictions on, or impediments to, the transfer of payments from abroad and arises principally from Türkiye Finans' loans and advances to customers and other banks and investment securities. For risk management reporting purposes, Türkiye Finans considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country risk and sector risk.)

For credit risk management purposes the RM is involved in:

- the determination of credit risk policies in coordination with Türkiye Finans' other units;
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography, segment, approval authority and credit types;
- contribution to the formation of rating and scoring systems;
- submitting to the Board and the senior management credit risk management reports about the credit portfolio's distribution (borrower, sector, geographical, regional, segmental), credit quality (including impaired loans, net credit loss, target market tierings and credit risk ratings) and credit concentration and also scenario analysis reports, stress tests and other analyses; and
- studies regarding the formation of advanced credit risk measurement approaches.

Türkiye Finans' credit risk is measured periodically where the results are analysed and the effects on the bank's capital adequacy ratio are taken into consideration. Regular audits of business units and Türkiye Finans' credit processes are undertaken by IA.

Türkiye Finans controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of these counterparties. Türkiye Finans 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. Türkiye Finans places a strong emphasis on obtaining sufficient collateral from customers including, wherever possible, security over other assets (for example, mortgages, security over physical assets and security over bank accounts).

Related departments prepare periodic reports that show the distribution of performing and NPLs 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 Türkiye Finans' credit risk is based on a number of principles and policies, as well as a range of procedures, systems and processes including Türkiye Finans' credit policies and procedures. Türkiye Finans' principal country, industry, bank and customer risk limits are set out in the credit policy and related policies which are subject to regular review.

Türkiye Finans ensures that the restrictions provided in the Banking Law and the relevant legislation are adhered to. Credit allocations are carried out by separate authorised individuals or committees for each customer or customer group with reference to the financial analyses, intelligence reports and ratings given to customers. The limits allocated are periodically reviewed and the intelligence information on the customer is renewed. The performance of the debtor of the credit is continuously monitored.

Notwithstanding the credit worthiness of the customer, Türkiye Finans constantly analyses and reviews the collateralisation for risk reduction. The bank also observes the compliance of the terms and currencies of the collaterals with the terms and currencies of the credits. The collaterals which are attained are periodically evaluated and insured. Provisions are allocated for credit receivables in default in accordance with the relevant BRSA regulation. Türkiye Finans applies the same monitoring standards to non-cash credits.

The following table sets out Türkiye Finans' exposure to credit risk for the years ended 31 December 2013, 2012 and 2011.

	Loans, lease receivables and advances to customers		
	31 December 2013	31 December 2012	31 December 2011
	(TRY in thousands)		
Carrying amount	18,200,352	12,983,947	10,342,255
Assets at amortised cost			
Individually impaired			
Grade 3: Impaired	36,947	58,550	39,929
Grade 4: Impaired	103,627	83,736	23,879
Grade 5: Impaired	300,498	215,973	193,446
Gross amount	441,072	358,259	257,254
Allowance for impairment	(312,789)	(258,994)	(162,542)
Carrying amount	**128,283**	**99,265**	**94,712**
Neither past due nor individually impaired			
Grade 1: Low-fair risk	17,328,224	12,433,050	9,960,953
Past due but not individually impaired			
Grade 2: Watch List	844,135	538,008	354,522
Past due comprises:			
1-30 days	417,072	354,568	209,201
31-60 days	234,780	88,499	96,377
61-90 days	192,283	94,941	48,944
Gross amount for collective impairment	18,172,359	12,971,058	10,315,475
Allowance for collective impairment	(100,290)	(86,376)	(67,932)
Carrying amount	**18,072,069**	**12,884,682**	**10,247,543**
Total carrying amount-amortised cost	**18,200,352**	**12,983,947**	**10,342,255**
Includes accounts with renegotiated terms	29,761	54,302	115,530

Türkiye Finans' current credit policy is to obtain adequate collateral in order to substantially reduce credit risk wherever feasible. The bank holds collateral against loans, lease receivables and advances to customers in the form of mortgage profit shares over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks and available-for-sale investment securities, and no such collateral was held at 31 December 2013, 31 December 2012 or 31 December 2011.

Türkiye Finans 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. Türkiye Finans considers other forms of collateral on a case-by-case basis when supported by acceptable business reasons. 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.

Operational Risk

Operational Risk ("**OR**") is the risk of direct or indirect loss arising from a wide variety of causes associated with Türkiye Finans' processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. OR arises from all of Türkiye Finans' operations and is faced by all business entities.

Data relating to operational losses of Türkiye Finans is collected and analysed regularly by the RM and reported to the Board, the AC and Management.

Türkiye Finans adopts risk terminology which is in accordance with Basel II in order to create an international approach to its OR management. This common risk language provides a consistent view and comparator for communication about OR throughout Türkiye Finans. Specialist software is used in order to support the standard framework for the management of OR by creating a data log for risk losses and reporting of such data.

Risk Control Self Assessment ("**RCSA**") is performed periodically in accordance with the basic principles of the Basel II OR implementations. The RCSA aims to restrict the effects of OR by investigating the business processes subject to OR and controlling such processes. In departments where RCSA is implemented, key risk indicators, control testing and threshold values for specified risks are determined.

Since June 2012, Türkiye Finans has been introducing software solutions (as part of its capital adequacy measurement and reporting project) in order to build a flexible parametric model to create a reporting system that is compliant with Basel II, to apply stress tests to capital adequacy related risks and to ensure compliance with changes to applicable legal frameworks. Please see "*Description of Türkiye Finans Katılım Bankası A.Ş. —Information Technology*" for further details of current IT projects.

Türkiye Finans calculated the value of its OR in accordance with the "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks' published in the Official Gazette dated 28 June 2012 which is compliant with Basel II, using the basic indicator approach with the data for the last three years. The amount, which was calculated as TRY118,776 as at 31 December 2013 (TRY103,234 as at 31 December 2012) represents the OR that Türkiye Finans may be exposed to and the minimum amount of capital required to eliminate this risk. Please see "*Description of Türkiye Finans Katılım Bankası A.Ş. —Capital Adequacy*" for further details in relation to Türkiye Finans' capital adequacy policies.

Türkiye Finans' OR issues are actively managed by regular monitoring of Türkiye Finans' activities. This allows Türkiye Finans to quickly detect and correct deficiencies in its policies and procedures for managing OR. By promptly detecting and addressing these deficiencies, Türkiye Finans can substantially reduce the frequency or severity of a loss (or potential loss) event.

OR is managed by a dedicated team within Türkiye Finans. Business risk officers have been identified in each business to identify the events and evaluate the incidence of risk, probable losses and frequency thereof, in each business segment. Türkiye Finans' OR team reviews the identified risks, controls and residual gaps and monitors the time lines for closing such gaps. Evaluating the OR areas is an ongoing process and the procedures and policies are updated accordingly.

Market risk

Market risk is risk that changes in market prices, such as equity prices, foreign exchange rates and credit spreads, will affect Türkiye Finans' income or the value of its holdings of financial instruments (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 Türkiye Finans are the indirect effects of profit rate fluctuation and the direct effects of exchange rate fluctuation (see "*Risk Factors—Risks factors relating to Türkiye Finans and its business—Risks relating to Türkiye Finans' Business*" and "*—Türkiye Finans is exposed to foreign exchange and currency risks*" below). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Türkiye Finans separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Treasury Department and include positions arising from proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis. Overall responsibility for market risk is vested in the RM Department and the ALCO. Foreign exchange ("**FX**") transactions carried out by Türkiye Finans have a maximum maturity of five days. The bank hedges these transactions using intra-day and/or overnight limits and executes them only in major convertible foreign currencies. Non-trading portfolios are managed by the ALCO, the Treasury Executive Vice President and the Treasury Department by virtue of mismatches in balance sheet funding limits.

The market risk arising from the trading portfolio is monitored, measured and reported using globally accepted and widely implemented risk management techniques such as mark-to-market methodology. Türkiye Finans calculates and reports market risk according to a standardised methodology. Monthly risk reports are prepared and reported to the BRSA. Türkiye Finans manages market risk on the basis of predetermined 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. Value at Risk ("**VaR**") is also used to measure and control market risk exposure for the net FX position of within Türkiye Finans' portfolios. The VaR of the net FX position is the estimated loss that will arise on the position over a specific period of time from an adverse market movement with a specified probability.

Market risk also includes price risks. Türkiye Finans 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 RM Department. Foreign currency transactions, both with customers and as part of Türkiye Finans' proprietary trading, usually generate foreign currency positions. Türkiye Finans has a foreign currency risk management policy which enables it to take a position between determinable lower and upper limits. Türkiye Finans hedges these positions within set intra-day and/or overnight limits and executes transactions only in major convertible foreign currencies.

Türkiye Finans has set certain risk limits in respect of different types of business transactions. The following limits are approved by the Board and used as a risk reducing technique to enable it to manage and monitor market risk:

- "FX trading position" is subject to a limit of U.S.$10 million;
- "FX trading stop-loss" is subject to a limit of U.S.$300,000;
- "Balance sheet funding mismatch" is subject to a limit of U.S.$10 million;
- "Revenue indexed bonds portfolio" is subject to a limit of TRY800 million; and
- "Ijara sukuk (issued in TRY/FC) (issued by the undersecretariat of the Treasury of Turkey)" – these are subject to a limit of an amount up to a maximum of 15 per cent. of the bank's balance sheet.

Türkiye Finans calculates and reports market risk based on standardised methodology in accordance with Basel II, Basel III and BRSA regulations.

Funding and Liquidity Risk

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 Türkiye Finans' financing activities and in the management of its positions.

Türkiye Finans' approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meets its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Türkiye Finans' reputation and to ensure compliance with BRSA regulations.

Management believe that it is critical for Türkiye Finans to have a liquidity management framework in place in order to meet payment and settlement obligations on a timely basis under both normal and stressed conditions. As such, Türkiye Finans has a process for identifying, measuring, monitoring and controlling liquidity risk in both local and relevant foreign currencies.

This process, called Maximum Cumulative Outflow ("**MCO**"), includes a comprehensive framework for projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate period of time.

Under normal conditions, day-to-day management of liquidity relies on the effective control of cash flow. MCO tables show the new outflow (inflow from assets maturity minus outflow from liability maturity including related off-balance sheet items) over different periods, for example, overnight, 1-7 days and 9-15 days.

The MCO framework consists of each balance sheet item that could impact Türkiye Finans' liquidity level at any given time. The effect can either be positive or negative according to the characteristics of the relevant balance sheet item. In establishing an efficient MCO framework, there are some balance sheet items which play a vital role, principally as a result of their value. These important factors are considered below.

Using this MCO framework, Türkiye Finans undertakes projects to produce a "cash flow mismatch" or "liquidity gap" analysis based on assumptions relating to the future behaviour of assets, liabilities and off-balance sheet items, and subsequently calculating the cumulative net excess or shortfall over the relevant period. These future assumptions are made based on historical data.

After considering the MCO analyses, Türkiye Finans prescribes "MCO Limits" to control the absolute level of liquidity shortfalls over certain periods of time and in relation to certain currencies within which it must operate. Aggregate limits, "Universal MCO Limits", are also prescribed.

Türkiye Finans has adopted the following practices to manage liquidity risk:

- loans are collected in monthly instalments;
- part of Türkiye Finans' liquidity is invested in Murabaha investments within a maximum of 15 days;
- part of Türkiye Finans' funds are invested in revenue indexed government bonds which are easily liquidated if necessary;
- mobilised funds are deposited with longer terms;
- the maturities of very large funds and other liabilities are tracked;
- provisions are in place to take loans from foreign banks when needed;
- monthly cash flow estimates are made and used;
- scenario analyses and stress tests are performed; and
- during highly volatile periods, forward foreign exchange transactions and swaps are undertaken to balance customers' foreign exchange demands.

In addition, liquidity targets and triggers are calculated by the RM Department and submitted to the ALCO to manage liquidity risk effectively. Liquidity targets and triggers are prepared in line with relevant regulatory and legislative requirements and Türkiye Finans' own strategies and policies considering its risk appetite, activities, the complexity and size of its products and services, its risk management capabilities, experience and its current performance within the Turkish banking sector.

The following tables set out certain information in relation to the maturity of Türkiye Finans' assets and liabilities for the period presented.

31 December 2013	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unallocated	Total
				(TRY in thousands)				
Total assets	5,105,031	2,213,647	2,848,798	7,121,967	6,868,035	528,561	33,126	24,719,165
Total liabilities	4,533,503	9,590,842	2,448,913	2,622,903	3,087,000	—	—	22,283,161
Net	571,528	(7,377,195)	399,885	4,499,064	3,781,035	528,561	33,126	2,436,004

31 December 2012	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unallocated	Total
				(TRY in thousands)				
Total assets	3,626,827	1,793,019	2,294,215	4,809,093	4,263,556	476,169	28,917	17,291,796
Total liabilities	3,693,759	5,147,176	1,986,188	3,203,720	1,203,646	—	—	15,234,489
Net	(66,932)	(3,354,157)	308,027	1,605,373	3,059,910	476,169	28,917	2,057,307

31 December 2011	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unallocated	Total
				(TRY in thousands)				
Total assets	2,327,711	1,223,892	2,329,563	4,237,429	3,033,947	111,386	39,016	13,302,944
Total liabilities	2,879,093	4,962,798	1,499,011	2,047,227	291,029	42,896	—	11,722,054
Net	(551,382)	(3,738,906)	830,552	2,190,202	2,742,918	68,490	39,016	1,580,890

Türkiye Finans heavily relies on deposits from customers and banks as its primary sources of funding. Deposits from customers generally have shorter maturities and a significant proportion of them are repayable on demand. The short-term nature of these deposits increases Türkiye Finans' liquidity risk (see "*Risk Factors—Risk Factors relating to Türkiye Finans and its business—Risk factors relating to Türkiye Finans' business*") and Türkiye Finans actively manages this risk through maintaining competitive pricing and through the constant monitoring of market trends.

The Treasury Department of Türkiye Finans receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within Türkiye Finans as a whole. The liquidity requirements of business departments are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. Liquidity stress testing is conducted on a quarterly basis by Türkiye Finans by calculating the month-end total funding amount of the last three years in each quarter and by taking the absolute value of the largest monthly decrease/increase amount in the assessment period and calculating the annual replacement cost of 10 per cent. of such amount. The effects of expected losses are assessed as against Türkiye Finans' equity and capital adequacy ratio.

All liquidity policies and procedures are subject to review and approval by the ALCO. Daily reports are produced covering the liquidity position of Türkiye Finans and a summary report, including any exceptions and remedial action taken, is submitted regularly to the ALCO on a monthly basis.

The calculation method used to measure Türkiye Finans' compliance with the liquidity limit is set by the BRSA. As per the BRSA Communiqué "Measurement and Assessment of the Adequacy of Banks Liquidity", the weekly and monthly liquidity ratios on a bank-only basis for foreign currency assets and liabilities and total assets and liabilities should be at a minimum of 80 per cent. and 100 per cent., respectively.

The following table sets out certain information as to Türkiye Finans' liquidity ratios in 2013:

	First Maturity Bracket (Weekly)		Second Maturity Bracket (Monthly)	
	Foreign Currency	Foreign Currency and TRY	Foreign Currency	Foreign Currency and TRY
Average (%)	184.49	152.35	137.84	117.70
Maximum (%)	266.48	190.69	158.22	135.70
Minimum (%)	110.83	104.75	110.52	103.51

As a participation bank, Türkiye Finans is less sensitive to certain funding and liquidity risks than conventional banks may be. The performance of, and return on, Türkiye Finans' customers' participation accounts are directly tied to the performance of, and return on, Türkiye Finans' credit portfolio, thus limiting negative liquidity effects during periods of market fluctuation. Moreover, because of the monthly principal repayment schedule for commercial credits (Türkiye Finans does not offer the equivalent of interest only or "balloon" credits) it has more predictable month-to-month cash flows. Senior Management believe that this more predictable access to funds gives it additional flexibility in managing funding and liquidity risk exposure. Türkiye Finans 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. However, if customers holding participation accounts see a deterioration in Türkiye Finans' asset quality, or a rise in the levels of its NPLs, their only option to protect their investment is to withdraw their funds. The higher probability of withdrawal can cause a liquidity issue that conventional banks are not exposed to.

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 Türkiye Finans' business. It is unusual for these to be completely matched as transacted business is often of uncertain term and of different types. Furthermore, due to the short term 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 Türkiye Finans' 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 Türkiye Finans is a participation bank, certain alternative sources of funding typically used by conventional banks (such as interest-bearing facilities and securities portfolios) are not available to it and its ability to develop new sources may be limited or slowed by the approval process to which it subjects its financing and banking products (see "*Risk Factors—Risks relating to Türkiye Finans and its business—Risks relating to Türkiye Finans' Business*" for further details).

Profit Share Rate Risk

Profit share rate risk arises from the possibility that changes in the conventional profit share rate will affect the future profitability or the fair value of financial instruments. Türkiye Finans is exposed to profit share rate risk as a result of mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or re-price during a given period. The impact of possible changes in the profit share rates are measured and the profit share rate gaps are reviewed to initiate corrective action in Türkiye Finans' funding profit to ensure that the overall profit share rate risk remains within acceptable tolerances.

The principal objective of Türkiye Finans' management activities for profit share rate risk is to enhance profitability by limiting the effect of adverse profit share rate movements in the sector and increasing profit share income by managing profit share rate exposure. Türkiye Finans monitors profit share sensitivity by analysing the composition of its assets and liabilities and off-balance sheet financial instruments.

The major portion of customers' current and profit sharing accounts are short term. Accordingly, profit share rates are in line with the prevailing profit share rates in the market. Therefore, Management believe that the fair value of such financing activities do not materially differ from their respective book values.

Legal Risk

Türkiye Finans 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. Türkiye Finans 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.

As at 31 December 2013, there were no material outstanding law suits against Türkiye Finans.

Capital Adequacy

Türkiye Finans' policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. Türkiye Finans calculates its capital adequacy ratio in accordance with guidelines promulgated by the BRSA, which are based on the standards established by Türkiye Finans for international settlements. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of a minimum of 8 per cent. of total capital to total risk-weighted assets.

Türkiye Finans' regulatory capital is analysed in two tiers:

- *Tier 1 capital*: composed of share capital, legal, statutory, other profit and extraordinary reserves, and retained earnings after deduction of leasehold improvements, prepaid expenses and certain other costs.

- *Tier 2 capital*: composed of the total amount of general provisions for loans, fair value reserves of available-for-sale financial assets and buildings set aside for contingencies.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirements and market risk capital requirements as at 31 December 2012 and 31 December 2013 are calculated using the basic indicator and standardised approach and included in the capital adequacy calculations.

Türkiye Finans, and its individually regulated operations, has complied with externally imposed capital requirements throughout 2011, 2012 and 2013. As at 31 December 2013, Türkiye Finans' total capital adequacy ratio was 12.8 per cent. (Tier 1: 12.3 per cent.), 14.8 per cent. as at 31 December 2012 (Tier 1: 13.9 per cent.) and 14.2 per cent. as at 31 December 2011 (Tier 1: 13.7 per cent.) (see "*Risk Factors—Risks relating to Türkiye Finans and its business—Risks relating to Türkiye Finans' Business*" for further details).

The table below sets out Türkiye Finans' capital base and risk weighted assets as at 31 December 2013, 2012 and 2011.

	31 December 2013(1)	31 December 2012(2)	31 December 2011
	(TRY in thousands)		
Tier 1 capital	2,402,528	1,979,761	1,555,410
Tier 2 capital	97,482	129,294	63,021
Deductions from capital	(1,806)	(1,456)	(1,057)
Total regulatory capital	**2,498,204**	**2,107,599**	**1,617,374**
Risk-weighted assets	17,898,940	12,738,763	10,153,815
Value at market risk	114,925	249,570	50,525
Operational risk	1,484,700	1,290,422	1,153,525
Capital ratios			
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk	12.81%	14.76%	14.24%
Total Tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk	12.32%	13.87%	13.69%

(1) Calculated in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" dated 28 June 2012 which is compliant with Basel II.

(2) Calculated before the calculation base changed to Basel II (starting 1 July 2012).

Information Technology

Türkiye Finans is committed to maintaining an IT infrastructure that supports its growth while minimising operational risks and business interruptions. Türkiye Finans has made significant investments in developing its IT infrastructure, focusing on aligning its IT systems to ensure efficiency, including the rebuilding and upgrading of its Kartal data centre, and taking a long term view of business and technological changes.

Microsoft environments and products are the major building blocks in Türkiye Finans' IT infrastructure. Core banking applications, cards, delivery channels and other peripheral applications are being developed according to service-orientated architecture principles and deployed using Microsoft technologies (such as .NET, C#, WCF and SQL).

The primary server at the Kartal data centre is monitored 24 hours a day, seven days a week and should one of the primary systems be unavailable or fail, a secondary server is able to maintain business services automatically without any service interruptions. In addition, Türkiye Finans has operated its Disaster Recovery Centre (the "**DRC**") from Türk Telecom's data centre in Ankara since June 2010. Uptime Institute, an independent organisation, provides certifications in respect of Türkiye Finans' DRC. Türkiye Finans has the Uptime Institute Tier III design and facility certification for the bank's DRC. Türkiye Finans' DRC has multiple electrical delivery paths to provide greater reliability.

All production data is replicated asynchronously to the DRC which has sufficient technical infrastructure to ensure the continuity of critical business processes. The DRC is not exposed to the same risks as Türkiye Finans' primary data centre in Kartal as it is located approximately 450 kilometres from Kartal and the earthquake risk in Ankara is lower. During data recovery tests conducted by Türkiye Finans, 99 per cent. of all data was recovered.

Türkiye Finans has completed the implementation of the Oracle GL and ERP Project (the "**IT Project**") designed to improve efficiency and support Türkiye Finans' growth. The IT Project primarily focuses on increasing the adaptability of Türkiye Finans' accounting processes to accommodate changing regulatory requirements, align its reporting procedures with those of NCB, allow BRSA, IFRS, SAMA and tax procedural reporting under one system and streamline its expense, inventory and e-procurement systems. The IT Project was completed in February 2013. Türkiye Finans has also implemented a "unit value project" to automatically determine unit values and the distribution of profit sharing accounts daily to reduce operational risk and costs and increase customer satisfaction and a customer productivity project to calculate revenues from customers and their relatives to assist in the pricing and innovation of products and accelerating the sales process.

Türkiye Finans is subject to annual audits by the BRSA and other governmental organisations which focus on the bank's technology requirements. Reports are produced which highlight areas that need improvement. Türkiye Finans also arranges for independent audits to be carried out from time to time by organisations including KPMG, Deloitte, Gartner, NTT Data and Oliver Wyman as part of its continued effort to improve and enhance its business and IT services.

Intellectual Property

Türkiye Finans' operations are not, to any significant extent (other than for the purposes of brand recognition and value), dependent on any specific intellectual property right. Türkiye Finans 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.

Insurance

Türkiye Finans 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. Türkiye Finans' insurance policies cover damages to its property, including its IT systems and data archives resulting from office fire, burglary, and malfunctioning electronic devices. OR insurances such as director's office of liability, banker's blanket bond, electronic crime and professional indemnity are also covered by insurance.

Türkiye Finans maintains earthquake insurance as part of its property insurance. Real estate mortgages and other credit collateral are insured, as well as Türkiye Finans' belongings. The insurance companies with which Türkiye Finans has executed agreements are mostly with Eureko Sigorta, Isık Sigorta, HDI Sigorta, Aviva Sigorta, Groupama Sigorta and Garanti Emeklilik. Türkiye Finans has not experienced any material disputes with its insurance companies in respect of insurance claims which Türkiye Finans has made.

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

Being a financial institution, the Financial Crimes Investigation Board laws and regulations with respect to AML/CFT are applicable to Türkiye Finans. Türkiye Finans is committed to ensuring adherence to AML/CFT regulations at all times. Türkiye Finans has strict client identification policies and product teams are precluded from establishing new business relationships until all relevant parties to the relationship have been identified and the nature of the business they expect to conduct has been established. Furthermore, Türkiye Finans is committed to preventing the provision of its financial services for the purposes of money laundering or terrorist financing activity. In line with Türkiye Finans' AML/CFT policy, all employees, regardless of their role in Türkiye Finans, are trained in Türkiye Finans' AML/CFT policy on an annual basis.

Türkiye Finans has appointed a MLRO who is responsible for supervising Türkiye Finans' 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 Türkiye Finans' 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, Türkiye Finans has implemented comprehensive AML and know-your-customer policies and procedures to comply with Turkish and international AML 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, Türkiye Finans requires that all its correspondent banks meet the requirements set forth in its AML policies.

The MLRO's responsibilities include formulating, issuing and implementing Türkiye Finans' 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 Türkiye Finans' business, including the principal activities and reporting to the Turkish Financial Intelligence Unit of the Financial Crimes Investigation Board, regarding any suspicious activities.

Legal Proceedings

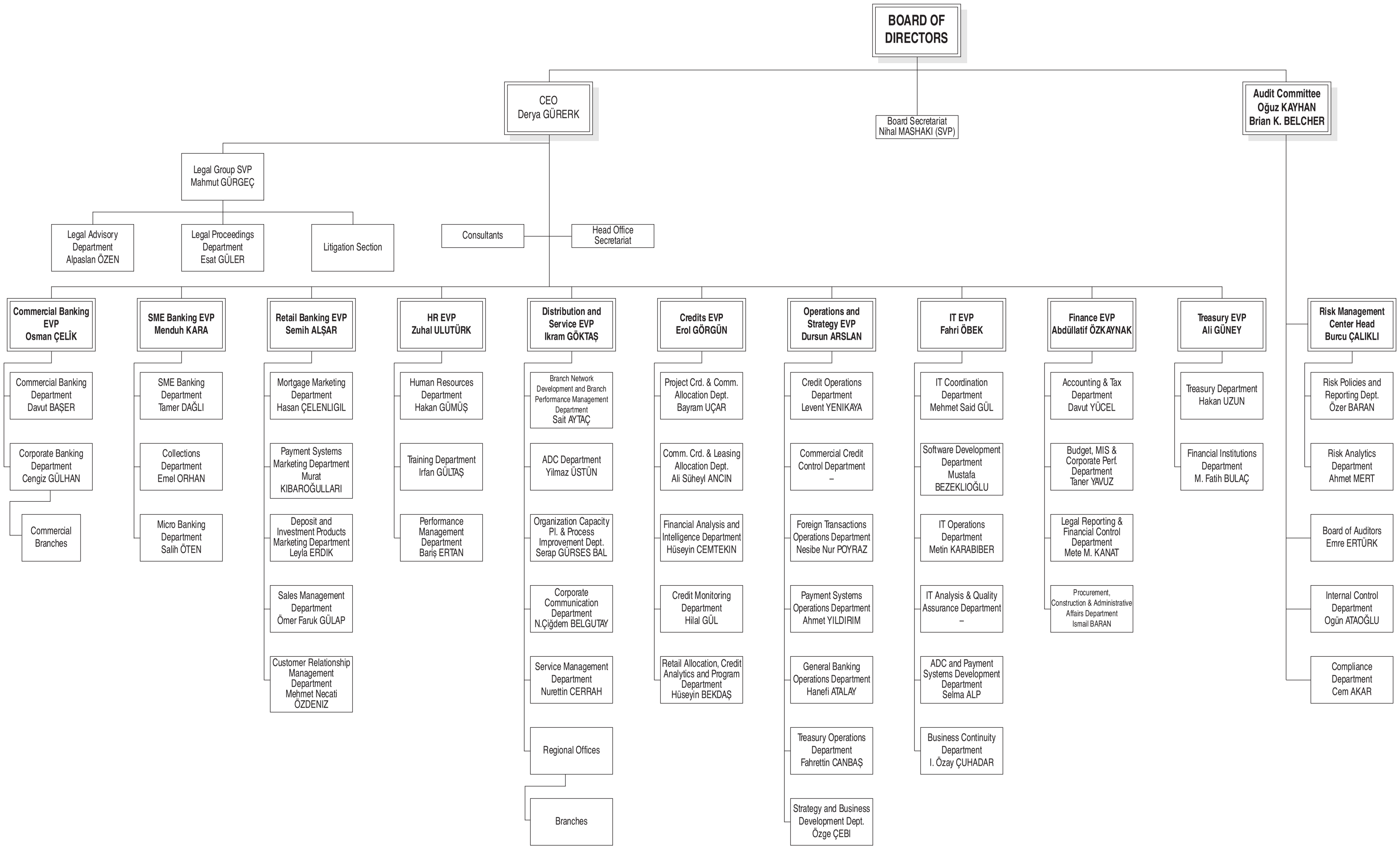
Türkiye Finans is not currently, and has not been in the last 12 months, involved in any governmental, legal or arbitration proceedings and no such proceedings are pending or so far as it is aware threatened, which may have, or have had, a significant effect on its financial position or profitability.

Related Party Transactions

Türkiye Finans' related parties include its shareholders, directors and management, as well as entities owned and controlled by its key management. Türkiye Finans enters into transactions with its related parties in the normal course of its business. See the relevant notes to the Audited Annual Financial Statements for further information in relation to Türkiye Finans' related party transactions. The table below sets out the value of related party transactions entered into by Türkiye Finans as at 31 December 2013, 2012 and 2011.

	31 December 2013	31 December 2012	31 December 2011
		(TRY in thousands)	
Loans and Advances (including lease receivables)	202,660	85,575	133,210
Customer Deposits	317,586	324,139	284,309
Commitment and Contingencies	133,709	163,891	133,803

Türkiye Finans – Organisational Management Chart



Management

Board of Directors

As at the date of this Prospectus, the Board comprised seven directors ("**Directors**") under the chairmanship of Mustafa Boydak. Members of the Board are appointed by Türkiye Finans' shareholders. Pursuant to Türkiye Finans' Articles of Association, NCB has the right to nominate five out of the seven Board members of Türkiye Finans and, as long as the shares held by the Existing Shareholders (as defined under the Articles of Association of Türkiye Finans) are not less than 20 per cent. of the total shares in circulation, shall vote to elect two members for the Board nominated by the Existing Shareholders. In the event that the shares held by the Existing Shareholders are less than 20 per cent. but more than 10 per cent. of the total shares in circulation, NCB shall have the right to nominate six members of the Board and shall vote in a way to elect one member for the Board nominated by the Existing Shareholders. The Existing Shareholders shall not have the right to nominate any members for the Board if their shares fall below 10 per cent. of total shares in circulation.

Türkiye Finans' 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 four times annually. The business address of each member of the Board is Adnan Kahveci Caddesi No: 139-34876 Yakacık-Kartal, Istanbul, Turkey. No member of the Board has any actual or potential conflict of interest between his duties to Türkiye Finans and his private interests and/or other duties.

The present Chairman of the Board, Mustafa Boydak, holds approximately 1.9 per cent. of Türkiye Finans' share capital.

The members of the Board are:

Name	Year of Birth	Position	Year first elected to position
Mustafa Boydak	1963	Chairman	2006
Saeed Al-Ghamdi	1963	Vice Chairman	2013
Halil Cem Karakaş	1974	Board member	2014
Oğuz Kayhan	1966	Board member	2012
Alsharif Khalid Alghalib	1964	Board member	2013
Lama Ahmad M Ghazzaoui	1975	Board member	2014
V. Derya Gürerk	1963	Board member and Chief Executive Officer	2011

Mustafa Boydak – *Chairman*

Mr. Boydak was born in 1963 in Hacılar, Kayseri. Mr. Boydak received his bachelor's degree in Business Management from Muğla University (Turkey) in 1987.

Mr. Boydak has been Chairman since 2006 and was previously a director and chairman of Anadolu Finans (1992 – 1995 as director; 1999 – 2005 as Chairman), a director at İstikbal Mobilya A.Ş. (1990 – 1992) and held various management positions at Hes Cable A.Ş. (1987 – 1992). Mr Boydak has also been a director at Merkez Çelik A.Ş. since 1993 (and chairman since 1995) and Boytaş A.Ş. since 1996. Mr. Boydak has been Chairman of the Kayseri Chamber of Industry since March 2005 and has been a member of the Turkish Industrialists and Businessmen's Association since 1998.

Other Directorships: Formar Sünger A.Ş. (Board Member), Hcs Kablolama A.Ş. (Chairman of the Board), Boyteks Tekstil A.Ş. (Board Member),Boytaş Mobilya A.Ş. (Deputy Chairman of the Board), Merkez Çelik A.Ş. (Board Member), İstikbal Mobilya A.Ş. (Board Member), Hes Hacılar Elektrik A.Ş. (Chairman of the Board), Boydak Dis Ticaret (Board Member), İspaş Day. Tük. A.Ş. (Shareholder), Anadolu Dörtler Mobilya A.Ş. (Shareholder), Boytrans Lojistik A.Ş. (Shareholder), Boypaş Day. Tük. A.Ş. (Board Member), Bepaş Day. Tük. A.Ş. (Board Member), Orpaş Pazarlama A.Ş. (Shareholder), Adakar Day. Tük. A.Ş. (Shareholder), Doğa Day. Tük. A.Ş. (Shareholder), Mondi Yatak Yorgan A.Ş. (Shareholder), Serko Tekstil Ltd. Şti (Shareholder), Boyçelik Metal A.Ş. (Board Member), Boyser Servis Hizm. A.Ş. (Shareholder), Boydak Havacıhk A.Ş. (Shareholder), Boydak Enerji A.Ş. (Deputy Chairman of the Board), Erciyes Çelik Halat A.Ş. (Chairman of the Board), Muradiye Elektirik Üretim A.Ş. (Shareholder), Nisan Enerji Sanayi ve Ticaret A.Ş.

(Shareholder), Makhes Telekominikasyon Ltd. Şti. (Shareholder), Alfa Möbel GMBH (Shareholder), Boydak Holding A.Ş. Deputy Chairman of the Board), Kayseri Sanayi Odası (Chairman), TOBB (Board Member), TÜSİAD (Member), Dış Ekonomik Fiişkiler (DEİK) (Board Member), Kredi Garanti Fonu (KGF) (Chairman of the Board), Üniversité Sanayi Araştırma Birliği Vakfı (ÜSAİV) (Chairman of the Board of Trustee), Boydak Eğitim ve Kültür Vakfı (Chairman of the Board of Trustee).

Saeed Al-Ghamdi – *Vice Chairman*

Mr. Al-Ghamdi was born in 1963 in Saudi Arabia. Mr. Al-Ghamdi received his bachelor's degree in Computer Science and Engineering from King Fhad University of Petroleum & Minerals in 1987.

Mr. Al-Ghamdi has held various positions at Al-Rajhi Bank in Saudi Arabia, including the position of Manager at the Technical Support Department between 1992 and 1998, Chief Information Officer between 1998 and 2001, Chief Operating Officer between 2001 and 2005 and Deputy Chief Executive Office between 2007 and 2012.

Mr. Al-Ghamdi has also been a board member at Al Rajhi Bank, Malaysia during 2012, a board member at Al Rajhi Capital Co. between 2008 and 2012 and a board member at Al Rajhi Takaful Co. between 2009 and 2012.

Mr. Al-Ghamdi has also been an Advisor to the Governor of the Saudi Arabian Monetary Agency and advisor to the Chairman of the Board of Directors of the National Commercial Bank since 2012.

Halil Cem Karakaş – *Board Member*

Mr. Karakaş was born in Ankara in 1974. Mr. Karakaş received a bachelor's degree from the Middle East Technical University, an MBA degree from the Massachusetts Institute of Technology and a Ph. D. in finance from the Istanbul University. Mr. Karakaş is a member of the Board at Turkiye Finans Katılım Bankası A.Ş since March 2014.

Mr. Karakaş began his career at the Koç Holding Group Corporate Strategy division. He has worked as the Business Development Director and held various management and board membership positions at the Oyak Group. He continued his career as the Group CFO and Board Member of the Erdemir Group between 2006-2010. Since 2010, Mr. Karakaş was with Yıldız Holding's CFO and holding various board & executive membership positions within the company.

Oğuz Kayhan – *Board Member*

Mr. Kayhan was born in 1966 in Denizli. Mr. Kayhan studied in the Faculty of Political Sciences, Ankara University until 1986. He holds a BA degree in Economics and a MA degree in Accounting-Finance from Gazi University. Mr Kayhan is currently studying for a PhD in Business Administration at the Ankara University, Institute of Social Sciences.

Mr. Kayhan has been a member of the Board and Audit Committee Chairman since 2012. Previously, Mr. Kayhan was a Junior Sworn-in Bank Auditor at the Undersecretariat of the Treasury (1987), Vice President of the Board of Sworn Bank Auditors (1998 – 2001) during which he was Chairman of the Board of Sworn Bank Auditors by proxy for 9 months, Department Head across several departments within Banking Regulation and Supervision Agency (2001- 2007), Board and Audit Committee Member in Ziraat Bankası and Board Member in various of its affiliates (2007 – 2012) and Board Member of Arab Turkish Bank (2011 – 2012).

Khalid Malik Alsharif – *Board Member*

Born 1964, Jeddah, Saudi Arabia. He holds an MBA degree from the College of Notre Dame (USA). He began his career at the Investment Services of Riyad Bank, Saudi Arabia in 1986 to become the Executive Vice President in charge of the Kingdom-wide Branch Network. Prior to this position, from 1988 to 2000, he took various responsibilities at Riyad Bank such as Corporate Relationship Officer, Assistant Branch Manager, Branch Manager, Main Branch Manager, Regional Operations Manager, Regional Manager, and Deputy Regional Manager.

In 2000, he joined The National Commercial Bank (NCB), the largest bank in Saudi Arabia. From 2000 to 2010, he served as Head of Retail Distribution, Head of Customer Management Group, Head of Private Banking Division, and Sector Head of Individual Banking at the National Commercial Bank (NCB). He is currently Senior Executive Vice President/Sector Head of Corporate Banking and Senior Credit Officer (SCO) Level 1. Since May 2013, he has served as Board Member at Türkiye Finans Katılım Bankası.

Lama Ahmad M Ghazzaoui – *Board Member*

Ms. Ghazzaoui was born in 1975 in Beirut, Lebanon. Ms. Ghazzaoui is the Head of Finance Group at NCB. She was appointed to this position in August 2013. Ms. Ghazzaoui holds a Bachelor's degree in Accounting from the Lebanese American University (1996) and in year 2000 obtained her CPA accreditation and membership to the AICPA (American Institute of Certified Public Accountants) in the State of Colorado, USA. Ms. Ghazzaoui started her career as an external auditor in Deloitte & Touche in year 1997.

Ms. Ghazzaoui has been a member of the Board since March 2014. Ms. Ghazzaoui began her association with NCB in 2003 as Senior Financial Analyst and then as Financial Controller in-charge of general finance, budgeting, reporting and control for the Treasury Division. Concurrently, Ms. Ghazzaoui is a member of the Higher Management Committee, ALCO and Purchasing Committee of NCB. She is also the Chairman of NCBC's Audit Committee and is a member of CMA Advisory Committee.

V. Derya Gürerk – *Board Member & Chief Executive Officer*

Mr. Gürerk was born in 1963 in Ankara. Mr. Gürerk received his bachelor's degree in 1985 from Gazi University (Turkey) and his MBA from the Manchester Business School and University of Wales (UK).

Mr. Gürerk has been Chief Executive Officer and a member of the Board since 2011. Previously Mr. Gürerk held the position of CFO and Vice President of the Executive Committee at Dedeman Holding (2008 – 2009) and held various positions in the Türkiye İş Bankası group (2003 and 2005) including as Assistant General Manager and Director. Prior to this Mr. Gürerk was Assistant General Manager at Kentbank (1998 – 2000).

Senior Management

Türkiye Finans' Senior Management is responsible for the day-to-day management of Türkiye Finans in accordance with the instructions, policies and operating guidelines set by the Board.

The business address of each member of Türkiye Finans' Senior Management is Adnan Kahveci Caddesi No: 139 34876 Yakacık – Kartal, İstanbul, Turkey. No officer or senior manager of Türkiye Finans has any actual or potential conflict of interest between his duties to Türkiye Finans and his private interests and/or other duties. The name and title of each member of Türkiye Finans' Senior Management are set out in the table below.

Name	Year of Birth	Position	Year first elected to position
V. Derya Gürerk	1963	Chief Executive Officer and Board Member	2011
Osman Çelik	1964	Executive Vice President (Commercial Banking)	2013
Dursun Arslan	1974	Executive Vice President (Operations & Strategy)	2013
Erol Görgün	1968	Executive Vice President (Credits)	2013
Ali Güney	1969	Executive Vice President (Treasury & FI)	2009
İkram Göktaş	1969	Executive Vice President (Distribution and Service)	2009
Fahri Öbek	1969	Executive Vice President (Information Systems)	2011
Abdüllatif Özkaynak	1960	Executive Vice President (Finance)	2011
Zuhal Ulutürk	1971	Executive Vice President (Human Resources)	2011
Semih Alşar	1969	Executive Vice President (Retail Banking)	2011
Memduh Kara	1975	Executive Vice President (SME Banking)	2012

V. Derya Gürerk – *Board Member and Chief Executive Officer*

Mr. Gürerk received his bachelor's degree in Management and Accounting from Gazi University (Turkey) in 1985 and his MBA from the Manchester Business School and University of Wales (UK) in 2000.

Mr. Gürerk has been Chief Executive Officer and a member of the Board since 2011. Previously Mr. Gürerk held the position of CFO and Vice President of the Executive Committee at Dedeman Holding (2008 – 2009) and held various positions in the Türkiye İş Bankası group (2003 and 2005) including as Assistant General Manager and Director. Prior to this Mr. Gürerk was Assistant General Manager at Kentbank (1998 – 2000).

Osman Çelik – *Executive Vice President (Commercial Banking)*

Mr. Çelik received his bachelor's degree in Economics from the Economic and Administrative Sciences Faculty of Middle East Technical University (Turkey) in 1986.

Mr. Çelik has been Executive Vice President at Türkiye Finans since 2006. His areas of responsibility include: Commercial Banking Department and Corporate Banking Department. Mr. Çelik was previously Assistant General Manager at Anadolu Finans (1995 – 2005). Prior to his employment at Andadolu Finans, Mr. Çelik was an economist at State Institute of Statistics (1986 – 1987), Specialist and Chief Specialist, Project Evaluation and Preparation Department at Faisal Finans Kurumu A.Ş. (1988 – 1995) and Project and Marketing Manager at İhlas Finans Kurumu A.Ş. (1995 – 1999).

Dursun Arslan – *Executive Vice President (Operations & Strategy)*

Mr. Arslan received his bachelors degree in Political Science from Marmara University in 1997 and his Masters degree in Political Science from Fatih University in 1999. Mr. Arslan has been Senior Vice President of Strategy and Business Development at Türkiye Finans since 2011. Previously, Mr. Arslan was a Vice President at the Program Management Office (2009-2011) and a Vice President at Treasury Operations (between 2008 and 2009) at Türkiye Finans.

Erol Görgün – *Executive Vice President (Credits)*

Mr. Görgün received his bachelor's degree in Public Administration from Economic and Administrative Sciences Faculty of Marmara university (Turkey) and his master's degree in Money and Banking from the Social Sciences Institute, Istanbul University (Turkey). Mr. Görgün has been Executive Vice President at Turkiye Finans since 2013. His areas of responsibility include: SME Banking Allocation Department, Commercial Banking Allocation Department, Financial Analysis and Intelligence Department, Credit Monitoring Department, Retail Allocation and Credit Analytics and Program. Prior to his latest assignment Mr. Görgün worked as a manager in the Project Marketing divisions at Ihlas Finans kurmu (1995-2000), the General Coordinator at the Nakpa Plastik Company Group (2001-2003), the Güneşli branch manager and Financial Analysis and Intelligence Department manager at Anadolu Finans (2003-2005), and consecutively as the corporate credits allocation manager, Credit Monitoring Manager, SME credits allocation Manager and the Commercial Credits & Leasing allocation Manager at Türkiye Finans (2006-2013).

Ali Güney – *Executive Vice President (Treasury & FI)*

Mr. Güney received his bachelor's degree in Public Administration from the Economic and Administrative Sciences Faculty of Marmara University (Turkey) in 1988 and his master's degree in Tourism Management from the Social Sciences Institute, Istanbul University, Turkey in 1996.

Mr. Güney has been Executive Vice President at Türkiye Finans since 2009. His areas of responsibility include: Treasury Department and Financial Institutions Department. Previously Mr. Güney was Treasury Manager at Türkiye Finans (2006 2009) and Fund Management and Treasury Manager at Anadolu Finans (1999 – 2005). Prior to his employment at Anadolu Finans, Mr. Güney was Fund Management Manager at Faisal Finans Kurumu A.Ş. (1990 – 1993) and Assistant Manager, Fund Management and Treasury Department at İhlas Finans Kurumu A.Ş. (1995 – 1999).

İkram Göktaş – *Executive Vice President (Distribution and Service)*

Mr. Göktaş received his bachelor's degree in Business Management from the Political Sciences Faculty of Ankara University (Turkey) in 1991.

Mr. Göktaş has been Executive Vice President at Türkiye Finans since 2009. His areas of responsibility include: Corporate Communications Department, Branch Network Development and Branch Performance Management Department, Service Management Department, Alternative Distribution Channels Department, and Organization, Capacity Planning and Process Improvement Department. Previously Mr. Göktaş was Banking Services Manager at Türkiye Finans (2006 -2009) and Banking Services Manager at Anadolu Finans (2001 – 2005). Prior to his employment at Anadolu Finans, Mr. Göktaş held various positions at Garanti Bankası A.Ş. including Inspector at the Board of Inspectors (1992 – 1997), Assistant Manager at Istanbul Corporate Branch (1997 - 1999) and Çorum Branch Manager.

Fahri Öbek – *Executive Vice President (Information Systems)*

Mr. Öbek received his bachelor's degree in Computer Science and Engineering from the Computer Science and Engineering Department of Ege University (Turkey) in 1990 and his master's degree from Koç University (Turkey) in 1996.

Mr. Öbek has been Executive Vice President at Türkiye Finans since 2011. His areas of responsibility include: Information Systems Coordination Department, Information Systems Operation Department, Information Systems Analysis and Quality Assurance Department, Software Department, Alternative Distribution Channels and Payment Systems Development Department and Business Continuity Department. Prior to his employment at Türkiye Finans Mr. Öbek held various positions at Yapı ve Kredi Bankası A.Ş. including Head of System Development Group (2006 - 2008), Deputy General Manager of IT Management (2008 – 2010) and Head of IT at Vodafone (2010 – 2011).

Abdüllatif Özkaynak – *Executive Vice President (Finance)*

Mr. Özkaynak received his bachelor's degree in Banking from the Faculty of Economics and Administrative Sciences, Gazi University (Turkey) in 1982.

Mr. Özkaynak has been Executive Vice President at Türkiye Finans since 2011. His areas of responsibility include: Accounting and Tax Department, Budget, Management Information Systems and Corporate Performance Department, Legal Statutory Reporting and Financial Control Department, Procurement Construction and Administrative Affairs Department. Previously, Mr. Özkaynak was Financial Control Manager, Accounting and Budget at Türkiye Finans (2005 – 2011) and Group Manager, Financial Affairs at Anadolu Finans (1998 – 2005). Prior to his employment at Türkiye Finans, Mr. Özkaynak held various positions in the Accounting, Budgeting and Financial Control Department at Egebank A.Ş. (1985-1998).

Zuhal Ulutürk – *Executive Vice President (Human Resources)*

Ms. Ulutürk received her bachelor's degree in Economics, Faculty of Political Sciences, Ankara (Turkey) in 1992 and her e-MBA from Bogazici University (Turkey) in 2007.

Ms. Ulutürk has been Executive Vice President at Türkiye Finans since 2011. Her areas of responsibility include: Human Resources Department, Training Department and Performance Management Department. Prior to her employment at Türkiye Finans Ms. Ulutürk was an auditorat Akbank TA.Ş (1993 – 1996), an auditor (1996 – 1998) and later Manager, Human Resources at Kentbank (1998 – 2001), Group Manager, Human Resources at Denizbank A.Ş. (2002 – 2007), Executive Vice President in Charge of Human Resources, Training and Organization at Şekerbank T.A.Ş. (2007 – 2010) and Head of Business Partners Department, Human Resources at Vodafone (2010 – 2011).

Semih Alşar – *Executive Vice President (Retail Banking)*

Mr. Alşar received his bachelor's degree in Economics, Faculty of Economics, Istanbul University (Turkey) in 1990.

Mr. Alşar has been Executive Vice President at Türkiye Finans since 2011. His areas of responsibility include: Mortgage Department, Payment Systems Marketing Department, Deposit and Investment Products Marketing Department, Sales Management Department, Retail Product Coordination and Customer Analytics Section. Prior to his employment at Türkiye Finans Mr. Alşar was a Financial Analyst at Birleşik Yatırım Bankası A.Ş. (1990 – 1993), Individual Marketing Specialist at Marmara Bank A.Ş. (1993 – 1994), Individual Marketing Specialist at Bank Ekspres

A.Ş. (1994 1995), Manager, Cash Management at Finansbank A.Ş. (1995 1998), Group Manager, Retail Banking at Egebank A.Ş. (1998 – 2000), Product Development Director, Marketing at Global Menkul Değeler A.Ş. (2000 – 2002) and Branch Manager (2002 – 2004) and later Product Development Manager (2004 – 2011) at Asya Katılım Bankası A.Ş.

Menduh Kara – *Executive Vice President (SME Banking)*

Mr. Kara received his bachelor's degree in International Relations from Istanbul University, Turkey in 1997.

Mr. Kara has been Executive Vice President at Türkiye Finans since 2012. His areas of responsibility include: SME Banking Department, Collections Department, Micro Banking Department, Commercial Product Development and Customer Analytics Section. Previously Mr. Kara was Marketing Assistant Manager, Branch Manager and SME Banking Vice President at Türkiye Finans (2002 – 2012) Prior to his employment at Türkiye Finans, Mr. Kara was an Operations Specialist at Dışbank A.Ş. (1998 – 2002).

Board and Board Level Committees

Board

As per Article 29.5 of Türkiye Finans' Articles of Association, the Board is composed of seven members. Board meetings require the attendance of at least five of its members and the decisions are determined by the majority of the attending members. The Board is responsible for setting the basic policies, duties, powers and responsibilities of Türkiye Finans and its financial reporting systems, including the preparation, approval, audit, submission to relevant authorities and publication of accounts and for making information systems efficient and supervising its implementation.

The Board has established several Board level committees comprised Board Members with authority delegated by the Board. These committees are the Audit Committee (see "*Description of Türkiye Finans Katılım Bankası A.Ş. —Risk Management*" for further details), the Credit Committee, the Executive Committee, the Corporate Governance Committee and the Compensation and Nomination Committee.

Audit Committee

The Audit Committee is responsible for monitoring compliance with Türkiye Finans' risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by Türkiye Finans. (see "*Description of Türkiye Finans Katılım Bankası A.Ş. —Risk Management—Risk Committees—Audit Committee*" for further details).

Executive Committee

The Executive Committee was set up by the Board to act on the Board's behalf and keep it informed of matters that are critical to Türkiye Finans' profitability, liquidity and risk management. 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 Türkiye Finans as directed by the Board.

Credit Committee

The Credit Committee was set up by the Board to ensure that Türkiye Finans operates within the framework of the provisions of banking legislation in accordance with the Banking Law and with the principles and procedures of the BRSA. The Credit Committee determines credit limits (within certain limits), monitors compliance with the conditions of credit allocations and performs other tasks assigned by the Board. Meetings of the Credit Committee require the attendance of all its members and adopts decisions unanimously. Decisions above the authority of the Credit Committee or decisions for which unanimous agreement cannot be obtained are referred to the Board for final resolution.

Compensation and Nomination Committee

The Compensation and Nomination Committee was set up in April 2011 in order to assist the Board in determining appropriate compensation for Board Members, senior management and employees of Türkiye Finans in accordance with Türkiye Finans' strategies and requirements and market trends. The Compensation and Nomination Committee also consider the nomination of suitable members to the Board. The Compensation and Nomination Committee reports regularly to the Board.

Corporate Governance Committee

Türkiye Finans recognises the importance of maintaining sound corporate governance practices. The relationship between Türkiye Finans' management, shareholders, employees and third parties including customers, legal authorities, regulators, rating agencies, suppliers and various other individuals and institutions with whom Türkiye Finans does business are based upon fundamental governance principles including integrity, credibility, non-discrimination, compliance, confidentiality, transparency, accountability and sustainability. The Corporate Governance Committee was established in April 2011 to monitor Türkiye Finans' compliance with corporate governance regulations, to review the corporate governance principles adopted in the market and to make suggestions to the Board where it is deemed advantageous. On 31 January 2013, the Corporate Governance Committee issued a Corporate Governance Policy.

Türkiye Finans complies with the Banking Law and related BRSA regulations and expends maximum effort to implement the principles stipulated in the relevant capital markets legislation. See also "*Overview of the Turkish Banking Sector and Regulations*."

Employees

As at 31 December 2013, Türkiye Finans employed 3,990 full-time employees. As at 31 December 2013, the average age of Türkiye Finans' employees was approximately 32.6 years of age and approximately 86 per cent. of Türkiye Finans' professional staff were university graduates.

Training

Türkiye Finans believes that its interests are aligned with the interests of its employees in terms of training and career development. Accordingly Türkiye Finans 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. Türkiye Finans offers its employees a comprehensive training framework that covers on-the-job banking training (KEP – Career-Time Training Programs), technical and managerial training (including "Mentoring", "Coaching" and "Management Development Programme"), project based training (including "Retail Banking Products', "Sales and Portfolio Management" and "Excellence in Service Culture"), personal development training (including participation in MBA programmes and online English courses) and obligatory training (including "Laundering of the Proceeds of Crime and Prevention of the Financing of Terrorism", "Information Security", "Fire Safety" and "Ethical Principles"). Türkiye Finans recently launched multi-platform training including in-branch training and "The Digital Library". Türkiye Finans currently provides approximately 39 per cent. of all training in-house, 27 per cent. of all training is via e-learning and each employee attends on average 10 days of training each year.

Compensation

Türkiye Finans' strategy is to offer its employees a comprehensive and competitive compensation package. Elements of Türkiye Finans' compensation package include base salary, allowances, benefits, performance incentives, sales incentives and travel expenses. For further information, see "*Selected Financial Overview*".

Advisory Board

The Advisory Board comprises Islamic scholars of good repute and with extensive experience in law, economics and banking systems. The Advisory Board is appointed by the Board. Its responsibilities include directing, reviewing and supervising the activities of Türkiye Finans in order to ensure that they are in compliance with Islamic rules and principles including, but not limited to, supervising the development and creation of innovative interest-free products, issuing fatwas on any matter proposed to it by business units of Türkiye Finans, ensuring that transactions are carried out in compliance with interest-free banking principles and analysing contracts and agreements concerning Türkiye Finans' transactions.

The following table sets out the names of the current members of the Advisory Board:

Name	Position
Professor Hayrettin Karaman	Advisor
Professor Hamdi Döndüren	Advisor
Assistant Professor Ishak Emin Aktepe	Advisor
Ali Güney	Member

There are no potential conflicts of interest between the private interests or other duties of the Advisory Board members listed above and their duties to Türkiye Finans.

SELECTED FINANCIAL OVERVIEW

Unless otherwise indicated, the information set forth below has been extracted from Türkiye Finans' Audited Annual Financial Statements (as defined in "*Presentation of unconsolidated financial and certain other information*"). The financial information presented below should be read in conjunction with such financial statements, the auditors reports thereon and limited review report therein, as applicable, and the notes thereto. This disclosure contains forward looking statements that involve risks and uncertainties. Türkiye Finans' 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*". The results of operations for any period are not necessarily indicative of the results to be expected for any future period.

Significant Factors Affecting Results of Operations

Turkey's Economic Condition

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

The following table sets forth key indicators in respect of Turkey for the periods presented.[(1)]

	31 December 2013	31 December 2012	31 December 2011
Nominal GDP at current prices (TRY millions)	1,561,510	1,416,798	1,297,713
Real GDP growth	4%	2.1%	8.8%
GDP per capita (in U.S. dollars)	10,782	10,459	10,428
Unemployment	10%	9.2%	8.9%
Turkish Central Bank policy rate (year-end)	4.5%	5.5%	5.75%
Inflation	7.4%	6.16%	10.4%
Exports (in billion U.S. dollars)	151.8	152.5	134.9
Imports (in billion U.S. dollars)	251.7	236.5	240.8
Trade deficit (in billion U.S. dollars)	99.84	84.08	105.8
Current account deficit (in billion U.S. dollars)	65	46.9	77.8
Budget deficit (in billion Turkish Lira)	19.4	28.79	17.4

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

The Turkish economy recovered rapidly from the global economic crisis. The unemployment rate has been declining since 2010 and budget revenues rose above target in 2011, 2012 and 2013, resulting in a lower than anticipated budget deficit for the Turkish government during those years. Reflecting the recovery of the Turkish economy, Türkiye Finans' customer loan portfolio increased from TRY10.3 billion as at 31 December 2011, to TRY13.0 billion as at 31 December 2012 and TRY18.0 billion as at 31 December 2013.

Declining Interest Rate Environment in Turkey

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

Despite the low interest rate environment in Turkey for the first eight months of 2013, Türkiye Finans has been able to grow its customer deposits and accordingly grow its asset base. On average, due to the short-term nature of the majority of Türkiye Finans' participation accounts, reductions in interest rates are re-priced into Türkiye Finans' liabilities after approximately 40 days. The following table sets out the average rate of return paid by Türkiye Finans on its deposits (in TRY, U.S.$, EUR) on a quarterly basis for each of the years ended 31 December 2013, 31 December 2012 and 31 December 2011.

		2013	2012	2011
			(*per cent.*)	
First Quarter	U.S.$	3.40	4.61	3.66
	EUR	3.82	4.42	3.57
	TRY	7.66	9.68	7.94
Second Quarter	U.S.$	3.15	4.56	3.86
	EUR	3.30	4.23	3.82
	TRY	7.13	9.78	7.81
Third Quarter	U.S.$	3.15	4.23	4.31
	EUR	3.19	3.90	4.19
	TRY	7.07	9.16	8.77
Fourth Quarter	U.S.$	3.19	3.82	4.48
	EUR	3.26	4.00	4.41
	TRY	7.12	8.37	9.24

The Turkish Central Bank reference overnight interest rate was 6.5 per cent., as at 31 December 2009. In May 2010, the Turkish Central Bank policy rate changed to the one week lending reference rate, which was 6.5 per cent., as of 31 December 2010 and 6.25 per cent., as of 30 June 2011. On 4 August 2011, the Turkish Central Bank reduced its policy rate by 50 basis points to 5.75 per cent., in response to concerns regarding European sovereign debt levels and anticipated lower levels of global growth while at the same time increasing the overnight borrowing rate significantly from 1.5 per cent., to 5 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 Turkish Central Bank kept the policy rate stable at 5.75 per cent. In February 2012, the Turkish Central Bank reduced the overnight lending rate to 11.5 per cent., and, on 18 September 2012, the Turkish Central Bank reduced the overnight lending rate to 10 per cent. On 18 October 2012, the Turkish Central Bank further reduced the overnight lending interest rate to 9.5 per cent. On 21 November 2012, the Turkish Central Bank further reduced the overnight lending rate to 9.0 per cent. whilst maintaining a stable overnight borrowing rate at 5 per cent. At the beginning of 2013, the Turkish Central Bank has consistently reduced the overnight rate of borrowing and lending with the overnight rate of lending being reduced to 7.75 per cent. and the overnight rate of borrowing being retained at the reduced rate of 3.50 per cent. on 21 August 2013. In order to stem a fall in the Turkish Lira, on 29 January 2014, the Turkish Central Bank increased the overnight rate of borrowing to 8.00 per cent. and increased the overnight rate of lending to 12.00 per cent.

The low interest rate environment in Turkey over the first nine months in 2013 has helped support Türkiye Finans' asset growth as it has been able to grow its portfolio of loans, finance leases and advances to customers. Despite the low interest rate environment, there was an increase in customer deposits. Customer deposits for 2013 increased by 33.86 per cent., as compared to 2012. This was achieved due to Türkiye Finans flexibility to offer attractive share of profit rates to its depositors which resulted in a substantial increase in Türkiye Finans' deposits for the period ended 31 December 2013 compared to the same period in 2012 (see "*Description of Türkiye Finans Katilim Bankasi A.Ş.—Funding*" for further details).

Türkiye Finans' Significant Accounting Policies

The accounting policies adopted by Türkiye Finans are critical to understanding its results of operations and Audited Annual Financial Statements forming part of this Prospectus. These accounting policies are described in detail in Note 3 to each of the Audited Annual Financial Statements. Certain of Türkiye Finans' accounting policies require significant managerial judgement on matters that are inherently uncertain, including the valuation of certain assets and liabilities and the adoption of estimates and assumptions based on historical experience and other factors considered reasonable and significant by Türkiye Finans' management. Türkiye Finans has established policies and control procedures intended to ensure that stringent valuation methods are applied in accordance with applicable accounting principles during the preparation of each of the Audited Annual Financial Statements for the relevant period. The following is a brief description of Türkiye Finans' current accounting policies which require significant managerial judgment or otherwise are critical to the results of operations and financial condition presented in the Audited Annual Financial Statements.

Financial assets and liabilities

Recognition

Türkiye Finans initially recognises loans, lease receivables and advances, deposits and funds borrowed on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which Türkiye Finans commits to purchase or sell the relevant asset. All other financial assets and liabilities (including assets and liabilities designated at fair value profit or loss) are initially recognised on the trade date at which Türkiye Finans becomes a party to the contractual provisions of the relevant instrument.

Derecognition

Türkiye Finans derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which Türkiye Finans neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any profit share in transferred financial assets that is created or retained by Türkiye Finans is recognised as a separate asset or liability. On derecognition of a financial asset (or the carrying amount allocated to the portion of the asset transferred), the sum of the consideration received (including the new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Türkiye Finans derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Available-for-sale assets and financial assets at fair value through profit or loss that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as at the date Türkiye Finans commits to sell the assets.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Designation at fair value through profit or loss

Financial assets at fair value through profit and loss are trading financial assets, such as equity participations, acquired principally with the intention of disposal within a short period for the purpose of short-term profit making. These assets or liabilities are managed, evaluated and reported internally on a fair value basis.

Loans, lease receivables and advances

Loans, lease receivables and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that Türkiye Finans does not intend to sell immediately or in the near term.

When Türkiye Finans is the lessor in a lease agreement that transfers substantially all the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans, lease receivables and advances.

Loans, lease receivables and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective rate method.

Available-for-sale investment securities

Available-for-sale investments, which are initially measured at fair value plus incremental direct transaction costs, are non-derivative instruments that are designated as available-for-sale or are not classified as another category of financial assets. All available-for-sale investments are carried at fair value.

Profit share income is recognised in profit or loss using the effective rate method. Dividend income is recognised in profit or loss when Türkiye Finans becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if Türkiye Finans has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Leased assets – lessee

Leases in terms of which Türkiye Finans assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on Türkiye Finans' statement of financial position.

Impairment of non-financial assets

The carrying amounts of Türkiye Finans' non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using the effective rate of the contract that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

Deposits

Deposits are Türkiye Finans' main source of debt funding. Deposits of Türkiye Finans comprise customers' current and profit sharing accounts.

Customers' current and profit sharing accounts are initially recognised at cost. Subsequent to the initial recognition, all profit share accounts are recognised considering the attributable profits or any losses incurred on the respective loan balances. In all cases, profit/loss sharing accounts receive a proportion of the profit or bear a share of loss based on the results of the respective loan balances.

Provisions

A provision is recognised if, as a result of a past event, Türkiye Finans has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when Türkiye Finans has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by Türkiye Finans from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contracts and the expected net cost of continuing with the contract. Before the provision is established, Türkiye Finans recognises any impairment loss on the assets associated with that contract.

Segment reporting

An operating segment is a component of Türkiye Finans that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Türkiye Finans' other components, whose operating results are reviewed regularly by Türkiye Finans' Management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Board include items directly attributable to that segment as well as those that can be allocated to that segment on a reasonable basis.

New standards and interpretations not adopted/adopted

A number of new standards, amendments to standards and interpretations have been applied from 1 January 2013 in preparing the Audited Annual Financial Statements for the year ended 31 December 2013. None of these will have an effect on the financial statements of Türkiye Finans, with the exception of:

- IFRS 9 Financial Instruments could change the classification and measurement of financial assets and becomes effective for annual periods beginning on or after 1 January 2015.

Türkiye Finans does not plan to adopt the above standard early and the extent of the impact has not, as at the date of this Prospectus, been determined.

Results of Operations for the Years Ended 31 December 2013 and 31 December 2012

Statement of Comprehensive Income

The following table sets forth the statement of comprehensive income for Türkiye Finans for the years ended 31 December 2013 and 2012.

	31 December 2013	31 December 2012
	(TRY in thousands) *(audited)*	
Profit share income:		
Income on loans	1,458,616	1,369,043
Income on investment securities	66,568	25,044
Income on deposits at banks	437	1,312
Income on financial leases	40,612	14,957
	1,566,233	**1,410,356**
Profit share expense:		
Expense on deposits	(561,085)	(520,279)
Expense on borrowings	(149,311)	(74,733)
	(710,396)	**(595,012)**
Net profit share income	**855,837**	**815,344**
Fee and commission income	177,712	152,448
Fee and commission expense	(49,440)	(44,217)
Net fee and commission income	**128,272**	**108,231**
Net trading income	38,311	140,086
Other operating income	42,278	40,047
Foreign Exchange gain, net	33,366	—
Other operating income	**113,955**	**180,133**
Total operating income	**1,098,064**	**1,103,708**
Personnel expenses	(315,631)	(270,492)
Administrative expenses	(150,668)	(110,885)
Net impairment loss on financial assets	(116,979)	(175,268)
Depreciation and amortisation	(38,184)	(30,455)
Taxes and duties other than on income	—	(83,386)
Foreign exchange loss, net	(22,325)	(18,543)
Other operating expenses	(43,194)	(32,691)
Total operating expenses	**(686,981)**	**(721,720)**
Profit before tax	**411,083**	**381,988**
Income tax expense	(81,332)	(76,373)
Profit	**329,751**	**305,615**
Other comprehensive income:		
Items that will never be reclassified to profit or loss		
Net change in remeasurements of defined benefit liability	(16,702)	—
Net change in revaluation of tangible assets	—	71,615
Related tax	3,340	(3,582)
	(13,362)	**68,033**
Items that are or may be reclassified to profit or loss		
Net change in fair values of available-for-sale financial assets	(54,487)	14,081
Net amount transferred to profit or loss	(133)	(1,713)
Related	10,924	(2,471)
Other comprehensive income for the period, net of tax	**(43,696)**	**(9,897)**
Total comprehensive income	**272,693**	**383,545**

Total Comprehensive Income

Türkiye Finans derives most of its revenue through returns on the loans it grants to its customers. Its most significant expenses of a recurring nature are expenses incurred in servicing its current and participation deposit accounts and personnel costs.

Türkiye Finans' total comprehensive income decreased 28.9 per cent. during the period from TRY383.5 million as at 31 December 2012 to TRY272.7 million as at 31 December 2013. The main contributing factors to this decrease in total comprehensive income were year on year increases in Türkiye Finans' expenses, including its profit share expense, fee and commission expense and net impairment losses on financial assets. Each of these line items are set out in further detail below.

Profit for the period (which does not take other comprehensive income into account) increased 7.9 per cent. during the period from TRY305.6 million as at 31 December 2012 to TRY329.8 million as at 31 December 2013.

Total Operating Income

Türkiye Finans' total operating income remained almost unchanged with a slight decrease of 0.5 per cent. from TRY1,103.7 million as at 31 December 2012 to TRY1,098.0 million as at 31 December 2013. As at 31 December 2013, net profit share income, net fee and commission income and other operating income accounted for 77.9 per cent., 11.7 per cent. and 10.4 per cent. respectively of Türkiye Finans' total operating income (compared to 73.9 per cent., 9.8 per cent. and 16.3 per cent. respectively as at 31 December 2012). Each of these income streams are outlined below.

Profit Share Income

Türkiye Finans' net profit share income increased 5.0 per cent. during the period from TRY815.3 million as at 31 December 2012 to TRY855.8 million as at 31 December 2013.

Türkiye Finans' profit share income is almost entirely derived from income on loans, which accounted for 93.1 per cent. of total profit share income as at 31 December 2013 and 97.1 per cent. as at 31 December 2012. Profit share income was TRY1,566.0 million for the year ended 31 December 2013, an increase of 11.1 per cent. for the period compared to TRY1,410.4 million for the year ended 31 December 2012. The increase in profit share income was primarily attributable to a 6.5 per cent. increase in income on loans during the period from TRY1,369.0 million as at 31 December 2012 to TRY1,458.6 million as at 31 December 2013, which was a result of Türkiye Finans' increasing its customer base during the period and being able to agree better pricing terms on the loans extended to customers (principally its SME customers) during the financial year ended 31 December 2013 compared to the previous financial year and generally the ability of Türkiye Finans to benefit from the favourable economic environment in Turkey during the reported periods. Such increase was supplemented by an increase in income from financial leases from TRY15.0 million as at 31 December 2012 to TRY40.6 million as at 31 December 2013, which was principally due to Türkiye Finans re-focusing on the development and expansion of its finance lease business, a traditional strength in its business, during the financial year ended 31 December 2013. Income from investment securities, which accounted for 4.3 per cent. of profit share income in 2013, increased 165.8 per cent. during the period.

Profit share expenses increased 19.4 per cent. during the period from TRY595.0 million as at 31 December 2012 to TRY710.4 million as at 31 December 2013. The increase in profit share expenses was primarily attributable to a 7.8 per cent. increase in expense on deposits during the period from TRY520.3 million as at 31 December 2012 to TRY561.1 million as at 31 December 2013, which accounted for 79.0 per cent. of all profit share expenses, and supplemented by a 99.8 per cent. increase in the expense on borrowings during the period from TRY74.7 million as at 31 December 2012 to TRY149.3 million as at 31 December 2013, which accounted for the remaining 21.0 per cent. of profit share expense. The increase in the abovementioned expenses were a result of the increased deposit base of Türkiye Finans and the increased costs associated with servicing the provision of profit sharing products and services.

Fee and Commission Income

Türkiye Finans' net fee and commission income increased 18.5 per cent. during the period from TRY108.2 million as at 31 December 2012 to TRY128.3 million as at 31 December 2013. The majority of Türkiye Finans' fee commission income (46.7 per cent. as at 31 December 2013) derived from commissions from non-cash loans which increased 9.8 per cent. during the period from TRY75.7 million as at 31 December 2012 to TRY83.1 million as at 31 December 2013. The increase in net fee and commission income was also the result of a 35.3 per cent. increase in fee and commission income categorised as 'Other' (which comprises appraisal revenue, fund transfer commissions, and draft and promissory note commissions, but excludes income from credit card fees and commissions and POS commissions from members), which accounted for 36.4 per cent. of all fee and commission income. Total fee and commission expense increased 11.8 per cent. during the period from TRY44.2 million as at 31 December 2012 to TRY49.4 million as at 31 December 2013 which was principally the result of a 41.3 per cent. increase during the period in fee and commission expenses categorised as 'Other' (which comprises appraisal expenses, credit card utilisation expense and correspondent bank commissions) and accounted for 59.9 per cent. of total fee and commission expense.

Other Operating Income

Türkiye Finans' other operating income decreased 36.7 per cent. during the period from TRY180.1 million as at 31 December 2012 to TRY114.0 million as at 31 December 2013 primarily as a result of a decrease in trading income. Net trading income accounted for TRY38.3 million, or 33.6 per cent., of other operating income as at 31 December 2013 compared to TRY140.1 million, or 77.8 per cent. as at 31 December 2012, a decrease of 72.7 per cent., and the remainder, which totalled TRY75.6 million or 66.4 per cent., as at 31 December 2013 compared to TRY40.1 million, or 22.2 per cent., as at 31 December 2012 (an increase of 88.9 per cent. during the period), comprised, among others, gains on sale of assets held for resale and property and equipment, communication expenses charged to customers and income from cheque books.

Net trading income is almost entirely derived from income from derivative instruments (96.9 per cent. as at 31 December 2013 and 99.2 per cent. as at 31 December 2012). Income from derivative products decreased 73.3 per cent. during the period from TRY138.9 million as at 31 December 2012 to TRY37.1 million as at 31 December 2013. The derivative instruments affect both the net trading income and the foreign exchange gain or loss. Consequently, the derivative instruments resulted in no deterioration in Türkiye Finans' net exposure and no favourable currency fluctuations.

Total Operating Expenses

Türkiye Finans' total operating expenses decreased 4.8 per cent. during the period from TRY721.7 million as at 31 December 2012 to TRY687.0 million as at 31 December 2013. This decrease was principally the result of a significant decrease in foreign exchange losses which decreased over the period from TRY83.4 million as at 31 December 2012 to nil as at 31 December 2013. The decrease in total operating expenses was also the result of a decrease in impairment loss on financial assets during the period from TRY175.3 million as at 31 December 2012 to TRY117.0 million as at 31 December 2013.

Impairments

Impairment loss on financial assets accounted for 17.0 per cent. of total operating expenses as at 31 December 2013 compared to 24.3 per cent. as at 31 December 2012. The following table sets forth allowances for impairment including the portfolio basis allowances for the years presented.

	31 December 2013	31 December 2012
	(TRY in thousands) *(audited)*	
Balance on 1 January	15,824	11,460
Current service cost	2,317	1,896
Profit share cost	1,127	971
Actuarial profit/loss(*)	16,702	2,978
Accounted profit/loss	1,297	1,860
Indemnity paid during the period	(3,207)	(3,341)
Balance on 31 December	**34,060**	**15,824**

(*) Actuarial gains/losses, calculated as TRY16,702 in relation to the reserve for employee termination benefits, are shown as TRY13,362 under shareholders' equity offsetting deferred tax of TRY3,340.

The provision for possible losses is comprised of amounts specifically identified as being impaired including non-performing loans, leasing receivables and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships performed in accordance with agreements made with borrowers. The amount of the portfolio basis allowance was TRY100.3 million as at 31 December 2013 (compared to TRY86.4 million as at 31 December 2012). The increase of impairment losses over the period was principally due to a reduction in the amounts due and payable by customers which Türkiye Finans was able to recover from such customers, and an increase in the ensuing write-offs.

Personnel and administrative expenses and other operating expenses

Personnel expenses, which accounted for 45.9 per cent. of total operating expenses as at 31 December 2013, increased 14.3 per cent. during the period from TRY270.5 million as at 31 December 2012 to TRY315.6 million as at 31 December 2013. This was principally a result of increased wage and salary expenses which increased 18.2 per cent. during the period from TRY186.3 million as at 31 December 2012 to TRY220.3 million as at 31 December 2013 and accounted for 69.8 per cent. of all personnel expenses as at 31 December 2013. Administrative expenses, which accounted for 21.9 per cent. of total operating expenses as at 31 December 2013, increased 35.9 per cent. during the period from TRY110.9 million as at 31 December 2012 to TRY150.7 million as at 31 December 2013. The remaining operating expenses consisted of: (i) depreciation and amortisation, which accounted for 5.6 per cent. of operating expenses as at 31 December 2013 and increased 25.4 per cent. during the period (see Note 18 of the Audited Annual Financial Statements for further details on the valuation of property and equipment and intangible assets); (ii) taxes and duties other than on income, which accounted for 3.2 per cent. of operating expenses as at 31 December 2013 and increased 20.4 per cent. during the period; and (iii) other operating expenses, comprising, amongst others, premium expenses paid in relation to the SDIF, audit and advisory expenses, impairment loss on assets held for resale and provision expense for ongoing suits, which together accounted for 6.3 per cent. of operating expenses as at 31 December 2013 and increased 32.1 per cent. during the period.

Income Tax Expense

Income tax expense increased 6.5 per cent. during the period from TRY76.4 million as at 31 December 2012 to TRY81.3 million as at 31 December 2013. Türkiye Finans' current tax liabilities decreased 32.7 per cent. from TRY19.4 million as at 31 December 2012 to TRY13.0 million as at 31 December 2013.

Statement of Financial Position

The following table sets forth the statement of financial position for Türkiye Finans as at 31 December 2013 and 2012.

	31 December 2013	31 December 2012
	(TRY in thousands) *(audited)*	
Assets		
Cash and balances with Turkish Central Bank	924,398	1,102,936
Loans and advances to banks	954,203	497,028
Loans, lease receivables and advances to customers	18,200,352	12,983,947
Derivative assets held for trading	46,669	14,273
Available-for-sale investment securities	1,413,025	669,326
Property and equipment	211,689	196,617
Intangible assets	37,149	18,881
Deferred tax assets	32,412	18,975
Other assets	3,227,187	2,038,559
Total assets	**25,047,084**	**17,540,542**
Liabilities		
Deposits from banks	350,617	365,688
Deposits from customers	14,818,621	11,070,057
Funds borrowed	4,813,322	2,503,943
Debt securities issued	1,074,246	—
Derivative liabilities held for trading	39,140	8,577
Provisions	147,503	117,889
Current tax liabilities	13,043	19,369
Other liabilities	1,213,312	1,275,432
Total liabilities	**22,469,804**	**15,360,955**
Equity		
Share capital	1,775,000	1,650,000
Reserves	125,056	154,599
Retained earnings	677,224	374,988
Total shareholders' equity	**2,577,280**	**2,179,587**
Total liabilities and shareholders' equity	**25,047,084**	**17,540,542**

Assets

The vast majority of Türkiye Finans' assets comprise loans, lease receivables and advances to customers. Deposits from customers and funds borrowed from third parties constitute its main liabilities.

As at 31 December 2013, Türkiye Finans had total assets of TRY25,047.1 million, an increase of 42.80 per cent. from TRY17,540.5 million as at 31 December 2012.

Loans, lease receivables and advances

The increase in Türkiye Finans' total assets was principally driven by a 36.82 per cent. increase for the period in its loan book as the bank was able to benefit from generally favourable economic conditions in Turkey during the periods reported and increase its customer base across its retail as well as commercial lending operations, particularly in respect of home financings and credit extended to its entrepreneur business customers. Loans, lease receivables and advances, which accounted for 72.7 per cent. of total assets as at 31 December 2013, increased from TRY12,983.9 million as at 31 December 2012 to TRY18,200.0 million as at 31 December 2013. The table below sets forth Türkiye Finans' loans, lease receivables and advances to customers at amortised cost for the years ended 31 December 2013 and 2012.

	31 December 2013	31 December 2012
	(TRY in thousands) *(audited)*	
Performing loans	17,330,710	12,666,689
Performing lease receivables	841,649	304,369
Non-performing loans and lease receivables	441,072	358,259
Gross amount	**18,613,431**	**13,329,317**
Allowance for individually impaired loans and lease receivables	(312,789)	(258,994)
Allowance for collectively impaired loans and lease receivables	(100,290)	(86,376)
Carrying amount	**18,200,352**	**12,983,947**

Türkiye Finans' performing loans increased 36.8 per cent. during the period from TRY12,666.7 million as at 31 December 2012 to TRY17,333 million as at 31 December 2013, principally as a result of a 37.4 per cent. increase in corporate loans from TRY9,592.2 million as at 31 December 2012 to TRY13,175.7 million as at 31 December 2013, accounting for 75.3 per cent. of performing loans as at 31 December 2013. Such performing loans also primarily comprised: (i) consumer loans and credit cards which increased 40.5 per cent. during the period, from TRY2,394.1 million as at 31 December 2012 to TRY3,370.5 million as at 31 December 2013, and accounted for 19.4 per cent. of performing loans as at 31 December 2013; and (ii) export loans which increased 17.3 per cent. during the period, from TRY654.9 million as at 31 December 2012 to TRY768.3 million as at 31 December 2013, and accounted for 4.4 per cent. of performing loans as at 31 December 2013. Türkiye Finans' non-performing loans during the period predominantly comprised loans to retail customers (accounting for TRY34.32 million as at 31 December 2013, or 7.78 per cent. of all non-performing loans). Non-performing loans as a percentage of total loans, remained at low levels relative to Turkish averages as published by the BRSA, at 2.4 per cent. (compared to 3.37 per cent. for participation banks and 2.7 per cent. for the whole banking sector) and 2.7 per cent. (compared to 3.0 per cent. for participation banks and 2.9 per cent. for the whole banking sector) as at the years ended 31 December 2013 and 31 December 2012 respectively.

Other assets

Türkiye Finans' asset portfolio also comprised, amongst others: (i) cash and balances with the Turkish Central Bank; (ii) loans and advances to banks; (iii) derivative assets held for trading; (iv) available-for-sale investment securities; (v) property and equipment; (vi) intangible assets; and (vii) deferred tax assets.

Türkiye Finans' cash and balances with the Turkish Central Bank accounted for 3.7 per cent. of total assets as at 31 December 2013 and decreased 16.2 per cent. during the period from TRY1,102.9 million as at 31 December 2012 to TRY924.4 million as at 31 December 2013. This was principally the result of a 22.6 per cent. decrease in balances with the Turkish Central Bank (excluding reserve deposits) from TRY1,001.2 million as at 31 December 2012 to TRY774.7 million as at 31 December 2013, which accounted for 83.8 per cent. of cash and balances with the Turkish Central Bank as at 31 December 2013. The remaining cash and balances with the Turkish Central Bank comprised cash on hand which increased 47.3 per cent. during the period, from TRY101.6 million as at 31 December 2012 to TRY149.6 million as at 31 December 2013.

Loans and advances to banks

Türkiye Finans' loans and advances to banks accounted for 3.8 per cent. of total assets as at 31 December 2013 and increased 92.0 per cent. during the period from TRY497.0 million as at 31 December 2012 to TRY954.2 million as at 31 December 2013. Such increase in loans and advances to banks by Türkiye Finans reflects the bank's varying liquidity.

The table below sets forth a breakdown of Türkiye Finans' loans and advances to banks by the type of bank and currency for the years presented.

	31 December 2013			31 December 2012		
	TRY	FC	Total	TRY	FC	Total
			(TRY in thousands) (audited)			
Loans and advances to banks – demand:						
Domestic banks	484,411	379,715	864,126	106,033	201,277	307,310
Foreign banks	37	90,040	90,077	515	189,203	189,718
Total loans and advances to banks	**484,448**	**469,755**	**54,203**	**106,548**	**390,480**	**497,028**

Derivative assets and available-for-sale securities

Türkiye Finans' derivative assets held for trading accounted for 0.2 per cent. of total assets as at 31 December 2013 and increased 227.0 per cent. during the period from TRY14.3 million as at 31 December 2012 to TRY46.7 million as at 31 December 2013.

Türkiye Finans' available-for-sale securities accounted for 5.6 per cent. of total assets as at 31 December 2013 and increased 111.1 per cent. during the period from TRY669.3 million as at 31 December 2012 to TRY1,413.0 million as at 31 December 2013. As at 31 December 2013, Türkiye Finans' investment securities comprised Turkish Treasury Sukuk at a total face value of TRY1,427.1 million (compared to TRY591.6 million as at 31 December 2012) and a total carrying value amounting to TRY1,408.7 million (compared to TRY608.2 million as at 31 December 2012). The periodic distribution amounts under these sukuk are payable semi-annually with an annual coupon rate of 2.80 per cent. and 4.56 per cent. in relation to the U.S. dollar denominated sukuk and 7.40 per cent., 5.70 per cent. and 9.0 per cent. in relation to the Turkish Lira denominated sukuk. Their maturities are 26 March 2018 and 10 October 2018 for the U.S. dollar denominated sukuk and 15 October 2014, 18 February 2015 and 15 August 2015 respectively for the Turkish Lira denominated sukuk. Other available-for-sale investment securities are the equity participation in Kredi Granati Fonu A.Ş. amounting to TRY4.2 million as at 31 December 2013 and TRY4.2 million as at 31 December 2012.

Tangible and intangible assets

Türkiye Finans' property and equipment accounted for 0.8 per cent. of its total assets as at 31 December 2013 and increased 7.7 per cent. during the period from TRY196.6 million as at 31 December 2012 to TRY211.7 million as at 31 December 2013.

Türkiye Finans' intangible assets and deferred tax each accounted for 0.1 per cent. of its total assets as at 31 December 2013. Türkiye Finans' other assets accounted for 12.9 per cent. of total assets as at 31 December 2013 and comprised, amongst others, reserve deposits at the Central Bank, receivables from cheque clearing and credit card POS machines and assets held for resale. Such other assets increased during the period from TRY2,038.6 million as at 31 December 2012 to TRY3,227.2 million as at 31 December 2013. This was principally a result of a significant increase in reserve deposits at the Central Bank from TRY1,701.5 million as at 31 December 2012 to TRY2,906.7 million as at 31 December 2013.

Liabilities and Shareholders' Equity

As a participation bank, Türkiye Finans does not have access to the same sources of funding as conventional banks (such as interest-bearing facilities or security portfolios). Türkiye Finans' funding base for its activities are substantially derived from: (i) customer deposits; (ii) funds borrowed; and (iii) shareholders.

Türkiye Finans had total liabilities of TRY22,469.8 million as at 31 December 2013, an increase of 46.3 per cent. from TRY15,361.0 million as at 31 December 2012. This increase was principally the result of increases in deposits from customers and funds borrowed as outlined below.

Deposits

Türkiye Finans has a diversified source of retail and commercial depositors, with deposits accounting for 65.9 per cent. of its total liabilities as at 31 December 2013, and increased 33.9 per cent. during the period from TRY11,070.1 million as at 31 December 2012 to TRY14,818.6

million as at 31 December 2013, in turn representing a 35.8 per cent. increase in deposits from current account customers and 33.3 per cent. increase in deposits from profit sharing deposits.

The table below sets forth a breakdown of Türkiye Finans' deposits from customers by type of account and currency.

	31 December 2013		31 December 2012	
	Current account	**Profit sharing deposits**	**Current account**	**Profit sharing deposits**
	(TRY in thousands)			
Saving deposits (TRY)	894,578	5,723,278	580,048	4,797,639
Saving deposits (Foreign currency)	752,337	2,670,201	745,823	2,043,887
Public, commercial and other enterprises (TRY)	1,229,316	1,623,730	722,514	1,037,544
Public, commercial and other enterprises (Foreign currency)	552,071	1,373,110	475,446	667,156
Total deposits from customers	**3,428,302**	**11,390,319**	**2,523,831**	**8,546,226**

Türkiye Finans' deposits from banks, which accounted for 1.6 per cent. of its total liabilities as at 31 December 2013, decreased during the period from TRY365.7 million (of which TRY62.4 million was denominated in foreign currencies) as at 31 December 2012 to TRY350.6 million (of which TRY174.4 million was denominated in foreign currencies) as at 31 December 2013, due to high volume deposit placements by a number of banks during that period primarily reflected by a low interest rate environment in Turkey.

Funds borrowed

Türkiye Finans' funds borrowed, which as at 31 December 2013 and 31 December 2012 were all denominated in foreign currencies, accounted for 21.4 per cent. of its total liabilities as at 31 December 2013 and increased 92.2 per cent. during the period from TRY2,503.9 million as at 31 December 2012 to TRY4,813.3 million as at 31 December 2013. This increase was a result of increases in both short term and long term funds borrowed, which were brought about as a result of Türkiye Finans' increased loan portfolio and the consequent need to fund that portfolio from third party borrowings. The majority of Türkiye Finans' funds borrowed were long term as a result of Türkiye Finans' increased focus on funding its liabilities with debt capital having longer-term maturities, accounting for 65.5 per cent. of funds borrowed as at 31 December 2013. Such long term borrowings increased 96.4 per cent. during the period from TRY1,603.9 million as at 31 December 2012 to TRY3,150.4 million as at 31 December 2013. Türkiye Finans' short term funds borrowed, which accounted for 34.5 per cent. of total funds borrowed as at 31 December 2013, increased significantly during the period from TRY900.0 million as at 31 December 2012 to TRY1,662.9 million as at 31 December 2013. Such short term borrowings comprised two syndicated loans, one in the principal amount of U.S.$251,500,000 and the other in the principal amount of EUR76,500,000, both facilities maturing in 2014 and 2015 respectively. Türkiye Finans' long term borrowings mainly comprise lease certificates.

Provisioning and tax liabilities

Türkiye Finans' provisioning, which accounted for 0.6 per cent. of its total liabilities as at 31 December 2013, increased 25.1 per cent. during the period from TRY117.9 million as at 31 December 2012 to TRY147.5 million as at 31 December 2013. The majority of Türkiye Finans' provisioning liability derives from provisions for non-cash loans and cheques (46.0 per cent. as at 31 December 2013). Such provisioning increased 4.4 per cent. during the period from TRY65.0 million as at 31 December 2012 to TRY67.8 million as at 31 December 2013. The remaining provisioning liabilities include provision for short-term employee benefits, reserve for employee severance indemnity, provision for law suits against Türkiye Finans and provision for credit card promotions.

Türkiye Finans' current tax liabilities, which accounted for 0.1 per cent. of total liabilities as at 31 December 2013, decreased 32.7 per cent. during the period from TRY19.4 million as at 31 December 2012 to TRY13.0 million as at 31 December 2013.

Türkiye Finans' other liabilities (together amounting to 5.4 per cent. of total liabilities) comprised, amongst others, amounts payable to cheque clearing account, cash guarantees received, share capital commitment (which was not transferred to the share capital account because BRSA approval had not been received by 31 December 2013), blocked accounts, unearned income, blocked accounts against expenditures of credit card holders and taxes payable other than income tax.

Changes in equity

The statements of changes to equity are explained in detail in the Audited Annual Financial Statements (see Note 25).

The increase in share capital of TRY850 million during the year ended 31 December 2012 compared to the previous financial year was a result of a transfer of TRY700 million from retained earnings and TRY150 million in issued and paid up share capital. Türkiye Finans' issued and paid up share capital further increased by TRY125 million with effect from February 2013.

Türkiye Finans' total TRY275 million increase of issued and paid up share capital since the beginning of 2012 was accounted for as follows:

- TRY150 million share capital was paid-up in November 2012 and approved by the BRSA in 2012; and

- TRY125 million share capital was committed until 31 December 2012 and paid-up in 2012, however, the BRSAs approval for this amount was received by Türkiye Finans in February 2013.

Cash Flows

The following table sets forth the cash flow indicators as at 31 December 2013 and 31 December 2012 respectively.

	31 December 2012	31 December 2013
	(TRY in thousands) *(audited)*	
Net cash used in operating activities	90,507	(594,908)
Net cash used in investing activities	(91,932)	(796,433)
Net cash provided from financing activities	150,000	1,192,150
Net increase/decrease in cash and cash equivalents	148,575	(199,191)
Cash and cash equivalents at 1 January	1,530,157	1,599,964
Effect of exchange rate fluctuations on cash held	(78,768)	477,828
Cash and cash equivalent at 31 December	**1,599,964**	**1,878,601**

Cash and cash equivalents include cash on hand, unrestricted balances held with the Turkish Central Bank, cash on transit and loans and advances to banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position. During the year ended 31 December 2013, the net cash inflows amounted to TRY1,878.6 million compared to a cash inflow of TRY1,599.9 million in the previous financial year. This is primarily as a result of improved liquidity management achieved by Türkiye Finans, including in relation to the use of funds in operating activities.

Off-Balance Sheet Commitments

Türkiye Finans' off-balance sheet commitments principally comprise letters of guarantee, commitments to extend credit and letters of credit. The following table sets out Türkiye Finans' significant contingencies and commitments as at 31 December 2013 and 31 December 2012.

	31 December 2013	31 December 2012
	(TRY in thousands) *(audited)*	
Letters of guarantee	7,726,279	6,197,780
Commitments	1,870,092	1,561,940
Letters of credit	741,920	618,692
Acceptances	435,940	292,225
Total	**10,774,231**	**8,670,637**

Statement of Comprehensive Income

The following table sets forth the statement of comprehensive income for Türkiye Finans for the years ended 31 December 2012 and 2011.

	31 December 2012	31 December 2011
	(TRY in thousands) *(audited)*	
Profit share income:		
Income on loans	1,369,043	977,295
Income on investment securities	25,044	68,625
Income on deposits at banks	1,312	812
Income on financial leases	14,957	2,469
	1,410,356	**1,049,201**
Profit share expense:		
Expense on deposits	(520,279)	(464,464)
Expense on borrowings	(74,733)	(27,933)
Others	—	(7)
	(595,012)	**(492,404)**
Net profit share income	**815,344**	**556,797**
Fee and commission income	152,448	132,814
Fee and commission expense	(44,217)	(36,875)
Net fee and commission income	**108,231**	**95,939**
Net trading income	140,086	72,652
Other operating income	40,047	34,510
Other operating income	**180,133**	**107,162**
Total operating income	**1,103,708**	**759,898**
Personnel expenses	(270,492)	(233,225)
Administrative expenses	(110,885)	(86,387)
Net impairment loss on financial assets	(175,268)	(73,973)
Depreciation and amortisation	(30,455)	(30,016)
Foreign exchange loss, net	(83,386)	(6,303)
Taxes and duties other than on income	(18,543)	(13,874)
Other operating expenses	(32,691)	(30,750)
Total operating expenses	**(721,720)**	**(474,528)**
Profit before tax	**381,988**	**285,370**
Income tax expense	(76,373)	(55,783)
Profit for the period	**305,615**	**229,587**
Other comprehensive income:		
Net change in fair values of available-for-sale financial assets	14,081	(30,029)
Net change in revaluation of tangible assets	71,615	—
Net change in deferred income tax on other comprehensive income	(6,053)	6,005
Net amount transferred to profit or loss	(1,713)	—
Other comprehensive income for the period, net of tax	77,930	(24,024)
Total comprehensive income for the period	**383,545**	**205,563**

Total Comprehensive Income

Türkiye Finans derives most of its revenue through returns on the loans it grants to its customers. Its most significant expenses of a recurring nature are expenses incurred in servicing its current and participation deposit accounts and personnel costs.

Türkiye Finans' total comprehensive income increased 86.6 per cent. during the period from TRY205.6 million as at 31 December 2011 to TRY383.5 million as at 31 December 2012. The main contributing factors to this increase in total comprehensive income were year on year increases in Türkiye Finans' total operating income (which comprised parallel increases in net profit share income, net fee and commission income and other operating income) and an increase in other comprehensive income, the latter due to positive revaluations of available-for-sale assets and tangible assets. The significant increases in Türkiye Finans' income generating operations were countered by increases in Türkiye Finans' expenses, including its profit share expense, fee and commission expense and net impairment losses on financial assets. Each of these line items are set out in further detail below.

Profit for the period (which does not take other comprehensive income into account) increased 33.1 per cent. during the period from TRY229.6 million as at 31 December 2011 to TRY305.6 million as at 31 December 2012.

Total Operating Income

Türkiye Finans' total operating income increased 45.2 per cent. from TRY759.9 million as at 31 December 2011 to TRY1,103.7 million as at 31 December 2012. As at 31 December 2012, net profit share income, net fee and commission income and other operating income accounted for 73.9 per cent., 9.8 per cent. and 16.3 per cent. respectively of Türkiye Finans' total operating income (compared to 73.3 per cent., 12.6 per cent. and 14.1 per cent. respectively as at 31 December 2011). Each of these income streams are outlined below.

Profit Share Income

Türkiye Finans' net profit share income increased 46.4 per cent. during the period from TRY556.8 million as at 31 December 2011 to TRY815.3 million as at 31 December 2012.

Türkiye Finans' profit share income is almost entirely derived from income on loans, which accounted for 97.1 per cent. of total profit share income as at 31 December 2012 and 93.1 per cent. as at 31 December 2011. Profit share income was TRY1,410.4 million for the year ended 31 December 2012, an increase of 34.4 per cent. for the period compared to TRY1,049.2 million for the year ended 31 December 2011. The increase in profit share income was primarily attributable to a 40.1 per cent. increase in income on loans during the period from TRY977.3 million as at 31 December 2011 to TRY1,369.0 million as at 31 December 2012, which was a result of Türkiye Finans' increasing its customer base during the period and being able to agree better pricing terms on the loans extended to customers (principally its SME customers) during the financial year ended 31 December 2012 compared to the previous financial year and generally the ability of Türkiye Finans to benefit from the favourable economic environment in Turkey during the reported periods. Such increase was supplemented by an increase in income from financial leases from TRY2.5 million as at 31 December 2011 to TRY15.0 million as at 31 December 2012, which was principally due to Türkiye Finans re-focusing on the development and expansion of its finance lease business, a traditional strength in its business, during the financial year ended 31 December 2012. Income from investment securities, which accounted for 1.8 per cent. of profit share income in 2012, decreased 63.5 per cent. during the period.

Profit share expenses increased 20.8 per cent. during the period from TRY492.4 million as at 31 December 2011 to TRY595.0 million as at 31 December 2012. The increase in profit share expenses was primarily attributable to a 12.0 per cent. increase in expense on deposits during the period from TRY464.5 million as at 31 December 2011 to TRY520.3 million as at 31 December 2012, which accounted for 87.4 per cent. of all profit share expenses, and supplemented by a 167.5 per cent. increase in the expense on borrowings during the period from TRY27.9 million as at 31 December 2011 to TRY74.7 million as at 31 December 2012, which accounted for the remaining 12.6 per cent. of profit share expenses. The increase in the abovementioned expenses were a result of the increased deposit base of Türkiye Finans and the increased costs associated with servicing the provision of profit sharing products and services.

Fee and Commission Income

Türkiye Finans' net fee and commission income increased 12.8 per cent. during the period from TRY95.9 million as at 31 December 2011 to TRY108.2 million as at 31 December 2012. The majority of Türkiye Finans' fee commission income (49.7 per cent. as at 31 December 2012) derived from commissions from non-cash loans which increased 6.2 per cent. during the period from TRY71.3 million as at 31 December 2011 to TRY75.7 million as at 31 December 2012. The increase in net fee and commission income was also the result of a 21.3 per cent. increase in fee and commission income categorised as 'Other' (which comprises appraisal revenue, fund transfer commissions, and draft and promissory note commissions, but excludes income from credit card fees and commissions and POS commissions from members), which accounted for 31.3 per cent. of all fee and commission income. Total fee and commission expense increased 19.8 per cent. during the period from TRY36.9 million as at 31 December 2011 to TRY44.2 million as at 31 December 2012 which was principally the result of a 15.0 per cent. increase in POS transactions commission expenses, which accounted for 45.5 per cent. of all fee and commission expense, and a 26.1 per cent. increase during the period in fee and commission expenses categorised as 'Other' (which comprises appraisal expenses, credit card utilisation expense and correspondent bank commissions) and accounted for 47.4 per cent. of total fee and commission expense.

Other Operating Income

Türkiye Finans' other operating income increased 68.1 per cent. during the period from TRY107.2 million as at 31 December 2011 to TRY180.1 million as at 31 December 2012 primarily as a result of an increase in trading income. Net trading income accounted for TRY140.1 million, or 77.8 per cent., of other operating income as at 31 December 2012 compared to TRY72.7 million, or 67.8 per cent. as at 31 December 2011, an increase of 92.8 per cent., and the remainder, which totalled TRY40.1 million, or 22.2 per cent., as at 31 December 2012 compared to TRY34.5 million, or 32.2 per cent., as at 31 December 2011 (an increase of 16.0 per cent. during the period), comprised, among others, gains on the sale of assets held for resale and property and equipment, communication expenses charged to customers and income from cheque books. Net trading income is almost entirely derived from income from derivative instruments (99.2 per cent. as at 31 December 2012 and 97.2 per cent. as at 31 December 2011). Income from derivative products increased 96.7 per cent. during the period from TRY70.6 million as at 31 December 2011 to TRY138.9 million as at 31 December 2012, largely due to an improvement in Türkiye Finans' net exposures in respect of such products.

Total Operating Expenses

Türkiye Finans' total operating expenses increased 52.1 per cent. during the period from TRY474.5 million as at 31 December 2011 to TRY721.7 million as at 31 December 2012. This increase was principally the result of a significant increase in foreign exchanges losses which increased ten-fold over the period from TRY6.3 million as at 31 December 2011 to TRY83.4 million as at 31 December 2012. Foreign exchange losses accounted for 11.6 per cent. of total operating expenses as at 31 December 2012 compared to 1.3 per cent. as at 31 December 2011, due to the unfavourable currency fluctuations between the Turkish Lira and the foreign currencies to which Türkiye Finans is exposed. The increase in total operating expenses was also the result of an increase in impairment loss on financial assets during the period from TRY73.9 million as at 31 December 2011 to TRY175.3 million as at 31 December 2012.

Impairments

Impairment loss on financial assets accounted for 24.3 per cent. of total operating expenses as at 31 December 2012 compared to 15.6 per cent. as at 31 December 2011. The following table sets forth allowances for impairment including the portfolio basis allowances for the years presented.

	31 December 2012	31 December 2011
	(TRY in thousands) *(audited)*	
Balance on 1 January	230,474	193,912
Impairment loss for the year:		
Charge to the deposit accounts	—	7,099
Charge for the year	181,297	96,725
Recoveries and reversals	(29,515)	(47,641)
Write-offs	(35,184)	(21,818)
Foreign exchange differences	(1,702)	2,197
Balance at end of the year	**345,370**	**230,474**

The provision for possible losses is comprised of amounts specifically identified as being impaired, including non-performing loans, leasing receivables and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships performed in accordance with agreements made with borrowers. The amount of the portfolio basis allowance was TRY86.4 million as at 31 December 2012 (compared to TRY67.9 million as at 31 December 2011). The doubling of impairment losses over the period was principally due to a reduction in the amounts due and payable by customers which Türkiye Finans was able to recover from such customers, and an increase in the ensuing write-offs.

Personnel and administrative expenses and other operating expenses

Personnel expenses, which accounted for 37.5 per cent. of total operating expenses as at 31 December 2012, increased 16.0 per cent. during the period from TRY233.2 million as at 31 December 2011 to TRY270.5 million as at 31 December 2012. This was principally a result of increased wage and salary expenses which increased 15.4 per cent. during the period from TRY161.5 million as at 31 December 2011 to TRY186.3 million as at 31 December 2012 and accounted for 68.9 per cent. of all personnel expenses as at 31 December 2012. Administrative expenses, which accounted for 15.4 per cent. of total operating expenses as at 31 December 2012, increased 28.4 per cent. during the period from TRY86.4 million as at 31 December 2010 to TRY110.9 million as at 31 December 2012. The remaining operating expenses consisted of: (i) depreciation and amortisation, which accounted for 4.2 per cent. of operating expenses as at 31 December 2012 and increased 1.5 per cent. during the period (see Note 18 of the Audited Annual Financial Statements for further details on the valuation of property and equipment and intangible assets); (ii) taxes and duties other than on income, which accounted for 2.6 per cent. of operating expenses as at 31 December 2012 and increased 33.7 per cent. during the period; and (iii) other operating expenses, comprising, amongst others, premium expenses paid in relation to the SDIF, audit and advisory expenses, impairment loss on assets held for resale and provision expense for ongoing suits, which together accounted for 4.5 per cent. of operating expenses as at 31 December 2012 and increased 6.3 per cent. during the period.

Income Tax Expense

Income tax expense increased 36.9 per cent. during the period from TRY55.8 million as at 31 December 2011 to TRY76.4 million as at 31 December 2012. Türkiye Finans' current tax liabilities decreased 11.8 per cent. from TRY22.0 million as at 31 December 2011 to TRY19.4 million as at 31 December 2012.

Statement of Financial Position

The following table sets forth the statement of financial position for Türkiye Finans as at 31 December 2012 and 2011.

	31 December 2012	31 December 2011
	(TRY in thousands) *(audited)*	
Assets		
Cash and balances with Turkish Central Bank	1,102,936	882,815*
Loans and advances to banks	497,028	647,342*
Loans, lease receivables and advances to customers	12,983,947	10,342,255
Derivative assets held for trading	14,273	23,667
Available-for-sale investment securities	669,326	623,827
Property and equipment	196,617	112,660
Intangible assets	18,881	11,801
Deferred tax assets	18,975	22,641
Other assets	2,038,559	806,705
Total assets	**17,540,542**	**13,473,713**
Liabilities		
Deposits from banks	365,688	13,704
Deposits from customers	11,070,057	9,525,939
Funds borrowed	2,503,943	1,511,956
Derivative liabilities held for trading	8,577	19,529
Provisions	117,889	86,088
Current tax liabilities	19,369	21,956
Other liabilities	1,275,432	648,499
Total liabilities	**15,360,955**	**11,827,671**
Equity		
Share capital	1,650,000	800,000
Reserves	154,599	65,334
Retained earnings	374,988	780,708
Total shareholders' equity	**2,179,587**	**1,646,042**
Total liabilities and shareholders' equity	**17,540,542**	**13,473,713**

* During the financial year ended 31 December 2011, unallocated gold account amounting to TRY378,942 was reclassified from the account "Cash and balances with Central Bank" to the account "Loans and advances to banks" (see "*Presentation of Unconsolidated Financial and Certain Other Information*")

Assets

The vast majority of Türkiye Finans' assets comprise loans, lease receivables and advances to customers. Deposits from customers and funds borrowed from third parties constitute its main liabilities.

As at 31 December 2012, Türkiye Finans had total assets of TRY17,540.5 million, an increase of 30.2 per cent. from TRY13,473.7 million as at 31 December 2011.

Loans, lease receivables and advances

The increase in Türkiye Finans' total assets was principally driven by a 25.5 per cent. increase for the period in its loan book as the bank was able to benefit from generally favourable economic conditions in Turkey during the periods reported and therefore increase its customer base across its retail as well as commercial lending operations, particularly in respect of home financings and credit extended to its entrepreneur business customers. Loans, lease receivables and advances, which accounted for 74.0 per cent. of total assets as at 31 December 2012, increased from TRY10,342.3 million as at 31 December 2011 to TRY12,983.9 million as at 31 December 2012. The table below sets forth Türkiye Finans' loans, lease receivables and advances to customers at amortised cost for the years ended 31 December 2012 and 2011.

	31 December 2012	31 December 2011
	(TRY in thousands) *(audited)*	
Performing loans	12,666,689	10,259,145
Performing lease receivables	304,369	56,330
Non-performing loans and lease receivables	358,259	257,254
Gross amount	**13,329,317**	**10,572,729**
Allowance for individually impaired loans and lease receivables	(258,994)	(162,542)
Allowance for collectively impaired loans and lease receivables	(86,376)	(67,932)
Carrying amount	**12,983,947**	**10,342,255**

Türkiye Finans' performing loans increased 23.5 per cent. during the period from TRY10,259.1 million as at 31 December 2011 to TRY12,666.7 million as at 31 December 2012, principally as a result of a 22.2 per cent. increase in corporate loans from TRY7,850.9 million as at 31 December 2011 to TRY9,592.2 million as at 31 December 2012, accounting for 75.7 per cent. of performing loans as at 31 December 2012. Such performing loans also primarily comprised: (i) consumer loans and credit cards which increased 60.0 per cent. during the period, from TRY1,499.4 million as at 31 December 2011 to TRY2,399.1 million as at 31 December 2012, and accounted for 18.9 per cent. of performing loans as at 31 December 2012; and (ii) export loans which decreased 17.3 per cent. during the period, from TRY791.6 million as at 31 December 2011 to TRY654.9 million as at 31 December 2012, and accounted for 18.9 per cent. of performing loans as at 31 December 2012. Türkiye Finans' non-performing loans during the period predominantly comprised loans to retail customers (accounting for TRY20,446 million as at 31 December 2012, or 5.7 per cent. of all non-performing loans). Non performing loans as a percentage of total loans, remained at low levels relative to Turkish averages as published by the BRSA, at 2.7 per cent. (compared to 3.0 per cent. for participation banks and 2.9 per cent. for the whole banking sector) and 2.4 per cent. (compared to 3.1 per cent. for participation banks and 2.7 per cent. for the whole banking sector) as at the years ended 31 December 2012 and 31 December 2011 respectively.

Other assets

Türkiye Finans' asset portfolio also comprised, amongst others: (i) cash and balances with the Turkish Central Bank; (ii) loans and advances to banks; (iii) derivate assets held for trading; (iv) available-for-sale investment securities; (v) property and equipment; (vi) intangible assets; and (vii) deferred tax assets.

Türkiye Finans' cash and balances with the Turkish Central Bank accounted for 6.3 per cent. of total assets as at 31 December 2012 and increased 24.9 per cent. during the period from TRY882.8 million as at 31 December 2011 to TRY1,102.9 million as at 31 December 2012. This was principally the result of a 24.2 per cent. increase in balances with the Turkish Central Bank (excluding reserve deposits) from TRY805.9 million as at 31 December 2011 to TRY1,001.2 million as at 31 December 2012, which accounted for 90.8 per cent. of cash and balances with the Turkish Central Bank as at 31 December 2012. The remaining cash and balances with the Turkish Central Bank comprised cash on hand which increased 32.6 per cent. during the period, from TRY76.6 million as at 31 December 2011 to TRY101.6 million as at 31 December 2012.

Loans and advances to banks

Türkiye Finans' loans and advances to banks accounted for 2.8 per cent. of total assets as at 31 December 2012 and decreased 23.2 per cent. during the period from TRY647.3 million as at 31 December 2011 to TRY497.0 million as at 31 December 2012. Such decrease in loans and advances to banks by Türkiye Finans reflects the bank's varying liquidity requirements (including the acquisition by Türkiye Finans of sovereign sukuk in 2012).

The table below sets forth a breakdown of Türkiye Finans' loans and advances to banks by the type of bank and currency for the years presented.

	31 December 2012			31 December 2011		
	TRY	FC	Total	TRY	FC	Total
			(*TRY in thousands*) (*audited*)			
Loans and advances to banks – demand:						
Domestic banks	106,033	201,277	307,310	73,879	130,496	204,375
Foreign banks	515	189,203	189,718	8	442,959	442,967
Total loans and advances to banks	**106,548**	**390,480**	**497,028**	**73,887**	**573,455**	**647,342**

Derivative assets and available-for-sale securities

Türkiye Finans' derivative assets held for trading accounted for 0.1 per cent. of total assets as at 31 December 2012 and decreased 39.7 per cent. during the period from TRY23.7 million as at 31 December 2011 to TRY14.3 million as at 31 December 2012.

Türkiye Finans' available-for-sale securities accounted for 3.8 per cent. of total assets as at 31 December 2012 and increased 7.3 per cent. during the period from TRY623.8 million as at 31 December 2011 to TRY669.3 million as at 31 December 2012. As at 31 December 2012, Türkiye Finans' investment securities comprised income indexed bonds at a total face value of TRY55.0 million (compared to TRY605.0 million as at 31 December 2011) and a total carrying value amounting to TRY56.8 million (compared to TRY619.8 million as at 31 December 2011) and included sukuk at a total face value of TRY591.6 million and a total carrying value amounting to TRY608.2 million. The periodic distribution amounts under these sukuk are payable semi-annually with an annual coupon rate of 2.80 per cent. in relation to the U.S. dollar denominated sukuk and 7.40 per cent. in relation to the Turkish Lira denominated sukuk. Their maturities are 26 March 2018 and 1 October 2014, respectively. Other available-for-sale investment securities are the equity participation in Kredi Granati Fonu A.Ş. amounting to TRY4.2 million as at 31 December 2012 (compared to TRY3.0 million as at 31 December 2011).

Tangible and intangible assets

Türkiye Finans' property and equipment accounted for 1.1 per cent. of its total assets as at 31 December 2012 and increased 74.5 per cent. during the period from TRY112.7 million as at 31 December 2011 to TRY196.6 million as at 31 December 2012. This was principally as a result of a TRY71.2 million value increase in its buildings.

Türkiye Finans' intangible assets and deferred tax each accounted for 0.1 per cent. of its total assets as at 31 December 2012. Türkiye Finans' other assets accounted for 11.6 per cent. of total assets as at 31 December 2012 and comprised, amongst others, reserve deposits at the Central Bank, receivables from cheque clearing and credit card POS machines and assets held for resale. Such other assets increased significantly during the period from TRY806.7 million as at 31 December 2011 to TRY2,038.6 million as at 31 December 2012. This was principally a result of a significant increase in reserve deposits at the Central Bank from TRY656.1 million as at 31 December 2011 to TRY1,701.5 million as at 31 December 2012.

Liabilities and Shareholders' Equity

As a participation bank, Türkiye Finans does not have access to the same sources of funding as conventional banks (such as interest-bearing facilities or security portfolios). Türkiye Finans' funding base for its activities is substantially derived from: (i) customer deposits; (ii) funds borrowed; and (iii) shareholders.

Türkiye Finans had total liabilities of TRY15,361.0 million as at 31 December 2012, an increase of 29.9 per cent. from TRY11,827.7 million as at 31 December 2011. This increase was principally the result of increases in deposits from customers and funds borrowed as outlined below.

Deposits

Türkiye Finans has a diversified source of retail and commercial depositors, with deposits accounting for 72.1 per cent. of its total liabilities as at 31 December 2012, and increased 16.2 per cent. during the period from TRY9,525.9 million as at 31 December 2011 to TRY11,070.1 million as at 31 December 2012, in turn representing an 8.3 per cent. increase in deposits from current account customers and a 18.8 per cent. increase in deposits from profit sharing deposits.

The table below sets forth a breakdown of Türkiye Finans' deposits from customers by type of account and currency.

	31 December 2012		31 December 2011	
	Current account	**Profit sharing deposits**	**Current account**	**Profit sharing deposits**
	(TRY in thousands) *(audited)*			
Saving deposits (TRY)	580,048	4,797,639	537,637	4,247,746
Saving deposits (Foreign currency)	745,823	2,043,887	718,085	1,684,124
Public, commercial and other enterprises (TRY)	722,514	1,037,544	709,982	766,670
Public, commercial and other enterprises (Foreign currency)	475,446	667,156	363,967	497,728
Total deposits from customers	**2,523,831**	**8,546,226**	**2,329,671**	**7,196,268**

Türkiye Finans' deposits from banks, which accounted for 2.4 per cent. of its total liabilities as at 31 December 2012, increased during the period from TRY13.7 million (of which TRY11.9 million was denominated in foreign currencies) as at 31 December 2011 to TRY365.7 million (of which TRY62.4 million was denominated in foreign currencies) as at 31 December 2012, due to high volume deposit placements by a number of banks during that period.

Funds borrowed

Türkiye Finans' funds borrowed, which as at 31 December 2012 and 31 December 2011 were all denominated in foreign currencies, accounted for 16.3 per cent. of its total liabilities as at 31 December 2012 and increased 65.6 per cent. during the period from TRY1,512.0 million as at 31 December 2011 to TRY2,503.9 million as at 31 December 2012. This increase was a result of increases in both short term and long term funds borrowed, which were brought about as a result of Türkiye Finans' increased loan portfolio and the consequent need to fund that portfolio from third party borrowings. The majority of Türkiye Finans' funds borrowed were long term as a result of Türkiye Finans' increased focus on funding its liabilities with debt capital having longer-term maturities, accounting for 64.1 per cent. of funds borrowed as at 31 December 2012. Such long term borrowings increased 12.2 per cent. during the period from TRY1,430.1 million as at 31 December 2011 to TRY1,603.9 million as at 31 December 2012. Türkiye Finans' short term funds borrowed, which accounted for 35.9 per cent. of total funds borrowed as at 31 December 2012, increased significantly during the period from TRY81.9 million as at 31 December 2011 to TRY900.0 million as at 31 December 2012. Such short term borrowings comprised two syndicated loans, one in the principal amount of U.S.$251,500,000 and the other in the principal amount of EUR76,500,000, both facilities maturing in 2013. Türkiye Finans' long term borrowings mainly comprise bilateral loan agreements.

Provisioning and tax liabilities

Türkiye Finans' provisioning, which accounted for 0.8 per cent. of its total liabilities as at 31 December 2012, increased 36.9 per cent. during the period from TRY86.1 million as at 31 December 2011 to TRY117.9 million as at 31 December 2012. The majority of Türkiye Finans' provisioning liability derives from provisions for non-cash loans and cheques (55.1 per cent. as at 31 December 2012). Such provisioning increased 56.6 per cent. during the period from TRY41.5 million as at 31 December 2011 to TRY65.0 million as at 31 December 2012. The remaining provisioning liabilities include provision for short-term employee benefits, reserve for employee severance indemnity, provision for law suits against Türkiye Finans and provision for credit card promotions.

Türkiye Finans' current tax liabilities, which accounted for 0.1 per cent. of total liabilities as at 31 December 2012, decreased 11.8 per cent. during the period from TRY22.0 million as at 31 December 2011 to TRY19.4 million as at 31 December 2012.

Türkiye Finans' other liabilities (together amounting to 8.3 per cent. of total liabilities) comprised, amongst others, amounts payable to cheque clearing account, cash guarantees received, share capital commitment (which was not transferred to the share capital account because BRSA approval had not been received by 31 December 2012), blocked accounts, unearned income, blocked accounts against expenditures of credit card holders and taxes payable other than income tax.

Changes in equity

The statements of changes to equity are explained in detail in the IFRS Audited Annual Financial Statements (see Note 25) for the year ended 31 December 2012.

The increase in share capital of TRY850 million during the year ended 31 December 2012 compared to the previous financial year was a result of a transfer of TRY700 million from retained earnings and TRY150 million in issued and paid up share capital. Türkiye Finans' issued and paid up share capital further increased by TRY125 million with effect from February 2013.

Türkiye Finans' total TRY275 million increase of issued and paid up share capital since the beginning of 2012 was accounted for as follows:

- TRY150 million share capital was paid-up in November 2012 and approved by the BRSA in 2012; and
- TRY125 million share capital was committed until 31 December 2012 and paid-up in 2012, however, the BRSA's approval for this amount was received by Türkiye Finans in February 2013.

Cash Flows

The following table sets forth the cash flow indicators as at 31 December 2012 and 31 December 2011 respectively.

	31 December 2012	31 December 2011
	(TRY in thousands) (audited)	
Net cash used in operating activities	(888,486)	(1,542,782)
Net cash used in investing activities	(91,932)	(77,479)
Net cash provided from financing activities	1,128,993	1,372,693
Net increase/decrease in cash and cash equivalents	148,575	(247,568)
Cash and cash equivalents at 1 January	1,530,157	1,557,276
Effect of exchange rate fluctuations on cash held	(78,768)	220,449
Cash and cash equivalent at 31 December	**1,599,964**	**1,530,157**

Cash and cash equivalents include cash on hand, unrestricted balances held with the Turkish Central Bank, cash in transit and loans and advances to banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position. During the year ended 31 December 2012, the net cash inflows amounted to TRY148.6 million compared to a cash outflow of TRY247.6 million in the previous financial year. This is primarily as a result of improved liquidity management achieved by Türkiye Finans, including in relation to the use of funds in operating activities.

Off-Balance Sheet Commitments

Türkiye Finans' off-balance sheet commitments principally comprise letters of guarantee, commitments to extend credit and letters of credit. The following table sets out Türkiye Finans' significant contingencies and commitments as at 31 December 2012 and 31 December 2011.

	31 December 2012	31 December 2011
	(TRY in thousands) *(audited)*	
Letters of guarantee	6,197,780	5,565,661
Commitments	1,561,940	1,391,530
Letters of credit	618,692	727,907
Acceptances	292,225	244,971
Total	**8,670,637**	**7,930,069**

OVERVIEW OF THE TURKISH BANKING SECTOR AND REGULATIONS

Summary

The Turkish financial sector has gone through major structural changes as a result of the financial liberalisation programme that started in the early 1980s. The abolition of directed credit policies, the liberalisation of deposit and credit interest rates and liberal exchange rate policies as well as the adoption of international best standard banking regulations have accelerated the structural transformation of the Turkish banking sector. Since the 1980s, the Turkish banking sector has experienced a significant expansion and development in the number of banks, employment in the sector, diversification of services and technological infrastructure. The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001 this resulted in the collapse of several institutions, including a participation bank. The banking sector also experienced a sharp reduction in shareholders' equity in 2001, with the capital of the 22 private sector banks declining to U.S.$4,916 million at the end of 2001 from U.S.$8,056 million for 28 banks at the end of 2000, according to the Banks Association of Turkey.

The Turkish money markets and foreign exchange markets have stabilised since 2001, in large part due to regulatory reform and other governmental actions (including a three-part audit undertaken in 2001 and the first half of 2002, after which all private commercial banks were either found to be in compliance with the 8.0 per cent. minimum capital requirement, transferred to the Savings Deposits Insurance Fund ("**SDIF**"), or asked to increase their capital level). The transparency of the system was improved along with the establishment of an independent supervisory and regulatory framework and new disclosure requirements. Unfair competition from state banks was reduced while the efficiency of the system increased in general as a result of consolidation. According to the SDIF's official data, since 1994, a total of 25 private banks have been transferred to the SDIF due to, among other things, weakened financial stability and liquidity and efforts are continuing on the resolution of the SDIF banks while restructuring and privatisation of the state banks is progressing.

In August 2004, in an attempt to reduce the regulatory costs inherent in the Turkish banking system, the government reduced the rate of the Resource Utilisation Support Fund ("**RUSF**") applicable on short-term foreign currency commercial loans lent by banks domiciled in Turkey to zero. However, the 3.0 per cent. RUSF charge for some types of loans provided by banks outside of Turkey with an average repayment term of less than one year remains valid. Pursuant to recent changes in the RUSF charges in accordance with the Council of Ministers decision numbered 2012/4116 (published 1 January 2013), loans provided by banks outside of Turkey with an average repayment term of one year (including one year) to two years are subject to a 1.0 per cent. RUSF charge, those with an average repayment term of two years (including two years) to three years are subject to a 0.5 per cent. RUSF charge and those with an average repayment term of above 3 years (including 3 years) are subject to a 0 per cent. RUSF charge. In 2010, the government also increased the RUSF charge on interest of foreign currency-denominated retail loans from 10 per cent. to 15 per cent. in order to curb domestic demand fuelled by credit, which was in turn perceived to be adversely affecting Turkey's current account balance. The RUSF charge applied to consumer credits to be utilised by real persons (for non-commercial utilisation) is 15 per cent. in accordance with the Council of Minsters' decision numbered 2010/974 (published 28 October 2010).

In addition, there have been significant changes to Turkish banking legislation over the last few years.

The Banks Act No. 4389 (as amended by Laws No. 4491, 4672, 4684, 4743, 4842, 5020, 5189 and 5228) was replaced by the Banking Law No. 5411 on 1 November 2005 (the "**Banking Law**"). The Banking Law (as amended by Laws No. 5472, 5667, 5754, 5766, 6111, 6300, 6327, 6352, 6362, 6456, 6462, 6487, 6493 and 6495 and Decree No. 662) governs the activities conducted by among others commercial banks as well as participation banks. For further details please see "*Types of Banks in Turkey*" below.

Regulatory Environment

Regulatory responsibility in the Turkish banking sector is split between the BRSA, the Turkish Central Bank 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 Turkish Central Bank 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 BRSAs role is to protect the rights and benefits of depositors and to establish a competitive, disciplined and efficient banking and financial sector within Turkey. Accordingly, the BRSA is authorised to undertake all necessary steps, within the limits of the autonomy granted to it by the Banking Law, to ensure it effectively monitors and regulates the Turkish banking sector.

The BRSA has responsibility for all banks operating in Turkey, including foreign and participation banks. The BRSA sets various mandatory ratios such as capital adequacy and liquidity ratios. In addition, all banks operating in Turkey must provide the BRSA, on a regular and timely basis, with information adequate to permit off-site analysis by the BRSA of such bank's financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and annual basis, depending upon the nature of the information to be reported.

The BRSA conducts both on-site and off-site audits and supervises implementation of the provisions of the Banking Law and other legislation, examines all banking operations and analyses the relationship and balance between assets, receivables, equity capital, liabilities, profit and loss accounts and all other factors affecting a bank's financial structure. The BRSAs on-site supervision is conducted through a team of sworn bank auditors and other experts who are employed by the BRSA. In addition, the chairman of the BRSA has the authority to commission independent audit teams to examine specific matters within any bank that the chairman deems appropriate.

In addition to the above-mentioned requirements, pursuant to the regulation regarding the Internal Systems of Banks (as issued by the BRSA and published in the Official Gazette dated 28 June 2012 and numbered 28337), banks in Turkey are required to establish, manage and develop (for themselves, and all of their branches, regional directorates and units and all of their consolidated affiliates) internal audit and risk management systems in line with the scope and structure of their organisations, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. Furthermore, pursuant to Article 20 of the regulation, internal control personnel cannot have any other duties.

The Participation Banks Association of Turkey

The Participation Banks Association of Turkey ("**PBAT**"), established in accordance with the Banking Law, acts as an organisation with limited supervision and coordination in respect of participation banks. All participation banks in Turkey are obliged to become members of this association. As the representative body of the participation banking sector, the association aims to examine, protect and promote its members' professional interests.

Pursuant to Article 79 of the Banking Law, deposit banks and investment banks are obliged to become members of the Banks Association of Turkey and participation banks are obliged to become members of the PBAT within one month following obtaining their operation permit. Both of the 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 Turkish Central Bank

The Turkish Central Bank 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 Turkish Central Bank exercises its powers independently of the government and is responsible for its affairs within the bounds of the Government's defined policies.

Currently, the Turkish Central Bank 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 Turkish Central Bank also acts as the Government's treasurer, financial agent and economic adviser. The Turkish Central Bank uses various monetary tools to implement its functions, including open market operations, setting reserve and liquidity ratios, determining discount rates and controlling short term interest rates. The Turkish Central Bank 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 Turkish Central Bank, 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 Türkiye Finans as of the date of this Prospectus is 0.13 per cent. of the deposits and participation funds subject to insurance. The SDIF may borrow with the authorisation of the Treasury and/or if necessary, the Treasury can issue government securities, the proceeds of which shall be allocated to the SDIF. The principles and procedures regarding government securities including their interest rates and terms and conditions of repayments to the Treasury are determined collectively by the Treasury and the SDIF.

In extraordinary circumstances, where the resources of the SDIF do not match its needs, the Turkish Central Bank may advance funds to the SDIF upon the request by the SDIF. The maturity, amounts, repayment conditions, interest rates and other conditions of the advance will be determined by the Turkish Central Bank 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**") are the only banks which are under the supervision and administration of the SDIF. BFB has been incorporated by the SDIF by merging the assets of Etibank A.Ş, Iktisat Bankası T.A.Ş, Interbank A.Ş, Esbank A.Ş, EGSBank A.Ş, Kentbank A.Ş. and Toprakbank A.Ş. into Bayındırbank A.Ş and by converting the latter into BFB.

Types of Banks in Turkey

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

The following table sets out certain statistical information for the Turkish banking sector as at 31 December 2013 (the latest date for which such figures are available) under BRSA accounting principles.

	Public Sector Banks	Private Sector Banks	Foreign Banks	Development and Investment Bank	Participation Banks	Total
			(*TRY in millions, where applicable*)			
Total assets	532,944.69	878,111.04	321,345.68	70,136.95	96,074.73	1,732,401.41
Total loans	309,093.14	543,839.09	194,483.33	45,613.68	62,029.46	1,047,415.55
Total deposits	300,555.36	470,137.27	175,077.34	20,309,583	61,313.32	945,769.97
Total shareholders'	61,073.73	99,926.09	32,725.12	18,937.75	8,832	193,724.94
Net income	8,393.98	13,849.85	24,21.92	1,140.65	1051.61	24,665.76
Number of domestic branches	3,389	5,596	2,918	40	961	11,903
Number of domestic employees	58,552	98,941	55,938	5,224	16,712	213,431
Number of banks	9	16	24	13	4	49

Source: BRSA.

Note: *Banks controlled by the SDIF are not included in these figures*

The public and private sector commercial banks form the majority of the Turkish banking sector in terms of assets and operations. The three public sector banks, which all have large branch networks, were originally established with social rather than profit objectives, principally to provide services to certain sectors of the working population. Private sector commercial banks are comprised of full-service banks and corporate/trade finance-orientated banks. The four largest private commercial banks are Türkiye İş Bankası A.Ş., Türkiye Garanti Bankası A.Ş. ("**Garanti Bankası**"), Akbank T.A.Ş. ("**Akbank**") and Yapi Kredı 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. Latterly in September 2012, Sberbank acquired 99.85 per cent. of Denizbank from Dexia for U.S.$3.6 billion (subject to post-closing adjustments). In January 2007, Citigroup acquired a 20 per cent. stake in Akbank and later in the same year ING acquired Oyakbank for U.S.$2.7 billion. More recently, in March 2011, General Electric Co. and Doğuş Holding A.Ş. sold their 18.6 per cent. and 6.3 per cent. stakes, respectively, in Garanti Bankası to Banco Bilbao Vizcaya Argentaria S.A. ("**BBVA**") for U.S.$3.8 billion and U.S.$2 billion, respectively In December 2012, Burgan

Bank SAK purchased 99.3 per cent. of Eurobank Tekfen A.Ş. for US $355 million. The Commercial Bank of Qatar (Q.S.C.) acquired 70.84 per cent. of Alternatif Bank A.Ş. in July 2013 by paying two times book value at 30 June 2013.

In October 2011, the BRSA approved the application of Bank Audi s.a.l-Audi Saradar Group to establish a new deposit bank in Turkey, Odea Bank A.Ş., which was later granted an operation permit in September 2012. Since 1997, this was the BRSAs first authorisation to establish a deposit bank in Turkey. Later in 2012, the BRSA also approved The Bank of Tokyo-Mitsubishi UFJ's application to establish a deposit bank and The Bank of Tokyo-Mitsubishi UFJ was granted an operation permit in September 2013. In August 2013, Rabobank International Holding B.V. was granted an authorisation to establish a deposit bank in Turkey.

Development banks are funded by international banks and institutions such as the World Bank. Their objective is to provide medium and long-term financing to Turkish companies that cannot raise such funding easily through the market. These banks do not accept customer deposits.

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

Public Sector Commercial Banks

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

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

The following table sets out the three state-owned commercial banks in Turkey, ranked for size of assets under Turkish GAAP accounting principles as at the dates presented.

Bank	**Total Assets as at 30 September 2013**	**Number of branches as at 30 September 2013**
	(*TRL in thousands*)	
Vakıflar Bankasi T.A.O.	131,143,564	844
Türkiye Halk Bankası	130,264,688	872
T.C. Ziraat Bankası	199,151,534	1,613

Source: *The Banks Association of Turkey; BRSA.*

According to the BRSA, total loans provided by these banks as at 31 September 2013 were TRY267,018,543 million. Through their broad branch networks and ownership structures, these banks have traditionally been able to collect deposits and thereby access cost-efficient funding sources.

Private Sector Commercial Banks

Private sector commercial banks comprise full-service banks and corporate/trade finance-oriented banks. Private sector commercial banks can be divided into large and small branch network commercial banks. Most private sector banks belong to large industrial groups, which may provide additional support to the banks.

The following table ranks the larger branch network private sector commercial banks by asset size under BRSA accounting principles as at the dates presented.

Bank	Ownership	Total Assets as at 30 September 2013	Number of branches as at 30 September 2013
		(*TRY in thousands*)	
Türkiye İş Bankası A.Ş.	Bank Pension Fund; Republican People's Party	233,510,224	1,296
Türkiye Garanti Bankası A.Ş.	Doğuş Group and BBVA	211,430,651	974
Akbank T. A.Ş.	Sabanci Group	191,307,434	975
Yapi ve Kredı Bankası A.Ş.	Koç Financial Services and	153,215,638	939
Türk Ekonomi Bankası A.Ş.	TEB Holding A.Ş., BNP Yatirimlar Holding A.Ş. and BNP Paribas	54,109,176	537
Şekerbank	Employee Pension Funds, Samruk Kazyna and BTA Securities JSC	18,670,382	284

Source: *The Banks Association of Turkey; BRSA.*

The following table ranks the small branch network private sector commercial banks by asset size as at the dates presented.

Bank	Ownership	Total Assets as at 30 September 2013	Number of branches as at 30 September 2013
		(*TRY in thousands*)	
Anadolubank A.Ş.	Habas Group	8,549,057	111
Alternatif Bank A.Ş.	Commercial Bank of Qatar and Anadolu Endüstri Group	9,434,115	73
Tekstil Bankasi A.Ş.	GSD Group	3,737,017	44
Fibabanka A.Ş.	Fiba Holding A.Ş. and Özyol Holding A.Ş.;	6,141,718	56
Turkish Bank A.Ş.	National Bank of Kuwait and Mehmet Tanju Özyol	1,042,584	19
Adabank	Transferred to SDIF	49,814	1

Source: *The Banks Association of Turkey; BRSA.*

Note: As at the date of this Prospectus, Total Assets and number of branches as at 31 December 2013 were unavailable from 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 11 privately owned commercial banks, apart from the four largest banks, there are seven medium sized privately owned commercial banks. Two private sector commercial banks are smaller banks, which have, in aggregate, relatively negligible banking market share (i.e. having less than U.S.$1 billion in total assets).

Foreign Commercial Banks

The strengthening of regulations and the transparency of the Turkish economy over the past decade has resulted in an increase in the number of foreign commercial banks operating in Turkey. As at the date of this Prospectus there are 17 foreign banks in total, 12 of which are locally incorporated banks and five of which are Turkish branches of foreign banks.

The table below indicates certain information regarding foreign commercial banks in Turkey, together with their asset size, under Turkish GAAP accounting principles as at the dates presented.

Locally Incorporated Banks	Ownership	Total Assets as at 30 September 2013	Number of branches as at 30 September 2013
		(*TRY in thousands*)	
Finansbank A.Ş.	National Bank of Greece S.A.	64,425,978	658
Denizbank A.Ş.	Sberbank of Russia	73,275,845	680
HSBC Bank A.Ş.	HSBC Bank PLC	35,528,939	335
ING Bank A.Ş.	ING Bank N.V.	32,366,150	331
Citibank A.Ş.	Citi Group	7,887,832	8
Burgan Bank A.Ş.	Burgan Bank S.A.K.	6,484,103	60
Deutsche Bank A.Ş.	Deutsche Bank AG	2,917,274	1
Türkland Bank A.Ş.	Arab Bank Suisse; Arab Bank; BankMed	3,715,998	27
Arab Türk Bankası A.Ş.	Libyan Arab Foreign Bank Tripoli Libya	3,274,666	7
Odea Bank A.Ş.	Bank Audi Sal and Audi Saradar Private Bank Sal	13,430,830	24
Fibabanka A.Ş.	Fiba Holding	6,141,718	56
Branches of Foreign Bank	**Country of Incorporation**		
The Royal Bank of Scotland	Scotland	3,344,244	1
Société Générale	France	820,210	16
JP Morgan Chase Bank N.A.	United States	325,046	1
Bank Mellat	Iran	314,337	3
Portigon AG	Germany	194,586	1
Habib Bank Limited	Pakistan	92,408	1

Source: *The Banks Association of Turkey; BRSA.*

Note: As at the date of this Prospectus, Total Assets and number of branches as at 31 December 2013 were unavailable from The Banks Association of Turkey.

Development and Investment Banks

Development banks are funded by the Turkish Central Bank, international banks and institutions such as the World Bank, the European Investment Bank and various export credit agencies. Their objective is to provide medium and long-term financing to large and medium sized companies on a project basis. Development banks do not accept deposits and are also active in foreign exchange and securities transactions. These banks are not subject to the Banking Law.

There are four state-owned, six privately-owned and three foreign development and investment banks in Turkey. The following table indicates these banks and their assets and number of branches as at the dates presented.

Bank	Total Assets as at 30 September 2013	Number of branches as at 30 September 2013
	(*TRY in thousands*)	
State-owned Development Banks		
Iller Bankasi A.Ş.	13,663,871	19
Türk Eximbank	22,147,617	1
Türkiye Kalkınma Bankasi A.Ş	3,612,628	1
Istanbul Takas ve Saklama Bankasi A.Ş.	4,970,206	1
Privately-owned Development and Investment Banks		
Türkiye Sinayi Kalkınma Bankası A.Ş	12,784,757	3
Aktif Yatırım Bankası A.Ş	5,094,745	8
Nurol Yatırım Bankası A.Ş	360,266	2
GSD Yatırım Bankası A.Ş	130,397	1
Diler Yatırım Bankası A.Ş	107,180	1
Taib Yatırım Bankası A.Ş	53,652	1
Foreign Development and Investment Banks		
BankPozitif Kredı ve Kalkınma Bankası	2,232,626	1
Merrill Lynch Yatırım Bankası	790,899	1
Standard Chartered Yatirim Bankasi Turk A.Ş.	63,532	1

Source: *The Banks Association of Turkey; BRSA.*

Note: As at the date of this Prospectus, Total Assets and number of branches as at 31 December 2013 were unavailable from 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 four participation banks operating in Turkey, and each of these participation banks is a member of PBAT.

The table below sets out the four participation banks in Turkey, ranked by size of assets under Turkish GAAP accounting principles as at the dates presented.

Bank	Total Assets as at 30 September 2013	Number of branches as at 30 September 2013
	(*TRY in thousands*)	
Bank Asya	28,388,103	281
Türkiye Finans	23,298,470	250
Kuveyt Türk	23,625,282	262
Al Baraka Türk	15,424,197	145

Source: *The Banks Association of Turkey; BRSA.*

Note: As at the date of this Prospectus, Total Assets and number of branches as at 31 December 2013 were unavailable from The Banks Association of Turkey.

Key Regulatory Characteristics of the Turkish Banking System

Collection of Funds and Financing Activities of Participation Banks

Participation banks may collect funds in two ways:

(i) "**special current accounts**" (an account that consists of funds that can be partially or fully withdrawn by a depositor. No payment of interest or income is made to the account holder); and

(ii) "**participation accounts**" (an account that consists of funds that yield a participation in the loss or profit arising from their use by the relevant financial institutions. Such accounts do not require payments of pre-determined return).

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

Shareholding

The direct or indirect acquisition by a person of shares that represent 10 per cent. or more of the share capital of any bank, or the direct or indirect acquisition or disposal of such shares by a person if the total number of shares held by such shareholder increases above or falls below 10 per cent., 20 per cent., 33 per cent. or 50 per cent. of the share capital in that bank, requires the permission of the BRSA in order to preserve full voting and other shareholders' rights associated with such shares. In addition, irrespective of the above thresholds, an issuance assignment and transfer of: (i) preference shares to which attach the right to nominate a member to the board of directors or audit committee; or (ii) issuance of new shares with such preferences is also subject to the authorisation of the BRSA. In the absence of such authorisation, a holder of such thresholds of shares cannot be registered in the share register, which effectively deprives such shareholder of the ability to participate in shareholder meetings or to exercise voting or other shareholders' rights with respect to the shares, but not of the right to collect dividends declared on such shares. Registrations made in the share ledger in the absence of such authorisation are invalid.

The board of directors of a bank is responsible for ensuring that shareholders attending general assemblies have obtained the applicable authorisations from the BRSA. If the BRSA determines that a shareholder has exercised voting or other shareholder's rights (other than the right to collect dividends) without due authorisation as described in the preceding paragraph, then it is authorised to direct the board of directors of a bank to cancel any applicable general assembly resolutions (including by way of taking any necessary precautions concerning such banks within its authority under the Banking Law if such procedure has not been stated yet). lf 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 credits, accrued but not collected interest, amounts of non-cash credits converted into cash, receivables arising from reverse repo transactions and risks undertaken due to the futures and options contracts and other similar contracts, partnership interests and shareholding interests are considered as a credit irrespective of the account through which they are traced. Credits directly or indirectly extended to, a real person or legal entity in excess of 10 per cent. of the bank's equity capital are to be considered major credits and the total of such major credits, cannot exceed eight times its equity capital.

- The Banking Law restricts the total financial exposure (including extension of credits, issuance of guarantees, etc.) that a bank may have to any one customer or a risk group, directly or indirectly, to 25 per cent. of its equity capital. In calculating such limit, a credit extended to an unincorporated partnership is deemed to be extended to the partners in proportion to their liabilities. A risk group is defined as an individual, his or her spouse and children and partnership(s) in which any one of such persons is a director or general manager, as well as partnerships that are directly or indirectly controlled by any one of such persons, either individually or jointly with third parties, or in which anyone of such persons participate with unlimited liability. Furthermore, a bank, its shareholders holding 10 per cent. or more of the bank's voting rights or the right to nominate board members, its board members, its general manager and partnerships directly or indirectly, individually or jointly, controlled by any of these persons or a partnership in which these persons participate with unlimited liability, constitute a risk group, for which the lending limits are reduced to 20 per cent. of a bank's equity capital, subject to the BRSA's discretion to increase such lending limits up to 25 per cent. Real and legal persons having surety, guarantee or similar relationships where the insolvency of one is likely to lead to the insolvency of the other are included in the applicable risk groups. Lending limits shall be applied as 20 per cent. for the risk group consisting of a bank together with its qualified shareholders (as defined in the Banking Law), members of board of directors and general managers as well as the partnerships controlled by the same individually or jointly, directly or indirectly.

- Loans made available to a bank's or other registered shareholders holding more than one per cent. of the share capital of the bank irrespective of whether these are controlling shareholders or qualified shareholders and their risk groups may not exceed 50 per cent. of the bank's equity capital.

Banks are obliged to regularly report to the BRSA any loans extended to persons who are in their risk groups. The banks are obliged to liquidate loans that are made in violation of applicable regulations by no later than six months after being so requested.

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

Pursuant to Article 55 of the Banking Law, the following transactions are exempt from the above-mentioned lending limits:

- transactions collateralised with cash, cash-like assets and accounts and precious metals;

- transactions carried out with the Treasury, the Turkish Central Bank, 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 Turkish Central Bank 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 "deductables" 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 this article are considered as expenditures deductable from the corporate tax base in the year they are set aside.

Procedures relating to loan loss reserves for non-performing loans are set out in Article 53 of the Banking Law and in regulations issued by the BRSA. Pursuant to the Regulation on the Principles and Procedures Related to the Determination of Qualifications of the Loans and other Receivables by Banks and the Provisions to be Set Aside (the "**Regulation**") (as amended), banks are required to classify their loans and receivables into one of the following groups:

1. *Standard Loans and Other Receivables*: This group involves loans and other receivables:

   (a) that have been disbursed to natural persons and legal entities with financial creditworthiness;

   (b) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor;

   (c) the reimbursement of which has been made within specified periods, for which no reimbursement problems are expected in the future and which can be fully collected; or

   (d) for which no weakening of the creditworthiness of the debtor concerned has been found.

The terms of a bank's loans and receivables which have been classified into this group may be modified provided they continue to meet the classification requirements for this group. However, in the event that such modification relates to the extension of the initial payment plan under the loan or receivable, a general loan provision, not being less than five times the sum of one per cent. of the cash loan portfolio plus 0.2 per cent. of the non-cash loan portfolio (for example, letters of guarantee, acceptance credits, letters of credit undertakings and endorsements) (these rates may be applied by banks for cash and non-cash export loan portfolios as 0 per cent., for cash loan portfolio extended to small and medium sized enterprises as 0.5 per cent. and for non-cash loan portfolio of small and medium sized enterprises as 0.1 per cent.) is required to be set aside and such modifications are required to be disclosed in the financial reports which are disclosed to the public. This ratio is required to be at least 2.5 times the Consumer Loans Provisions (as defined below in the second paragraph of the section titled "*General Provisions*") for amended consumer loan agreements (other than auto and housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof are made in a timely manner and provided that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

2. *Closely Monitored Loans and Other Receivables:* This group involves loans and other receivables:

   (a) that have been disbursed to natural persons and legal entities with financial creditworthiness and for the principal and interest payments of which there is no problem at present, but which need to be monitored closely due to reasons such as negative changes in the solvency or cash flow of the debtor, probable materialisation of the latter or significant financial risk carried by the person utilising the loan;

(b) whose principal and interest payments according to the conditions of the loan agreement are not likely to be repaid according to the terms of the loan agreement and where the persistence of such problems might result in partial or full non-reimbursement risk;

(c) which are very likely to be repaid but where the collection of principal and interest have not been made for justifiable reasons and are delayed for more than 30 days but do not fall within the scope of loans or other receivables with limited recovery as grouped in the group 3 below; or

(d) although the standing of the debtor has not weakened, there is a high likelihood of it weakening due to the debtor's irregular cash flow which is difficult to control.

Where a bank provides a loan to a customer which falls within the classification requirements set out above for this group, that customer's entire loan portfolio will be classified in this group, notwithstanding the fact that certain loans within that customer's portfolio may fall within the classification requirements for this group (*Standard Loans and Other Receivables*). The terms of a bank's loans and receivables which fall within the classification requirements of this group may be modified provided they continue to meet the classification requirements for this group. However, in the event that such modification relates to the extension of the initial payment plan under the loan or receivable, a general loan provision, not being less than 2.5 times the sum of 2 per cent. of the cash loan portfolio plus 0.4 per cent. of the non-cash loan portfolio for closely-monitored loans will be set aside and such modifications are required to be disclosed in the financial reports which are disclosed to the public. This ratio is required to be at least 1.25 times the Consumer Loans Provisions (as defined below) for amended consumer loan agreements (other than auto and housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof are made in a timely manner and provided that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

3. *Loans and Other Receivables with Limited Collection Ability:* This group involves loans and other receivables:

(a) with limited collectability due to the resources of, or the securities furnished by, the debtor being found insufficient to meet the debt on the due date, and where if the problems observed are not eliminated, they are likely to give rise to loss;

(b) the credibility of whose debtor has weakened and where the loan is deemed to have weakened;

(c) collection of whose principal and interest or both has been delayed for more than 90 days but not more than 180 days from the due date; or

(d) in connection with which the bank is of the opinion the principal or interest of the loan or both will be delayed for more than 90 days from the due date owing to reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity.

4. *Loans and Other Receivables with Remote Collection Ability:* This group involves loans and other receivables:

(a) that seem unlikely to be repaid or liquidated under existing conditions;

(b) in connection with which there is a strong likelihood that the bank will not be able to collect the full loan amount that has become due or payable under the terms stated in the loan agreement;

(c) where the debtor's creditworthiness is deemed to have significantly weakened but which are not considered as an actual loss, yet due to such factors as a merger, the possibility of finding new financing or a capital increase; or

(d) there is a delay of more than 180 days but not more than one year from the date on which credit amount has become due or payable in the collection of the principal or interest or both.

5. *Loans and Other Receivables Considered as Losses:* This group involves loans and other receivables:

   (a) that are deemed to be uncollectable;

   (b) collection of whose principal or interest or both has been delayed by one year or more from the date on which they have become due or payable; or

   (c) for which, although carrying the characteristics stated in groups 3 or 4 above, the bank is of the opinion that they have become weakened and that the debtor has lost his creditworthiness due to the strong possibility that it will not be possible to fully collect the amounts that have become due and payable within a period of over one year.

General Provisions

Turkish law also requires Turkish banks to provide a general reserve calculated at one per cent. of the cash loan portfolio plus 0.2 per cent. of the non-cash loan portfolio (letters of guarantee, acceptance credits, letters of credit undertakings and endorsements) for standard loans; and a general reserve calculated at 2 per cent. of the cash loan portfolio plus 0.4 per cent. of the non-cash loan portfolio for closely-monitored loans. In addition, 25 per cent. of the above-mentioned rates will be applied for each cheque that remains uncollected for a period of five years after issuance.

Pursuant to Article 7/2 of the Regulation, banks which have a consumer loan ratio which exceeds 25 per cent. of its total loans and banks which have a non-performing consumer loan ratio (non-performing consumer loans being consumer loans which are classified as frozen receivables, excluding housing loans) greater than eight per cent. of their total consumer loans (excluding housing loans) (as calculated pursuant to the unconsolidated financial data prepared as of the general reserve calculation period) are required to set aside a four per cent. general provision for outstanding but not yet due consumer loans (excluding housing loans) under group 1 above and an 8 per cent. general provision for outstanding but not yet due consumer loans (excluding housing loans) under group 2 above (the "**Consumer Loans Provisions**")

Pursuant to Article 7/3 of the Regulation, if the sum of the letters of guarantee, acceptance credits, letters of credit undertakings, endorsements, purchase guarantees in security issuances, factoring guarantees or other guarantees and sureties and unsecured pre-financing loans of a bank is higher than ten times its equity calculated pursuant to the Regulation on Equity of Banks, a 0.3 per cent. general provision ratio is required to be applied by such bank for all of its standard non-cash loans. Notwithstanding the above ratio, and by taking into consideration the standard capital adequacy ratio, the BRSA may apply the same ratio or a higher ratio as the general reserve requirement ratio.

Special Provisions

The banks should also set aside general provisions for the amounts monitored under the accounts of "Receivables from Derivative Financial Instruments" on the basis of the sums to be computed by multiplying them by the rates of conversion into credit indicated in Article 12 of the Regulation on Loan Transactions of Banks by applying the general provision rate applicable for cash loans. Apart from the general provisions, special provisions must be set aside for the loans and receivables classified as belonging to groups 3, 4 and 5 described above in the minimum amounts of 20 per cent., 50 per cent. and 100 per cent., respectively, starting from the date on which they will be classified as falling under these groups.

Pursuant to these regulations, all loans and receivables in groups 3, 4 and 5 above, irrespective of whether any interest or other similar obligations of the debtor are applicable on the principal or whether the receivables have been refinanced, are defined as "frozen receivables." If several loans have been extended to a loan customer by the same bank and if any of these loans is considered as a frozen receivable, then all outstanding risks of such loan customer are classified in the same group as the frozen receivable even if such loans would not otherwise fall under the same group as such frozen receivable. If the loan which became a frozen receivable is repaid in full, then the other loans of the loan customer may be re-classified into the applicable group as if there were no related frozen receivable.

Pursuant to Article 14/4 of the Regulation, the term "interest" refers to "share of profit" in respect of the funds extended by the participation banks.

Pursuant to Articles 14/1, 2 and 3 of the Regulation, the general and special provisions set aside for the funds and other receivables extended from participation accounts are required to be reflected in the expense accounts and participation accounts according to the rate of participation in loss to be determined in accordance with the relevant regulation. The participation banks are entitled to reflect the portion corresponding to the participation accounts, in their expense accounts provided that they obtain the approval of their shareholders' general assembly. Additionally, provided that the participation account agreements permit them, the participation banks are also entitled to set aside: (i) a portion of up to 5 per cent. of the profit amount to be distributed to participation accounts, (ii) collections from the written off loans arising from participation accounts; and (iii) cancellations of participation share of the general and special provisions, as provisions to be utilised to meet the general and special provisions and the SDIF premium.

Banks must also monitor the following types of security based upon their classification:

Category I Collateral: Cash, deposits, participation funds and gold deposit accounts that are secured by pledge or assignment agreements; repurchase agreement proceeds secured by promissory notes, debenture bonds and similar securities issued directly or guaranteed by the Turkish Central Bank, 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 Turkish Central Bank, the Mass Housing Administration or the Privatisation Administration and transactions secured by promissory notes, debenture bonds, lease certificates (issued within the scope of the Law on Public Financing and Debt Management dated 28 March 2002 and numbered 4749) and similar securities issued directly or guaranteed by such administrations; securities issued directly or guaranteed by the central governments or central banks of countries that are members of the Organisation for Economic Co-operation and Development ("**OECD**") and guarantees and sureties issued by such authorities; guarantees and sureties issued by banks operating in OECD member countries and securities issued directly or guaranteed by the European Central Bank and guarantees and sureties issued by it; sureties and letters of guarantee, avals, acceptances and endorsements issued by banks operating in Turkey in compliance with their maximum lending limits; and bonds and debentures issued by banks operating in Turkey, lease certificates funds of which are utilised by banks operating in Turkey and mortgage backed and asset backed securities issued by such banks.

Category II Collateral: Precious metals other than gold; shares quoted on a stock exchange; A-type investment fund participation certificates; asset-backed securities and private sector bonds except ones issued by the borrower; credit derivatives agreements providing protection against credit risk; the assignment or pledge of accrued allowance entitlements of real or legal persons from public agencies; liquid securities, negotiable instruments representing commodities, other types of commodities and movables pledged at a value not higher than market value; mortgages on property registered with the land registry and mortgages on real property built on allocated real estate provided that their appraised value is sufficient; export documents based on marine bill of lading or transport bills, or insured within the scope of an exportation loan insurance policy, and bills of exchange stemming from actual trading relations, which are received from natural persons and legal entities.

Category III Collateral: Commercial enterprise pledges, other export documents, vehicle pledges, commercial vehicle live pledges and commercial vehicle number plate pledge, mortgages on aircraft or ships, suretyships of natural persons or legal entities whose creditworthiness is higher than the borrower and other client promissory notes of natural persons and legal entities.

Category IV Collateral: Any other security not otherwise included in Categories I, II or III.

While calculating the special provision requirements for non-performing loans, the value of collateral received from the borrower will be deducted from the frozen receivables in groups 3, 4 and 5 above in the following proportions in order to determine the amount that will be subject to special provisioning:

Discount Ratio	Discount Rate
Category I Collateral	100%
Category II Collateral	75%
Category III Collateral	50%
Category IV Collateral	25%

The value of the collateral should not exceed the non-performing loan. In case the value of the collateral exceeds the amount of the non-performing loan, the above-mentioned rates of consideration are applied only to the portion of the collateral that is equal to the amount of the non-performing loan. The amount to be found after applying these rates on this portion will be equal to the amount to be deducted.

According to Article 11 of the Regulation, in the event of a borrower's failure to repay loans or any other receivables due to a temporary lack of liquidity that the borrower is facing, a bank is allowed to refinance the borrower with additional funding through extension of new loans, if required, and structure a new repayment plan in order to strengthen the borrower's liquidity position and to collect its receivables. Despite such refinancing or new repayment plan, such loans and other receivables are required to be monitored in their current loan groups (whether 3, 4 or 5) for at least the following six-month period and within this six month period, special provisions for such receivables will be set aside at the relevant loan group provisioning level. After this six-month period of monitoring, if total collections reach at least 15 per cent. of the total receivables for restructured loans and the payments are made on their due dates, then the remaining receivables may be transferred to the "Refinanced/Restructured Loans and Receivables" account. The bank may refinance the borrower for a second time if the borrower fails to repay the refinanced loan; provided that 20 per cent. of the outstanding principal of the refinanced loans and of other receivables are collected on a yearly basis.

The Regulation has been subject to a series of amendments. Pursuant to the amendment dated 21 September 2012, the BRSA is entitled to increase the provision rates for general and special reserves, taking into consideration the sector and country risks of the borrower, and banks are required to reserve adequate provisions for loans and other receivables until the end of the month on which the payments of such loans and receivables has been delayed.

Furthermore, according to the same amendment, the dates and ratios for compliance with general reserves requirement have been revised and banks are required to set aside general reserve amounts indicated under the general reserve provision of at least 40 per cent. by 31 December 2012, at least 60 per cent. by 31 December 2013, at least 80 per cent. by 31 December 2014, 100 per cent. by 31 December 2015.

The Regulation was further amended on 7 February 2014. According to Provisional Article 5 of the Regulation, which will be effective until December 31, 2014, loans and other receivables classified as Closely Monitored Loans and Other Receivables (group 2) granted to persons or legal entities residing in Libya or engaged in activities relating to Libya can be restructured twice. Furthermore, such loans and other receivables subject to a new redemption plan may be classified as Standard Loans and Other Receivables; provided that at least 10 per cent. of the total sum of receivables has been repaid. If such loans and other receivables become subject to a redemption plan for a second time as a result of new loans having been utilised, then such loans and receivables shall be classified as Loans and Other Receivables with Limited 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 borrower fails to repay such loans or any other receivables, then a bank is allowed to refinance the borrower with additional funding through extension of new loans, if required, and structure a new repayment plan in order to strengthen the borrower's liquidity position and to collect its receivables up to three times.

According to Provisional Article 6 of the Regulation, which will be effective until 31 December 2013, loans and receivables classified as Closely Monitored Loans and Other Receivables (group 2) that were granted to be used in the maritime sector can be restructured twice. Furthermore, such loans and other receivables subject to a new redemption plan may be classified as Standard Loans and Other Receivables (group 1) provided that at least 10 per cent. of the total debt has been repaid. Any such debt classified under group 1 that is reclassified as group 2 debt or that is restructured or is continued to be monitored under group 2 as the agreed conditions for reclassification were not adhered to and are restructured once again may be reclassified as group 1; provided that at least 15 per cent. of the total debt has been repaid. If such loans and receivables become subject to a redemption plan for a second time by granting new loans, then such loans and receivables shall be classified as group 3 until 5 per cent. of the total debt has been repaid. As long as such percentage of payments foreseen in the redemption plan are made within the payment periods envisaged for group 3, it is in the bank's discretion to set aside special provisions for such loans and receivables.

In addition, pursuant to Provisional Article 6(b) described above, if there are any loans and receivables that are classified in groups 3, 4 and 5, other than those relating to the maritime sector shall be reclassified in the same group as such debt. However, setting aside special provisions in the ratio foreseen by the related group for these loans is in the discretion of banks. So long as the classification methods as set out in the regulation are complied with, if a borrower fails to repay such loans or receivables due to a temporary lack of liquidity, then the bank is allowed to refinance the borrower with additional funding through extension of new loans, if required, and structure a new repayment plan in order to strengthen the borrower's liquidity position and to collect its receivables up to three times.

According to Provisional Article 7 of the Regulation, which will be effective until 31 December 2013, restructured debts classified as group 2 that were granted by banks to real persons or legal entities residing in Syria or engaged in activities relating to Syria who reside in Turkey or in any other foreign country may be classified under group 1 receivables; provided that at least 10 per cent. of the total debt has been repaid. Any such debt classified under group 1 that is reclassified as group 2 or that is restructured or is continued to be monitored under group 2 as the agreed conditions for reclassification were not adhered to and are restructured again may be reclassified as group 1; provided that at least 15 per cent. of the total debt has been repaid. If such loans and receivables become subject to a redemption plan for a second time by granting new loans, then such loans and receivables shall be classified as group 3 until 5 per cent. of the total debt has been repaid. As long as such percentage of payments foreseen in the redemption plan are made within the payment periods envisaged for group 3, it is in the bank's discretion to set aside special provisions for such loans and receivables.

Pursuant to Provisional Article 7(b), if real persons or legal entities residing in Syria or having business activities relating to Syria who reside in Turkey or in any other foreign country incur other debts that are classified under group 3, 4 or 5, then the debt relating to Syria will be reclassified in the same group as such debt; however, setting aside special provisions in the ratio foreseen by the related group for these loans is at the discretion of the banks. So long as the classification methods as set out in the regulation are complied with, if a borrower fails to repay such debt due to a temporary lack of liquidity, then a bank is allowed to refinance the borrower with additional funding through extension of new loans, if required, and structure a new repayment plan in order to strengthen the borrower's liquidity position and to collect its receivables up to three times.

Pursuant to Provisional Article 8 of the Regulation, the banks will set aside 25 per cent. of the increased amounts of general provisions for consumer loans other than housing loans due to the amendments made to the Regulation as at 31 December 2013, 50 per cent. of such increased amounts as at 31 December 2014 and 100 per cent. of such amount as at 31 December 2015.

Any debt restructured pursuant to Provisional Articles 5(b), 6(b) or 7(b) may be transferred to the "Renewed/Restructured Loans Account" if:

- at least 5 per cent. per cent. of the total debt in the first restructuring has been repaid and the restructured loans and receivables have been monitored under their respective group(s) for a period of at least three months,
- at least 10 per cent. of the total/debt in the second restructuring has been repaid and the restructured loans and receivables have been monitored under their respective group(s) for a period of six months,
- at least 15 per cent. of the total debt in the third restructuring has been repaid and the restructured loans and receivables have been monitored under their respective group(s) for a period of one year, and
- the payments foreseen in the payment plan are not delayed.

Exchange Rate Exposure

According to the Calculation of the Standard Ratio of the Net Short Foreign Currency Position to the Capital Base on a Consolidated and an Unconsolidated Basis by the Banks and its Implementation (the "**Calculation Regulation**"), banks are obliged to calculate the standard ratio of their net short foreign currency position to their capital base daily in accordance with the criteria on the declaration forms to be sent to the BRSA by the banks. The weekly average of the absolute values of the standard ratios of a bank's net short foreign currency position to its capital base, calculated over the working days in that week, cannot exceed 20 per cent., based on both consolidated and non-consolidated financials.

Capital Adequacy

Within the framework of implementation of Basel III, BRSA has issued the Regulation on Banks' Own Funds ("**Regulation on Capital**"). The purpose of the Regulation on Capital is stated by the BRSA as the increasing and strengthening of banks' capital in qualitative and quantitative manner. The Regulation on Capital entered into force as of 1 January 2014.

Banks' own funds consist of (i) main capital (Tier I capital); and (ii) additional capital (Tier II capital). Main capital consists of "core capital" and Tier I borrowings. Pursuant to Article 3 of the Amendment on the Regulation on the Measurement and Evaluation of Banks' Capital Adequacy put into force as of 1 January 2014 (the "**Amendment Regulation**"), the purpose of which is to enhance the capital structure of the banks in a qualitative, as well as a quantitative manner, the minimum core capital adequacy ratio is 4.5 per cent. and minimum consolidated Tier I capital adequacy ratio is 6 per cent. Article 6 of the Amendment Regulation, increases the risk weights of some of the assets in the balance sheet of a bank, such as share certificates acquired by the banks exceeding the limits provided under Article 56 of Banking Law, in the calculation of a bank's capital adequacy ratio.

Core capital will be calculated by applying the ratios set out in the Regulation on Capital to the aggregated sum of the following:

- paid up equity which can be distributed to the shareholders only after all payments have been made to the creditors of a bank in the event of its liquidation;
- emission premiums of share certificates issued;
- profits obtained as a result of cancellation of share certificates;
- reserves;
- income and costs reflected to the own funds in accordance with Turkish Accounting Standards;
- net profit of the latest financial year and period;
- free reserves set aside for contingent risks; and
- free shares acquired from the bank's subsidiaries or affiliates which have not been accounted for.

Borrowing which is approved by the BRSA upon written application of the relevant bank's board of directors shall be taken into consideration as Tier I borrowings if, amongst others, they are:

- registered at the CMB, if issued as securities, and paid-in if issued as securities;
- subordinated to depositors, general creditors and subordinated debts of the bank (including Tier II);
- neither secured nor covered by a guarantee of the issuer or related entity or other derivative arrangement that legally or economically enhances the seniority of claims;
- perpetual (having no maturity date) and repayment of principals is subject to BRSA's prior approval; and
- the instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the banking organisation's credit standing.

Tier I capital shall be subject to deductions indicated in the Regulation on Capital, such as deduction of goodwill, deferred tax assets arising from net loss carry-forward, net loss not compensated by the reserves.

Tier II Borrowing permitted by the BRSA must fulfil amongst others, the following:

- they must be registered at the CMB, if issued as securities, and paid-in if issued as securities;
- they must have an initial term of minimum five years and they are not payable before 5 years;
- they must not contain provisions encouraging prepayment after initial five years, such as increase in the amount or rate of applicable interest or dividend;
- they must be subordinated to all debts except share capital and Tier I debts;
- early payment option after the initial five years must be subject to prior consent of the BRSA;
- early payment option will be subject to the condition that minimum legal capital adequacy ratio or the ratio determined by the BRSA shall be retained after utilisation of early repayment option;
- its acceleration must be limited to bankruptcy and liquidation events;
- dividend and interest payments must not be linked to credibility or credit rating of the bank;
- such Tier II debt instruments must not be purchased by entities directly or indirectly controlled by the bank; and
- they must be able to be deleted from the bank's records for a temporary or unlimited time or convertible to shares with the BRSA's resolution in the event of bank's insolvency.

Respect to debt instruments or borrowings included in calculation of a bank's Tier II capital, those with a remaining term of less than five years are considered as Tier II capital with the application of deduction at a rate of 20 per cent. per annum for each year.

Tier I and Tier II capital items which are (i) indicated in the balance sheets of banks before 1 January 2014; and (ii) not compliant with the conditions set out in Article 8 of the Regulation, shall be taken into consideration in the calculation of a bank's own funds by 10 (ten) per cent. deduction each year following 1 January 2015.

There is the Regulation on Protection of Capital and Cyclic Capital Buffers (the "**Capital Protection Regulation**"), which has introduced minimum 2.5 per cent. capital conservation requirement as set out in Basel III regime. Capital conversation requirement buffer is defined as additional core capital, which banks must maintain in order to ensure that they comply with minimum capital adequacy requirements when economic and financial indicators deteriorate.

Capital conservation amount will be the core capital exceeding the capital amount, which banks must maintain under the Regulation on Measurement and Evaluation of Banks' Capital Adequacy.

Pursuant to the Capital Protection Regulation, following formula shall be used in the calculation of required capital conversation amount:

> (bank specific cyclic capital buffer (+) capital protection buffer amount) (x) ARWA (as defined below)

The bank specific cyclic capital buffer is defined as the additional core capital calculated at a specific rate published by the bank which will ensure that the relevant bank will be able to maintain its minimum capital adequacy ratio and will not be adversely affected from increasing general financial sector risk, which may result from credit expansion.

The capital protection buffer amount is the amount of additional consolidated and unconsolidated core capital calculated on the basis of 2.5 per cent. i.e. the capital protection buffer rate. However, pursuant to Provisional Article 1 of the Capital Protection Regulation, the capital protection rate will be equal to the ratios set out below for the relevant years:

Year	Capital Protection Buffer Amount *(%)*
2014	0
2015	0
2016	0.625
2017	1.25
2018	1.875

ARWA is defined as "Amount of Risk Weighted Assets" and it will be calculated by division of bank's own funds to applicable capital adequacy standard ratio calculated in accordance with the Regulation on Measurement and Evaluation of Banks' Capital Adequacy.

In theory, a bank may allow its equity to fall below the capital conservation requirement. However, if it does so, it will be subject to restrictions on paying dividends and bonuses and these will continue for as long as its total equity remains below that level.

On 1 February 2013, the BRSA published draft regulations for the implementation of Basel III in Turkey. On 5 September 2013, the Regulation on Equities of Banks and amendments to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks was published in the Official Gazette numbered 28756. The Regulation on Equities of Banks and the amendments to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks are effective as of 1 January 2014. On 5 November 2013, the BRSA issued the Regulation on Capital Protection and Cyclic Capital Buffer and the Regulation on Measurement and Evaluation of Leverage Levels of Banks. On 21 March 2014, the BRSA issued the Regulation on the Calculation of the Liquidity Ratio Coverage of Banks. Apart from the implementation of certain leverage ratios set out under the latter regulations that will become effective on 1 January 2015, these regulations took effect as of 1 January 2014.

Türkiye Finans expects that the impact of the Basel III framework on its capital base will be limited and believes that it is already in compliance with the future capital requirements set forth within the Basel III framework.

The Basel Committee has also proposed that the risk-sensitive capital framework should be supplemented with a non-risk-based measure, the leverage ratio. The leverage ratio will be calculated as the Tier I capital divided by the exposure (on and off-balance sheet exposures, with certain adjustments for selected items such as derivatives). A minimum leverage ratio of three per cent. will be evaluated during a parallel run period. Another new key component of the Basel III framework is the introduction of increased regulations for liquidity risks. The objective of the liquidity reform is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spill over from the financial sector to the real economy. The Basel Committee has developed two new quantitative liquidity standards as part of the Basel III framework, which are the liquidity coverage ratio ("**LCR**") and the net stable funding ratio ("**NSFR**"). The LCR aims to ensure that a bank maintains an adequate level of unencumbered, high-quality assets that can be converted into cash to meet its liquidity needs for a 30-day time horizon under an acute liquidity stress scenario. The NSFR, on the other hand, establishes a minimum acceptable amount of stable funding, based on the liquidity characteristics of an institution's assets and activities over a one-year horizon. These standards aim to set the minimum levels of liquidity for internationally active banks.

Reserves and Liquidity Reserve Requirement

The Banking Law requires Turkish banks to calculate, attain, maintain and report the minimum liquidity level in accordance with principles and procedures to be set out by the BRSB. Within this framework, a comprehensive liquidity arrangement was put into force by the BRSA, following the consent of the Turkish Central Bank.

The reserve requirements regarding foreign currency liabilities vary by category, as set out below:

Category of Foreign Currency Liabilities	Required Reserve Ratio
Demand deposits, notice deposits and private current accounts, precious metal deposit accounts, deposits/participation accounts up to 1-month, up to 3-month, up to 6-month and up to 1-year maturities	13%
Deposits/participation accounts and precious metal deposit accounts, with 1-year and longer maturity and cumulative deposits/participation accounts	9%
Liabilities other than deposits/participation funds up to 1-year maturity (including 1-year)	13%
Liabilities other than deposits/participation funds up to 3-year maturity (including 3-year)	11%
Liabilities other than deposits/participation funds longer than 3-year maturity	6%
Special fund pools	Ratios for corresponding maturities

The reserve requirements regarding Turkish Lira liabilities vary by category, as set out below.

Turkish Lira Liabilities	Required Reserve Ratio
Demand deposits, notice deposits and private current accounts	11.5%
Deposits/participation accounts up to 1-month maturity (including 1-month)...	11.5%
Deposits/participation accounts up to 3-month maturity (including 3-month)...	11.5%
Deposits/participation accounts up to 6-month maturity (including 6-month)...	8.5%
Deposits/participation accounts up to 1-year maturity	6.5%
Deposits/participation accounts up to 1 -year and longer maturity and cumulative deposits/participation accounts	5%
Liabilities other than deposits/participation funds up to 1-year maturity (including 1-year)	11.5%
Liabilities other than deposits/participation funds up to 3-year maturity (including 3-year)	8%
Liabilities other than deposits/participation funds with longer than 3-year maturity	5%
Special fund pools	Ratios for corresponding maturities above

The reserve requirements also apply to gold deposit accounts. Furthermore, banks are permitted to maintain: (a) up to 60 per cent. (at least half of which must be in U.S. dollars) of the Turkish Lira reserve requirements in U.S. dollars and/or Euro (provided that at least 50 per cent. of such amount will be reserved in U.S. Dollars (first 30 per cent. at 1.4 times, second 5 per cent. at 1.5 times, third 5 per cent. at 1.8 times, fourth 5 per cent. at 2.6 times, fifth 5 per cent. at 2.9 times, sixth 5 per cent. at 3.1 and seventh 5 per cent. 3.2 times the reserve requirement) and up to 30 per cent. of the Turkish Lira reserve requirements in standard gold (first 15 per cent. at 1.4 times, second 5 per cent. at 1.5 times, third 5 per cent. at 2.0 times and fourth 5 per cent. at 2.5 times the reserve requirement); and (b) up to the total amount of the foreign currency reserve requirements applicable to precious metal deposit accounts in standard gold. In addition, banks are required to maintain their required reserves against their U.S. dollar-denominated liabilities in U.S. dollars only.

Starting in September 2010, reserve accounts kept in Turkish Lira became non-interest-bearing (reserve accounts in foreign currencies have not been interest-bearing since 2008). As of the date of this Prospectus, no interest is paid by the Turkish Central Bank on Turkish Lira or foreign currency liquidity reserve accounts.

The regulations further state that until 31 December 2013, foreign exchange-indexed assets and liabilities shall, for the purposes of calculations of foreign currency liquidity ratios, be deemed to be foreign currency assets and liabilities. However, such foreign exchange-indexed assets and liabilities shall continue to be deemed TRY currency for the calculation of total liquidity adequacy ratios.

Pursuant to the Communiqué regarding Reserve Requirements numbered 2013/15, there is a new reserve requirement to be calculated based upon the financial leverage ratio of banks. The leverage ratio of a bank is determined as the ratio of the main capital of the bank to the sum of: (a) the total of its liabilities; (b) its non-cash loans and liabilities; (c) 10 per cent. of its revocable commitments; (d) the total amount to be calculated by the multiplication of each undertaking arising from derivative instruments with their own loan conversion ratio; and (e) total amount of irrevocable undertakings. The reserve requirement based on the financial leverage ratio of banks is required to be determined for three-month periods by calculating the arithmetic average of monthly leverage ratios. The additional reserve requirements to be set aside in the following quarter of the calculation period (calculated separately for each category of Turkish Lira and foreign currency liabilities) vary by leverage ratios, as set forth below:

Calculation Period for the Leverage Ratio	Leverage Ratio	Additional Reserve Requirement
From the 4th quarter of 2013 through the 3rd quarter of 2014	Below 3.0%	2.0%
	From 3.0% (inclusive) to 3.25%	1.5%
	From 3.25% (inclusive) to 3.5%	1.0%
From the 4th quarter of 2014 through the 3rd quarter of 2015	Below 3.0%	2.0%
	From 3.0% (inclusive) to 3.50%	1.5%
	From 3.50% (inclusive) to 4.0%	1.0%
Following the 4th quarter of 2015 (inclusive)	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 Turkish Central Bank of their leverage ratios starting from 31 December 2012, and the above-described additional reserve requirements will first be implemented in 2014 starting with 2013 year-end financial.

Audit of Banks

Under the Banking Law, banks' boards of directors are required to establish audit committees for the execution of audit and monitoring functions. Audit committees must consist of a minimum of two members and be appointed from among the members of the board of directors who do not have executive duties. The duties and responsibilities of the audit committee include, among others: (i) the supervision of the efficiency and adequacy of the banks' internal control, risk management and internal audit systems; (ii) the functioning of these systems and accounting and reporting systems within the framework of the Banking Law and other relevant legislation; (iii) the integrity of the information produced; (iv) conducting the necessary preliminary evaluations for the selection of independent audit firms by the board of directors; (v) regularly monitoring the activities of independent audit firms selected by the board of directors; and (vi) in the case of holding companies covered by the Banking Law, ensuring that the internal audit functions of the institutions that are subject to consolidation and operate in a coordinated manner, on behalf of the board of directors.

The BRSA, as the principal regulatory authority in the Turkish banking sector, has the right to monitor compliance by banks with the requirements relating to audit committees. As part of exercising this right, the BRSA reviews audit reports prepared for banks by their independent auditing firms. Banks are required to select an independent audit firm in accordance with the regulation of the BRSA related to the authorisation and activities of independent firms to perform auditing of banks. Professional liability insurance is required for (a) independent auditors and (b) if requested by the service-acquiring bank or required by the BRSA, evaluators, rating agencies and certain other support services. Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with the Turkish Accounting Standards. The year-end consolidated financial statements are required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms.

The reports prepared by independent audit firms are also filed with the CMB if the bank's shares are quoted on Bourse Istanbul and published on the Public Disclosure Platform. The CMB has the right to inspect the accounts and transaction records of any publicly traded company. In addition, quarterly reports that are subject to limited review must also be filed with the CMB and published on the Public Disclosure Platform.

All banks (public and private) undergo an annual audit by certified bank auditors who have the authority to audit banks on behalf of the BRSA. Audits by certified bank auditors encompass all aspects of a bank's operations, its financial statements and other matters affecting the bank's financial position, including its domestic banking activities, foreign exchange transactions and tax liabilities. Additionally, such audits seek to ensure compliance with applicable laws and the constitutional documents of the bank. The Turkish Central Bank has the right to monitor compliance by banks with the Turkish Central Bank's regulations through off-site examinations.

Pursuant to the Regulation on the Internal Systems of Banks, banks are obligated to establish, manage and develop (for themselves and all of their consolidated affiliates) internal audit and risk management systems in line with the scope and structure of their activities, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. To achieve this, according to the regulation, the internal control committee personnel cannot also be appointed to work in another role. This prohibition is not applicable to the banks that are established by law with the purpose of development of the country or financing a specific sector or field, and which do not accept deposit funds or participation funds.

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

The AML/CFT policies applicable to banks are defined under the Law No. 5549 on Prevention of Laundering Proceeds of Crime, the Turkish Criminal Code No. 5237 and the Regulation on Program of Compliance with Obligations of Anti-Money Laundering and Combating the Finance of Terrorism and the Regulation on Measures Regarding Prevention of Laundering Proceeds of Crime and Financing of Terrorism and related Financial Crime Investigation Board Communiqués (together the "**Anti-Money Laundering Laws**"). In addition, a new law on Combating the Finance of Terrorism number 6415 has been published in the Official Gazette on 16 February 2013.

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

When requested by the Financial Crimes Investigation Board or the investigators thereof, banks are required to provide information relating to their customers and their transactions. Furthermore, banks are required to maintain all the documents, books and records of identification documents regarding all transactions for eight years starting from the transaction date, the last record date and the last transaction date. The eight year period for identification documents relating bank accounts will commence on the closing date of the account. In addition to these, banks are required to provide them to the officials when requested.

Banks breaching any of the obligations set out in the Anti-Money Laundering Laws may, as at the date of this Prospectus, be subject to an administrative fine of approximately TRY17,592. Furthermore, real persons who breach their duty of confidentiality with respect to the notification that they made regarding the suspicious transactions to the Financial Crimes Investigation Board and who fail to provide all necessary, information, documents, records, passwords, etc. to the public authorities, the Financial Crimes Investigation Board and inspection officials, when requested and keep all relevant documents, records, books etc, in relation to their duties and transaction within the scope of Anti-Money Laundering Laws for eight years starting from the transaction date, the last record date and the last transaction date may be subject to imprisonment with terms ranging from one year to three years.

The Law on Prevention of Financing of Terrorism number 6415 and dated 7 February 2013 has been enacted by the Republic of Turkey and it has been published on the Official Gazette on 16 February 2013. This law sets out procedure and principles applicable to the freezing of assets in connection with decisions relating to the prevention of financing of terrorism within the framework of the International Convention for Suppression of the Financing of Terrorism (as adopted by the General Assembly of the United Nations on 9 December 1999). Financing of terrorism is defined as an offence committed by a legal or real person by providing or collecting funds, directly or indirectly, unlawfully and wilfully, with the intention that such funds would be used, in full or in part, in order to carry out an act which constitutes an offence within the scope of and as defined, as applicable, in the:

- Law on Fighting with Terrorism (Law No. 3713);
- Convention for the Suppression of Unlawful Seizure of Aircraft, done at The Hague on 16 December 1970;
- Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, done at Montreal on 23 September 1971;
- Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents, adopted by the General Assembly of the United Nations on 14 December 1973;
- International Convention against the Taking of Hostages, adopted by the General Assembly of the United Nations on 17 December 1979;
- Convention on the Physical Protection of Nuclear Material, adopted at Vienna on 3 March 1980;
- Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation, supplementary to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, done at Montreal on 24 February 1988;
- Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation, done at Rome on 10 March 1988;
- Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms located on the Continental Shelf, done at Rome on 10 March 1988; and
- International Convention for the Suppression of Terrorist Bombings, adopted by the General Assembly of the United Nations on 15 December 1997.

Freezing of assets is defined as deprivation or restriction of disposal capacity over the relevant assets in order to prevent disappearance, consummation, conversion, transfer, assignment of such assets. Assets, which are disposal of persons listed in United Nations Security Council resolutions 1267 (1999), 1988 (2011) and 1989 (2011), shall be frozen upon promulgation of Council of Ministers Decree in the Official Gazette. Apart from funds of these persons, findings of investigations on funds conducted by the Financial Crimes Investigation Board ("**MASAK**") must be submitted to the Inspection Commission. Decisions of the Inspection Commission shall enter into force upon its publication in the Official Gazette.

Banks are obliged to comply with the decisions of the Inspection Commission once they are published in the Official Gazette. Accordingly, funds and assets of real or legal persons against whom the Inspection Commission imposed a freeze order must be blocked and any disposal of such assets by such persons must be prevented by the bank within which such assets or funds are maintained. A responsible officer of a bank who fails to do so or delay the implementation of a freezing order shall be subject to imprisonment of a minimum of six (6) months and a maximum of two (2) years and a fine corresponding to his or her imprisonment. Additionally, legal persons, such as banks, where such responsible officer, shall be subject to a fine at the minimum amount of 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 or increase of risks as stipulated above the failure to apply the aforementioned actions;
- to implement short-, medium- or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the bank or to take written undertakings from members of board of directors or qualified shareholders (as defined in the Banking Law) regarding such plans and projections; and/or
- to exercise other necessary actions to be determined by the BRSA.

In the event the aforementioned actions are not (in whole or in part) taken by that bank or are not sufficient to cause such bank to continue its business in a secure manner, then the BRSA may require such bank:

- to limit or cease its business or its whole organisation by its field of activity for a temporary period (to include its relations with its local or foreign branches and correspondents);
- to apply various restrictions, including restrictions on interest rate and maturity with respect to resource collection and utilisation;
- to remove from office (in whole or in part) its members of the board of directors, general manager and deputy general managers and department and branch managers from their offices and obtain approval from the BRSA as to the persons to be appointed to replace these individuals;
- to make available long-term loans, provided that these will not exceed the amount of deposit or participation funds subject to insurance, and be secured sufficiently by the shares or other assets of the controlling shareholders;
- to limit or cease its non-performing operations and to dispose of its non-performing assets;
- to merge with one or more other banks;
- to provide new shareholders in order to increase its equity capital;
- to cover its losses with its equity capital; and/or
- to exercise other necessary actions to be determined by the BRSA.

In the event: (a) the aforementioned actions are not (in whole or in part) taken by that bank within a period of time set forth by the BRSA or in any case within twelve months; (b) the financial structure of such bank cannot be strengthened despite its having taken such actions or the financial structure of such bank has become so weak that it could not be strengthened even if the actions were taken; (c) the continuation of the activities of such bank would jeopardise the rights of the depositors and the participation fund owners and the security and stability of the financial system; (d) such bank cannot cover its liabilities as they become due; (e) the total amount of the liabilities of such bank exceeds the total amount of its assets; or (f) the controlling shareholders or directors of such bank are found to have made use of that bank's resources for their own interests, directly or indirectly or fraudulently, in a manner that jeopardised the secure functioning of the bank or caused such bank to sustain a loss as a result of such misuse, then the BRSA, with the affirmative vote of at least five of its board members, may revoke the licence of such bank to engage in banking operations and/or to accept deposits and transfer the management, supervision and control of the privileges of shareholders (excluding dividends) of such bank to the SDIF for the purpose of the whole or partial transfer or sale of such bank to third persons or merger thereof, provided that the loss is deducted from the share capital of current shareholders.

In the event that the licence of a bank to engage in banking operations and/or to accept deposits is revoked, then that bank's management and audit will be taken over by the SDIF. Any and all execution and bankruptcy proceedings (including preliminary injunctions) against such bank would be discontinued as from the date on which the BRSA's decision to revoke such bank's licence is published in the Official Gazette. From the date of revocation of such bank's licence, the creditors of such bank may not assign their rights or take any action that could lead to assignment of their rights. The SDIF must take measures for the protection of the rights of depositors, participation fund owners and other creditors of such bank. The SDIF is required to pay the insured deposits and insured participation funds of such bank either by itself or through another bank it may designate. In practice, the SDIF may designate another bank that is under its control. The SDIF is required to institute bankruptcy proceedings in the name of depositors against a bank whose banking licence is revoked.

Annual Reporting

The Banking Law stipulates that banks are required to prepare an annual activity report that includes information about their status, management and organisation structures, human resources, activities, financial situations and assessment of the management and expectations, together with financial statements, summary of board of directors' report and independent audit report.

Pursuant to the Banking Law, Turkish banks are required to follow the BRSA's principles and procedures (which are established in consultation with the Turkish Accounting Standards Board and international standards) when preparing their annual reports, In addition, they must ensure uniformity in their accounting systems, correctly record all their transactions and prepare timely and accurate financial reports in a format that is clear, reliable and comparable as well as suitable for auditing, analysis and interpretation.

A bank cannot settle its balance sheets without ensuring reconciliation with the legal and auxiliary books and records of its branches and domestic and foreign correspondents.

The BRSA is authorised to take necessary measures where it is determined that a bank's financial statements have been misrepresented.

When the BRSA requests a bank's financial reports, the chairman of the board, members of audit committee, general manager, deputy general manager responsible for financial reporting and the relevant unit manager (or equivalent authorities) must sign the reports indicating their full names and titles and declare that the financial report complies with relevant legislation and accounting records. In addition, foreign banks must have the members of the board of managers of their Turkish branches sign the annual reports.

All annual reports that banks present to their general assemblies must be approved by independent auditing firms.

Banks are required to submit their financial reports to related authorities and publish them in accordance with the BRSA's principles and procedures.

Further, banks are required to submit and publish activity reports that comply with the BRSA's established guidelines.

The Regulation on the Preparation and Publication 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.

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 Agent and the Paying Agents (as defined in the Conditions).

Initial Asset Portfolio Sale and Purchase Agreement

Pursuant to an initial portfolio sale and purchase agreement (the "**Initial Asset Portfolio Sale and Purchase Agreement**") dated on or about the Closing Date between Türkiye Finans (in its capacity as seller, the "**Asset Seller**"), TF Varlık Kiralama A.Ş. (in its capacity as purchaser, the "**Asset Purchaser**") and Citibank N.A., London Branch, in its capacity as trustee for the Certificateholders (in such capacity the "**Representative**"), the Asset Seller will, on or about the Closing Date, sell and transfer to the Asset Purchaser the Asset Seller's interests, rights, benefits and entitlements (except legal title, which shall remain with the Asset Seller) in, to and under certain Lease Assets and Investment Sukuk, each as identified in Schedule 1 (*Initial Asset Portfolio*) to the Initial Asset Portfolio Sale and Purchase Agreement (the "**Initial Portfolio Assets**") comprised in a portfolio (the "**Initial Asset Portfolio**").

The Asset Purchaser shall make a payment of a purchase price (the "**Initial Asset Portfolio Purchase Price**") to the Asset Seller in U.S. dollars in freely available funds (inclusive of any applicable Taxes) for value on the Closing Date in consideration for the sale and transfer of the Initial Portfolio Assets which comprise the Initial Asset Portfolio by the Asset Seller to the Asset Purchaser.

Except as a result of title to any Lease Assets comprised in the Initial Asset Portfolio remaining with the Asset Seller as fiduciary of the Asset Purchaser, to the extent that the sale and purchase of the Asset Seller's interests, rights, benefits and entitlements in, to and under any Initial Portfolio Asset pursuant to the Initial Asset Portfolio Sale and Purchase Agreement is not effective in any jurisdiction for any reason, the Asset Seller agrees to make payment of an amount equal to the portion of the Initial Asset Portfolio Purchase Price that relates to such Initial Portfolio Asset by way of restitution to the Asset Purchaser immediately upon request and on receipt of such amount the Asset Purchaser shall immediately return such Initial Portfolio Asset to the Seller.

The Initial Asset Sale and Purchase Agreement is governed by, and shall be construed in accordance with, the laws of Turkey.

For these purposes:

"**Investment Sukuk**" means *Shari'a* compliant sukuk or trust certificates that are fully backed by or, as the case may be, fully based on underlying tangible assets (together with the interests, rights, benefits and entitlements of the Asset Seller under the associated Investment Sukuk Documents);

"**Investment Sukuk Documents**" means, in relation to any Investment Sukuk, the terms and conditions applicable to, and governing, those Investment Sukuk and any transaction documents referred to therein;

"**Lease Asset**" means an asset held and leased by the Asset Seller (as lessor) to a customer pursuant to the related Lease Finance Documents (together with the interests, rights, benefits and entitlements of the Asset Seller under the associated Lease Finance Documents); and

"**Lease Finance Documents**" means, in relation to a Lease Asset, the lease contract (howsoever described) between the Asset Seller and a customer, pursuant to which the Asset Seller (as lessor) has leased that Lease Asset to the customer (as lessee), the related service agency agreement, purchase undertaking and sale undertaking (in each case, howsoever described and whether forming part of the lease contract or not) and any other documents related to that lease contract or the transactions contemplated by that lease contract.

Murabaha Agreement

Pursuant to a murabaha agreement (the "**Murabaha Agreement**") dated on or about the Closing Date between TF Varlık Kiralama A.Ş. as seller of Commodities (in such capacity, the

"**Commodity Seller**"), Türkiye Finans as purchaser of Commodities (in such capacity, the "**Commodity Purchaser**") and Citibank N.A., London Branch in its capacity as trustee for the Certificateholders (in such capacity, the "**Representative**"), the Commodity Purchaser may request, by way of a duly completed Notice of Request to Purchase, the Commodity Seller to purchase, on or about the Closing Date (the "**Settlement Date**"), certain Commodities from the Supplier on spot payment and spot delivery terms upon the terms set out in such notice and, in any case, in accordance with the terms of the Commodity Purchase Letter of Understanding.

Once the Commodity Seller has purchased the Commodities from the Supplier, it will, on or about the Closing Date, offer to sell those Commodities to the Commodity Purchaser on spot delivery and deferred payment terms for the Deferred Purchase Price by submitting an Offer Notice to the Commodity Purchaser. The Commodity Purchaser may, on or about the Closing Date, agree to purchase such Commodities for the Deferred Payment Price in accordance with the terms of the Offer Notice and the Murabaha Agreement by countersigning such Offer Notice and concluding a Murabaha Contract with the Commodity Seller.

The Commodity Seller and the Commodity Purchaser will agree in the Murabaha Agreement that following the purchase of Commodities pursuant to the Murabaha Contract, the Commodity Purchaser may (but is under no obligation to) on-sell any Commodities that it has purchased to a third party.

Provided that a Murabaha Contract is concluded, the Commodity Purchaser irrevocably and unconditionally undertakes to pay to the Seller:

(a) on the date falling one (1) Business Day prior to each Periodic Distribution Date, an amount of the outstanding Profit Amount component of the Deferred Payment Price equal to the Profit Amount Instalment by crediting such amount to the Profit Collection Account on such date;

(b) subject to the set-off arrangement described below, on each Redemption and Cancellation Date, an amount of the outstanding Deferred Principal Amount equal to the relevant Murabaha Contract Redemption Amount specified in the relevant Redemption and Cancellation Notice plus the Deferred Profit Amount relating to the relevant Redemption Certificates;

(c) on the occurrence of a Change of Control:

    (i) where the Change of Control Put Option has been exercised by holders of one hundred per cent. (100%) of the Certificates then outstanding, the outstanding Deferred Payment Price in full, by crediting such amount to the Transaction Account no later than 10.00 am (London time) on the Deferred Payment Date; and

    (ii) where the Change of Control Put Option has been exercised by holders of less than one hundred per cent. (100%) of the Certificates then outstanding, an amount of the outstanding Deferred Principal Amount equal to the Murabaha Contract Change of Control Amount plus the Deferred Profit Amount relating to the relevant Certificates being redeemed by crediting such amount to the Transaction Account no later than 10.00 am (London time) on the Business Day preceding the Change of Control Redemption Date;

(d) upon the occurrence of a Dissolution Event which is continuing, on the date which is the Business Day immediately preceding the Dissolution Event Redemption Date, the outstanding Deferred Payment Price in full no later than 10.00 am (London time) on such date;

(e) upon the occurrence of a Tax Event which is continuing, on the date which is the Business Day immediately preceding the Tax Redemption Date, the outstanding Deferred Payment Price in full no later than 10.00 am (London time) on such date; and

(f) on the Deferred Payment Date, the outstanding Deferred Payment Price in full, by crediting such amount to the Transaction Account no later than 10.00 am (London time) on the Deferred Payment Date.

The Commodity Purchaser will agree in the Murabaha Agreement that, except for the set-off described in the following paragraph, all payments by it under the Murabaha Agreement will be made in U.S. Dollars 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 such deduction or withholding required by law, the Commodity Purchaser, shall pay all additional amounts as will result in the receipt by the Commodity Seller, the Representative and each other Compensated Person (as defined in the Murabaha Agreement) of such net amounts as would have been received by it if no such deduction or withholding had been made.

Notwithstanding the above, an amount equal to the Murabaha Contract Redemption Amount component of the Redemption Amount to be paid by the Issuer to the Commodity Purchaser pursuant to the Redemption Undertaking on the relevant Redemption and Cancellation Date shall be set off against the amount of the Deferred Payment Price to be paid by the Commodity Purchaser to the Seller as described above on that Redemption and Cancellation Date.

The Murabaha Agreement is governed by, and shall be construed in accordance with, the laws of England.

For these purposes:

"**Commodities**" means Copper, Platinum, Palladium, Zinc, Lead, Aluminium, Aluminium alloy, Iridium, Nickel, Rufinium and Rhodium or such other Shari'a compliant commodities as may be agreed upon by the Initial Murabaha Portfolio Seller and the Initial Murabaha Portfolio Purchaser and as specified in a Notice of Request to Purchase;

"**Deferred Payment Date**" means, in relation to the Murabaha Contract, the Business Day immediately preceding the Scheduled Dissolution Date set out in the Conditions;

"**Deferred Payment Price**" means, in relation to the Murabaha Contract, the applicable deferred price which is required to be paid by the Commodity Purchaser in U.S. Dollars (as set out in the relevant Offer Notice in accordance with the terms of the Murabaha Agreement), being the aggregate of (a) the Commodity Purchase Price (being the "**Deferred Principal Amount**"); and (b) the Profit Amount;

"**Murabaha Contract**" means the individual contract for the sale of Commodities at a deferred purchase price and made pursuant to the provisions of the Murabaha Agreement by the delivery of an Offer Notice by the Commodity Seller to the Commodity Purchaser and the subsequent countersignature of such Offer Notice by the Commodity Purchaser in accordance with the terms of the Murabaha Agreement;

"**Murabaha Contract Change of Control Amount**" means an amount equal to the product of:

(a) the outstanding Deferred Principal Amount under the Murabaha Contract as of the Business Day preceding the Change of Control Redemption Date; and

(b) the Change of Control Percentage;

"**Notice of Request to Purchase**" means, in relation to a proposed Murabaha Contract, the notice from the Commodity Purchaser to the Commodity Seller requesting that the Commodity Seller purchase certain Commodities from the Supplier and containing the Commodity Purchaser's irrevocable undertaking to purchase the specified Commodities from the Commodity Seller in accordance with the terms of the Murabaha Agreement, substantially in the form set out in Schedule 1 (*Form of Notice of Request to Purchase*) thereof;

"**Offer Notice**" means the confirmation from the Commodity Seller to the Commodity Purchaser that the Commodity Seller has purchased the commodities from the Supplier as set out in the relevant Notice of Request to Purchase and the offer from the Commodity Seller offering to sell the same Commodities to the Commodity Purchaser, substantially in the form set out in Schedule 2 (*Form of Offer Notice*) to the Murabaha Agreement;

"**Profit Amount**" has the meaning given to it in the Murabaha Agreement; and

"**Profit Amount Instalment**" means U.S.$13,440,000; and

"**Supplier**" means the vendor of Commodities as specified in the relevant Notice of Request to Purchase.

Management Agency Agreement

Pursuant to a management agency agreement (the "**Management Agency Agreement**") dated on or about the Closing Date between TF Varlık Kiralama A.Ş. on its own behalf and for the account and benefit of the Certificateholders (in such capacity the "**Issuer**"), Citibank N.A., London Branch, in its capacity as trustee for the Certificateholders (in such capacity the "**Representative**") and Türkiye Finans, the Issuer appoints Türkiye Finans as its agent (in such capacity, the "**Managing Agent**") to perform certain services on its behalf.

Pursuant to the terms of the Management Agency Agreement, the Managing Agent shall:

(a) do all acts and things (including execution of such documents, issue of notices and commencement of any proceedings) necessary or desirable to ensure the assumption of, and compliance by, each counterparty under each Lease Finance Document and each Investment Sukuk Document relating to the Portfolio Assets with its covenants, undertakings or other obligations under such Lease Finance Documents or Investment Sukuk Documents in accordance with applicable law and the terms of such Lease Finance Documents or, as the case may be, Investment Sukuk Documents;

(b) discharge all of its obligations in its corporate capacity as a party to any Lease Finance Documents or Investment Sukuk Documents relating to any Portfolio Asset from time to time;

(c) use all reasonable endeavours to ensure the timely receipt of all Revenues from the Portfolio Assets, any Shari'a Compliant Investments and the Murabaha Contract, investigate nonpayment of such Revenues and generally make all reasonable endeavours to collect or enforce the collection of such Revenues as and when the same shall become due;

(d) pay on behalf of the Issuer any actual costs, expenses, losses, taxes or other amounts which would otherwise be payable by the Issuer as a result of the Issuer's interest in the Portfolio Assets, the Shari'a Compliant Investments or the Murabaha Contract;

(e) ensure that at all times the total Outstanding Principal Value of the Portfolio Assets is not less than fifty one per cent. (51%) of the aggregate face amount of the Certificates outstanding at the relevant time (the "**Tangibility Ratio**"); and

(f) use its best endeavours to ensure that at all times the aggregate of:

    (i) the Outstanding Principal Value of the Portfolio Assets;

    (ii) the outstanding Deferred Principal Amount under the Murabaha Contract;

    (iii) the amount standing to the credit of the Principal Collection Account; and

    (iv) the principal amount invested in Shari'a Compliant Investments at the relevant time, is at least equal to the aggregate outstanding face amount of the Certificates then outstanding;

(g) perform the functions set out in the Management Agency Agreement, and undertaken by it in relation to the Collection Accounts;

(h) notify the Issuer of the existence of any Portfolio Asset that has become an Impaired Portfolio Asset as soon as it becomes, or could reasonably be expected to be, aware that such Portfolio Asset has become an Impaired Portfolio Asset and the availability (if any) of any Eligible Portfolio Assets for the purposes of substituting the relevant Impaired Portfolio Asset in accordance with the terms of the Purchase Undertaking;

(i) obtain all necessary authorisations in connection with any of the Lease Certificate Assets, the acquisition of any Eligible Portfolio Assets and any Shari'a Compliant Investments and its obligations under or in connection with the Management Agency Agreement; and

(j) carry out any incidental matters relating to any of the above.

For the avoidance of doubt, the failure by the Managing Agent to comply with its obligations as set out in paragraphs (a) or (b) above will not constitute a Dissolution Event.

For these purposes:

"**Asset Portfolio**" means the Initial Asset Portfolio together with any Eligible Portfolio Assets which (i) have been acquired by the Issuer pursuant to the terms of the Initial Asset Sale and Purchase Agreement or the Purchase Undertaking (and any corresponding New Asset Sale Agreement); or (ii) may have been substituted for any Portfolio Assets, from time to time, in accordance with the terms of the Initial Asset Sale and Purchase Agreement, the Purchase Undertaking and any related Transfer Agreement or the Sale Undertaking and any related Transfer Agreement but excluding any Portfolio Assets in relation to which clause 2.3 of the Initial Asset Portfolio Sale and Purchase Agreement or any equivalent provision in any sale and purchase agreement relating to any Eligible Portfolio Assets acquired by the Asset Purchaser pursuant to the Purchase Undertaking or the Sale Undertaking has become applicable and the Seller has paid an amount equal to the relevant purchase price for such Portfolio Asset to the Asset Purchaser;

"**Deferred Principal Amount**" means that part of the Deferred Payment Price under the Murabaha Contract which represents the purchase price of the Commodities;

"**Eligible Portfolio Asset**" means a Lease Asset or an Investment Sukuk:

(a) which, in the case of a Lease Asset, has been originated or, in the case of an Investment Sukuk, is held or owned by the Asset Seller in a manner consistent with its usual credit, origination and investment policies;

(b) which constitutes legal, valid, binding and, subject to any general principles of law limiting the obligations of the obligor, enforceable obligations of the obligor under the related Lease Finance Documents or, as the case may be, the Investment Sukuk Documents in the jurisdiction in which such obligor is located and the jurisdiction in which any related asset is located;

(c) in respect of which the Asset Seller is entitled to receive all payments due to it;

(d) in respect of which there has not occurred any default, acceleration or analogous event (howsoever described);

(e) which is capable of being sold and transferred to the Purchaser by the Asset Seller in accordance with the terms set out in the Initial Asset Portfolio Sale and Purchase Agreement, pursuant to the terms of the Purchase Undertaking and any related New Asset Sale Agreement or any related Transfer Agreement or pursuant to the terms of the Sale Undertaking and any related Transfer Agreement; and

(f) in respect of which the Outstanding Principal Value is equal to or greater than the value of the consideration given for such Eligible Portfolio Asset as at the date the asset is sold and transferred to the Asset Purchaser under the Initial Asset Portfolio Sale and Purchase Agreement, pursuant to the terms of the Purchase Undertaking and any related New Asset Sale Agreement or any related Transfer Agreement or pursuant to the terms of the Sale Undertaking and any related Transfer Agreement;

"**Impaired Portfolio Asset**" means an asset in respect of which: (a) there has been a breach of any representations and warranty made by the Asset Seller in respect of a Portfolio Asset; or (b) any Portfolio Asset becomes subject to an encumbrance (except as otherwise permitted pursuant to the terms of the Transaction Documents, the Lease Finance Documents or the Investment Sukuk Documents, as applicable);

"**New Asset Sale Agreement**" means an agreement substantially in the form set out at Schedule 7 (*Form of New Asset Sale Agreement*) of the Purchase Undertaking;

"**Outstanding Principal Value**" means at any time, in relation to a Portfolio Asset, an Eligible Portfolio Asset or an Impaired Portfolio Asset:

(a) which is a Lease Asset, an amount in U.S. Dollars equal to all unpaid, due or scheduled, fixed rental instalment amounts payable to the Asset Seller under the related Lease Finance Documents which have accrued or will accrue on and from the date on which the Asset Seller sells that Lease Asset to the Asset Purchaser; and

(b) which is an Investment Sukuk, an amount in U.S. Dollars equal to the outstanding face amount of that Investment Sukuk, in each case, at that time;

"**Portfolio Asset**" means the interests, rights, benefits and entitlements of the Asset Seller in, to and under any Investment Sukuk or any Lease Asset sold and transferred to the Asset Purchaser and comprised in the Asset Portfolio from time to time; and

"**Shari'a Compliant Investment**" means a U.S. dollar denominated *Shari'a* compliant deposit.

Pursuant to the Management Agency Agreement, the Managing Agent shall ensure that, in relation to each of the Lease Assets comprised in the Asset Portfolio:

(a) such Lease Assets are insured at all times against total loss and expropriation in an amount at least equal to the Outstanding Principal Value of that Lease Asset (the "**Insurance Coverage Amount**") and that such insurance policies are maintained with reputable insurers in good financial standing; and

(b) in the event of a total loss or expropriation of any of the Lease Assets, the insurance policies relating to such Lease Assets provide for an amount at least equal to the Insurance Coverage Amount of the relevant Lease Asset to be paid to the Managing Agent in U.S. Dollars by no later than close of business on the date falling thirty (30) days after the occurrence of such total loss or expropriation.

In the event that the relevant insurance company fails to pay the Insurance Coverage Amount relating to a Lease Asset comprised in the Asset Portfolio to the Managing Agent, by crediting such amount to the Principal Collection Account, within thirty (30) days of a total loss or expropriation of that Lease Asset and the Managing Agent is unable to unequivocally prove that it complied with its obligations under paragraphs (a) and (b) above or where the Managing Agent has failed to maintain any insurances over the Lease Assets in breach of its obligations under paragraphs (a) and (b) above, the Managing Agent acknowledges that it shall have failed to comply with such obligations and will irrevocably and unconditionally undertake to pay in U.S. Dollars on the 31st day after the occurrence of the total loss or expropriation, 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 Lease Asset, directly into the Principal Collection Account.

Pursuant to the Management Agency Agreement, the Managing Agent will maintain a principal collections account ledger (the "**Principal Collection Account**") and a profit collections account ledger (the "**Profit Collection Account**") in its books, each of which shall be denominated in U.S. Dollars. All monies received by the Managing Agent will be credited, promptly after receipt, to: (i) in the case of Principal Revenues, the Principal Collection Account; and (ii) in the case of Profit Revenues, the Profit Collection Account.

The Issuer and the Managing Agent have agreed in the Management Agency Agreement that, provided no Dissolution Event has occurred, Türkiye Finans may at any time exercise its rights under the Sale Undertaking to substitute any one or more of the Portfolio Assets as Türkiye Finans may select (subject to the terms of the Sale Undertaking) in accordance with the terms of the Sale Undertaking.

For these purposes:

"**Principal Revenues**" means: (a) all revenues generated by, or in connection with, the Portfolio Assets and payable to the Managing Agent in the nature of principal (including, without limitation, any fixed rental, total loss and expropriation related insurance proceeds, any indemnity payments and any exercise price payments); (b) all amounts payable to the Issuer under the Murabaha Contract as the Deferred Principal Amount; (c) all revenues generated by, or in connection with, the Shari'a Compliant Investments in the nature of principal; (d) all amounts payable by Türkiye Finans pursuant to clause 2.3 of the Initial Asset Portfolio Sale and Purchase Agreement or any equivalent clause in any sale and purchase agreement entered into in connection with the sale and purchase of Eligible Portfolio Assets from time to time; and (e) all amounts payable by Türkiye Finans, in the nature of principal, pursuant to clause 3 (*Duties and Rights of the Seller in Respect of the Initial Portfolio Assets*) of the Initial Asset Portfolio Sale and Purchase Agreement or any equivalent clause in any sale and purchase agreement entered into in connection with the sale and purchase of further Eligible Portfolio Assets from time to time; and

"**Profit Revenues**" means: (a) all revenues generated by, or in connection with, the Portfolio Assets and payable to the Managing Agent in the nature of profit; (b) all amounts payable to the Issuer under the Murabaha Contract as the Profit Amount; (c) all revenues in the nature of profit generated by the Shari'a Compliant Investments; and (d) all amounts payable by Türkiye Finans, in the nature of profit, pursuant to clause 3 (*Duties and Rights of the Seller in Respect of the Initial Portfolio Assets*) of the Initial Asset Portfolio Sale and Purchase Agreement or any equivalent clause in any sale and purchase agreement entered into in connection with the sale and purchase of further Eligible Portfolio Assets from time to time.

The Managing Agent will, on the Business Day prior to each Periodic Distribution Date, apply amounts standing to the credit of the Profit Collection Account in the following order of priority:

(i) *firstly*, (to the extent necessary to pay the Periodic Distribution Amount due on such Periodic Distribution Date) be paid to the Transaction Account on such Business Day;

(ii) *secondly*, to pay the Managing Agent the amount of any unpaid claims, losses, costs and expenses properly incurred or suffered by the Managing Agent in providing the Services (the "**Management Costs**"); and

(iii) *thirdly*, any excess amounts remaining shall, be retained in the Profit Collection Account.

The Managing Agent will be entitled to deduct amounts standing to the credit of the Profit Collection Account at any time during the Services Term and use such amounts for its own account **provided that** any such amounts are immediately repaid by the Managing Agent in the event that on the Business Day prior to a Periodic Distribution Date there is a shortfall between: (i) the aggregate of the amounts standing to the credit of the Profit Collection Account and the Transaction Account; and (ii) the aggregate of the amount required to meet the Periodic Distribution Amount due on such Periodic Distribution Date and any Management Costs. Following a redemption in full of all of the Certificates, the Managing Agent shall be entitled to retain any amounts standing to the credit of the Profit Collection Account as an incentive fee for its performance as Managing Agent.

Any amounts standing to the credit of the Principal Collection Account shall be applied as follows:

(a) to the extent that the Obligor has Eligible Portfolio Assets available for sale:

   (i) the Managing Agent shall promptly notify the Issuer of the Outstanding Principal Value of such Eligible Portfolio Assets and the amount standing to the credit of the Principal Collections Account which can be used for the purposes of purchasing the Eligible Portfolio Assets (which amount shall not be greater than the Outstanding Principal Value of such Eligible Portfolio Assets); and

   (ii) the Issuer upon receipt of such notification shall use such amounts to purchase Eligible Portfolio Assets from the Obligor in accordance with the terms of the Purchase Undertaking and a New Asset Sale Agreement; or

(b) to the extent that the Obligor does not have Eligible Portfolio Assets available for sale, the Managing Agent shall place such amounts in U.S. dollar denominated deposits that are *Shari'a* compliant, as determined by the Shari'a Board of the Managing Agent (the "**Shari'a Compliant Investments**").

Pursuant to the Management Agency Agreement, the Managing Agent will at all times: (i) monitor the availability of Eligible Portfolio Assets that may be available for sale by Türkiye Finans and immediately notify the Issuer of the same; and (ii) where Shari'a Compliant Investments have been made and Eligible Portfolio Assets become available for sale to the Issuer, ensure that such Shari'a Compliant Investments are liquidated as soon as practicable and the Issuer is notified of the Outstanding Principal Value of such Eligible Portfolio Assets and the amount received from the liquidation of the relevant Shari'a Compliant Investments in the nature of principal. The Issuer shall use such proceeds to purchase such available Eligible Portfolio Assets from the Obligor in accordance with the terms of the Purchase Undertaking and a New Asset Sale Agreement

On a Redemption and Cancellation Date, following the redemption and cancellation of the relevant Redemption Certificates in accordance with the terms of the Redemption Undertaking, the Conditions and the Representative Agreement, the Managing Agent will be entitled to debit an amount equal to the relevant Principal Collections Redemption Amount from the Principal

Collection Account and retain such amount for its own account in its corporate capacity in satisfaction of the Issuer's obligation under the Redemption Undertaking to pay the corresponding portion of the relevant Redemption Amount.

On the occurrence of a Change of Control:

(a) where the Change of Control Put Option has been exercised by holders of one hundred per cent. (100%) of the Certificates then outstanding, the Managing Agent shall credit the Final Principal Collections Amount to the Transaction Account no later than 10.00 am (London time) on the Business Day preceding the Change of Control Redemption Date; and

(b) where the Change of Control Put Option has been exercised by holders of less than one hundred per cent. (100%) of the Certificates then outstanding, the Managing Agent shall debit an amount equal to the relevant Principal Collections Change of Control Amount standing to the credit of the Principal Collection Account and credit such amount to the Transaction Account no later than 10.00 am (London time) on the Business Day preceding the Change of Control Redemption Date.

On the Business Day prior to the Dissolution Date, the Managing Agent will credit any amounts standing to the credit of the Principal Collection Account (the "**Final Principal Collections Amount**") to the Transaction Account by no later than 10.00 am (London time) on such Business Day.

The Managing Agent will irrevocably and unconditionally undertake to the Issuer to:

(a) on the Business Day prior to a Dissolution Date:

   (i) procure the liquidation of all of the Shari'a Compliant Investments; and

   (ii) pay into the Transaction Account no later than 10.00 am (London time) on such Business Day an amount in U.S. Dollars (the "**Investment Liquidation Amount**") equal to the aggregate principal amount invested in such Shari'a Compliant Investments;

(b) on a Redemption and Cancellation Date, procure the liquidation of the Shari'a Compliant Investments in an amount equal to the relevant Shari'a Compliant Investments Redemption Amount, and following the redemption and cancellation of the relevant Redemption Certificates in accordance with the terms of the Redemption Undertaking, the Conditions and the Representative Agreement, the Issuer shall pay such liquidated amount to the Managing Agent, in its corporate capacity, for its own account in satisfaction of the Issuer's obligation under the Redemption Undertaking to pay the corresponding portion of the relevant Redemption Amount; and

(c) on the occurrence of a Change of Control:

   (i) where the Change of Control Put Option has been exercised by holders of one hundred per cent. (100%) of the Certificates then outstanding, the Managing Agent irrevocably and unconditionally undertakes to the Issuer that it shall procure the liquidation of all of the Shari'a Compliant Investments and credit the Investment Liquidation Amount to the Transaction Account no later than 10.00 am (London time) on the Business Day preceding the Change of Control Redemption Date; and

   (ii) where the Change of Control Put Option has been exercised by holders of less than one hundred per cent. (100%) of the Certificates then outstanding, the Managing Agent irrevocably and unconditionally undertakes to the Issuer that it shall procure the liquidation of the Shari'a Compliant Investments in an amount equal to the relevant Shari'a Compliant Investments Change of Control Amount and credit such Shari'a Compliant Investments Change of Control Amount to the Transaction Account no later than 10.00 am (London time) on the Business Day preceding the Change of Control Redemption Date.

For these purposes:

"**Change of Control Redemption Date**" means the date specified in the Purchase Undertaking Exercise Notice or, as the case may be, the Change of Control Exercise Notice (which shall be no less than 45 days and no more than 60 days after the date on which the Purchase Undertaking Exercise Notice or, as the case may be, the Change of Control Exercise Notice, is delivered to Türkiye Finans);

"**Redemption Amount**" means an amount to be paid by the Issuer to Türkiye Finans which is equal to the aggregate of:

(a) an amount equal to the amount standing to the credit of the Principal Collection Account multiplied by the Redemption and Cancellation Percentage (the "**Principal Collections Redemption Amount**");

(b) an amount equal to the principal amount invested in any Shari'a Compliant Investments multiplied by the Redemption and Cancellation Percentage (the "**Shari'a Compliant Investments Redemption Amount**"); and

(c) an amount equal to the outstanding Deferred Principal Amount under the Murabaha Contract multiplied by the Redemption and Cancellation Percentage (the "**Murabaha Contract Redemption Amount**"),

in each case, as determined on the relevant Redemption and Cancellation Date immediately prior to the redemption and cancellation of the relevant Redemption Certificates and specified in the relevant Redemption and Cancellation Notice;

"**Redemption and Cancellation Assets**" means those Portfolio Assets (as Türkiye Finans may select in its sole and absolute discretion in accordance with the terms of the Redemption Undertaking) specified as such in a Redemption and Cancellation Notice and a Redemption Sale Agreement;

"**Redemption and Cancellation Date**" means the date specified as such in a Redemption and Cancellation Notice which must also be a Periodic Distribution Date;

"Redemption and Cancellation Notice" means a notice substantially in the form set out in Schedule 1 (*Form of Redemption and Cancellation Notice*) of the Redemption Undertaking;

"**Redemption and Cancellation Percentage**" means the aggregate face amount of the relevant Redemption Certificates divided by the aggregate face amount of all of the Certificates then outstanding expressed as a percentage, as determined on the relevant Redemption and Cancellation Date immediately prior to the redemption and cancellation of the Redemption Certificates;

"**Redemption Certificates**" means, from time to time, the relevant Certificates held by or on behalf of Türkiye Finans which Türkiye Finans wishes to transfer and cancel, as specified in the relevant Redemption and Cancellation Notice; and

"**Redemption Sale Agreement**" means an agreement substantially in the form set out in Schedule 2 (*Form of Redemption Sale Agreement*) of the Redemption Undertaking.

Purchase Undertaking

Pursuant to a purchase undertaking (the "**Purchase Undertaking**") dated on or about the Closing Date granted by Türkiye Finans in favour of the Issuer and the Representative, Türkiye Finans irrevocably grants to the Issuer (and, in respect of paragraph (a) below, the Representative) the right to require Türkiye Finans:

(a) at any time on or prior to a Dissolution Date other than a Scheduled Dissolution Date, to pay the Dissolution Event Exercise Price specified in the Purchase Undertaking Exercise Notice to the Issuer, **provided that**:

   (i) a Dissolution Event has occurred and is continuing; and

   (ii) the Representative has given notice to the Issuer that a Dissolution Request has been made in accordance with Condition 13 (*Dissolution Events*);

(b) on the Business Day prior to the Scheduled Dissolution Date, to pay the Dissolution Event Exercise Price specified in the Purchase Undertaking Exercise Notice to the Issuer;

(c) at any time after a Change of Control has occurred and the Change of Control Put Option has been exercised by holders of one hundred per cent. (100%) of the Certificates then outstanding, on the Business Day prior to the Change of Control Redemption Date to pay the Dissolution Event Exercise Price specified in the Purchase Undertaking Exercise Notice to the Issuer; or

(d) at any time after a Change of Control has occurred and the Change of Control Put Option has been exercised by holders of less than one hundred per cent. (100%) of the Certificates then outstanding, on the Business Day prior to the Change of Control Redemption Date to pay the Change of Control Exercise Price specified in the Change of Control Exercise Notice to the Issuer,

in each case by payment of the same into the Transaction Account on the relevant date and in accordance with the terms of the Purchase Undertaking; or

(e) to transfer to the Issuer on the relevant Impaired Portfolio Asset Substitution Date all of Türkiye Finans' interests, rights, benefits and entitlements in, to and under certain New Assets against the transfer to Türkiye Finans' of all of the Issuer's interests, rights, benefits and entitlements in, to and under certain Substituted Impaired Portfolio Assets; and

(f) to sell and transfer to the Issuer on the relevant Additional Portfolio Asset Date all of Türkiye Finans' interests, rights, benefits and entitlements in, to and under certain New Assets against the payment by the Issuer of an amount equal to the Additional Portfolio Asset Purchase Price.

In order to exercise these rights, the Issuer (or the Representative as applicable, on its behalf) is required to deliver a Purchase Undertaking Exercise Notice, Change of Control Exercise Notice, Impaired Portfolio Asset Substitution Notice or Additional Portfolio Asset Exercise Notice (as applicable) to Türkiye Finans under, and in accordance with, the terms of the Purchase Undertaking.

Türkiye Finans irrevocably undertakes that:

(i) following the exercise of a right pursuant to a right pursuant to paragraphs (a) to (d) above (as applicable), subject to payment in full of the Dissolution Event Exercise Price or the Change of Control Exercise Price (as applicable) on the relevant Due Date (as defined in the Purchase Undertaking), and as consideration therefor, enter into a Sale Agreement between the Issuer and Türkiye Finans for the purchase and transfer of all of the Issuer's interests, rights, benefits and entitlements in, to and under the Portfolio Assets or, as the case may be, the Change of Control Redemption Assets at the Dissolution Event Exercise Price of the Change of Control Exercise Price (as applicable);

(ii) following the exercise of a right pursuant to paragraph (e) above, it will substitute the Substituted Impaired Portfolio Assets for New Assets by the execution of a Transfer Agreement between the Issuer and Türkiye Finans and, in order to enable the Issuer to finalise the form of the Transfer Agreement to be entered into for such purposes, it will immediately on receipt of an Impaired Portfolio Asset Substitution Notice provide the Issuer with details of the relevant New Assets to be inserted into the form of Transfer Agreement; and

(iii) following the exercise of the right pursuant to paragraph (f) above, it will sell the New Assets to the Issuer by the execution of a New Asset Sale Agreement between the Issuer and Türkiye Finans and, in order to enable the Issuer to finalise the form of the New Asset Sale Agreement to be entered into for such purposes, it will immediately on receipt of an Additional Portfolio Asset Exercise Notice provide the Issuer with details of the relevant New Assets to be inserted into the form of New Asset Sale Agreement.

For these purposes:

"**Additional Portfolio Asset Date**" means the date specified as such in an Additional Portfolio Asset Exercise Notice;

"**Additional Portfolio Asset Event**" means notification by the Managing Agent to the Issuer pursuant to clauses 5.5.1 or 5.6.2 of the Management Agency Agreement that Türkiye Finans has Eligible Portfolio Assets available for sale to the Issuer and that there are either Principal

Revenues standing to the credit of the Principal Collection Account or Shari'a Compliant Investments which can be liquidated, in each case, for the purposes of purchasing such Eligible Portfolio Assets;

"**Additional Portfolio Asset Exercise Notice**" means a notice substantially in the form set out in Schedule 4 (*Form of Additional Portfolio Asset Exercise Notice*) of the Purchase Undertaking;

"**Additional Portfolio Asset Purchase Price**" means the amount specified as such in an Additional Portfolio Asset Exercise Notice;

"**Change of Control**" means:

(a) The National Commercial Bank ceases to have the power to direct the management and policies of Türkiye Finans (whether through the ownership of voting capital, by contract, decree or otherwise); or

(b) there is a reduction in the principal share ownership of The National Commercial Bank in Türkiye Finans to less than fifty one per cent. (51%) of the issued share capital of Türkiye Finans;

"**Change of Control Asset Value**" means an amount equal to: (a) the aggregate Outstanding Principal Value of the Portfolio Assets immediately prior to the sale and purchase of the Change of Control Redemption Assets; multiplied by (b) the Change of Control Percentage;

"**Change of Control Exercise Notice**" means a notice substantially in the form set out in Schedule 2 (*Form of Change of Control Undertaking Exercise Notice*) to the Purchase Undertaking;

"Change of Control Exercise Price" means an amount equal to the aggregate Outstanding Principal Value of each Change of Control Redemption Asset on the Change of Control Redemption Date;

"**Change of Control Percentage**" means the aggregate face amount of the Change of Control Redemption Certificates divided by the aggregate face amount of all of the Certificates then outstanding expressed as a percentage, as determined on the relevant Change of Control Redemption Date immediately prior to the redemption of the Change of Control Redemption Certificates;

"**Change of Control Redemption Assets**" means those Portfolio Assets as Türkiye Finans may select following a Change of Control in accordance with the terms of the Purchase Undertaking and specified as such in a Sale Agreement;

"**Change of Control Redemption Certificates**" means those Certificates that are being redeemed by the relevant Certificateholders upon a Change of Control in accordance with the Conditions;

"**Dissolution Event Exercise Price**" means: (a) the Outstanding Principal Value of each Portfolio Asset on the Dissolution Date; (b) without duplication or double-counting, an amount equal to any accrued but unpaid Management Costs; and (c) without duplication or double-counting, an amount representing any prior ranking claims (as described in items (i) and (ii) of Condition 5(b) (*The Asset Leasing Corporation — Application of Proceeds from Lease Certificate Assets*)) in accordance with Condition 5(b) (*The Asset Leasing Corporation — Application of Proceeds from Lease Certificate Assets*);

"**Impaired Portfolio Asset Event**" means notification by the Managing Agent to the Issuer pursuant to clause 4.1.8 of the Management Agency Agreement that a Portfolio Asset has become an Impaired Portfolio Asset and that Türkiye Finans has Eligible Portfolio Assets available for the purposes of substituting the relevant Impaired Portfolio Asset;

"**Impaired Portfolio Asset Substitution Date**" means the date specified as such in an Impaired Portfolio Asset Substitution Notice;

"**Impaired Portfolio Asset Substitution Notice**" means a notice substantially in the form set out in Schedule 3 (*Form of Impaired Portfolio Asset Substitution Notice*) of the Purchase Undertaking;

"**New Assets**" means the Lease Assets or Investment Sukuk specified as such in a Transfer Agreement or a New Asset Sale Agreement (as applicable), the identity of which shall be determined by Türkiye Finans in its sole and absolute discretion subject to the terms of the Purchase Undertaking;

"**Purchase Undertaking Exercise Notice**" means a notice substantially in the form set out in Schedule 1 (*Form of Purchase Undertaking Exercise Notice*) to the Purchase Undertaking;

"**Sale Agreement**" means an agreement substantially in the form set out at Schedule 3 (*Form of Sale Agreement*) to the Purchase Undertaking; and

"**Substituted Impaired Portfolio Assets**" means the Portfolio Assets specified as such in an Impaired Portfolio Asset Substitution Notice;

"**Transfer Agreement**" means an agreement substantially in the form set out at Schedule 6 (*Form of Transfer Agreement*) of the Purchase Undertaking.

Following the exercise of the rights granted under paragraphs (a) to (d) above and payment of the relevant Dissolution Event Exercise Price or Change of Control Exercise Price into the Transaction Account, Türkiye Finans will as consideration therefor:

(i) in the case of the exercise of rights granted under paragraphs (a), (b), and (c) purchase and accept the transfer of all of the Issuer's interests, rights, benefits and entitlements in, to and under the Portfolio Assets, in which case the Dissolution Event Exercise Price will represent the purchase price for such Portfolio Assets; or

(ii) in the case of the exercise of rights granted under paragraph (d), purchase and accept the transfer of the Issuer's interests, rights, benefits and entitlements in, to and under the relevant Change of Control Redemption Assets, in which case the relevant Change of Control Exercise Price will represent the purchase price for the relevant Change of Control Redemption Assets.

Following the exercise of the rights granted under paragraphs (e) and (f) above, Türkiye Finans will sell and transfer all of Türkiye Finans' interests, rights, benefits and entitlements in, to and under the relevant New Assets on the relevant Impaired Portfolio Asset Substitution Date or, as the case may be, the relevant Additional Portfolio Asset Date, in which case the sale and transfer of the Issuer's interests, rights, benefits and entitlements in, to and under the relevant Substituted Impaired Portfolio Assets or, as the case may be, the Additional Portfolio Asset Purchase Price will represent the purchase price for such New Assets.

Pursuant to the Purchase Undertaking, Türkiye Finans may select in its sole and absolute discretion the relevant Change of Control Redemption Assets and the relevant New Assets **provided always that** following the selection of the Change of Control Redemption Assets or, as the case may be, the New Assets:

(a) in relation to the selection of the Change of Control Redemption Assets only, the Outstanding Principal Value of the Change of Control Redemption Assets immediately prior to the sale to Türkiye Finans is equal to the Change of Control Asset Value;

(b) in relation to the selection of the New Assets only, the Outstanding Principal Value of the New Assets immediately prior to the sale to the Issuer is at least equal to the Additional Portfolio Asset Purchase Price paid in respect of those New Assets; and

(c) in relation to the selection of the Change of Control Redemption Assets and the New Assets, immediately following the redemption of the Change of Control Redemption Certificates or, as the case may be, the sale and transfer of the New Assets the aggregate of:

    (i) the Outstanding Principal Value of the remaining Portfolio Assets (including any New Assets);

    (ii) the remaining amount standing to the credit of the Principal Collection Account (if any);

    (iii) the amount invested in the remaining Shari'a Compliant Investments (if any); and

(iv) the outstanding Deferred Principal Amount under the Murabaha Contract, will be at least equal to the outstanding face amount of the Certificates then outstanding.

Türkiye Finans will acknowledge and agree that, where the proportion of a Portfolio Asset forming part of the relevant Change of Control Redemption Assets is less than the whole of that Portfolio Asset, a Sale Agreement shall not be entered into in respect of part of that Portfolio Asset and the possible transfer to Türkiye Finans of such proportion of that Portfolio Asset shall be deferred until such time that the Change of Control Exercise Price which relates to such Portfolio Asset when aggregated with the face amount of any Redemption Certificates that have been purchased and cancelled by the Issuer which relate to that Portfolio Asset in accordance with the terms of the Redemption Undertaking is at least equal to the Outstanding Principal Value of that Portfolio Asset.

Türkiye Finans will agree in the Purchase Undertaking that, except for the set-off described in the following paragraph, all payments by it under the Purchase Undertaking will be made in U.S. Dollars 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 such deduction or withholding required by law, Türkiye Finans shall pay all additional amounts as will result in the receipt by the Agent, the Representative and each other Compensated Person (as defined in the Purchase Undertaking) of such net amounts as would have been received by it if no such deduction or withholding had been made.

On a Dissolution Date or Change of Control Redemption Date (as the case may be) an amount equal to any Management Costs to be paid by Türkiye Finans as part of any Dissolution Event Exercise Price or Change of Control Exercise Price pursuant to the Purchase Undertaking and any Management Costs to be paid by the Issuer under the Management Agency Agreement which have not otherwise been paid shall be set off against one another.

Türkiye Finans has agreed that certain events or circumstances shall constitute Türkiye Finans Events under the Purchase Undertaking. For a full list of the Türkiye Finans Events, please see Condition 13 (*Dissolution Events*) under the section entitled "*Terms and Conditions of the Certificates*".

The Certificateholders will also have the benefit of a negative pledge (the "**Negative Pledge**") given by Türkiye Finans in the Purchase Undertaking:

Türkiye Finans 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 Türkiye Finans.

For these purposes:

"**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 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;

"**Guarantee**" means, in relation to any Financial Indebtedness of any person, any obligation of another person to pay such following valid demand or claim on that person and includes (without limitation):

(i) any obligation to purchase such Financial Indebtedness;

(ii) any obligation to extend financing, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Financial Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Financial Indebtedness;

(iv) any obligation to pay an exercise price or other amount under any undertaking or indemnity given in favour of the obligor in respect of such Financial Indebtedness as part of an Islamic financing transaction; and

(v) any other agreement to be responsible for such Financial Indebtedness;

"**Permitted Security**" means:

(a) any Security Interest arising in the ordinary course of Türkiye Finans' business;

(b) any Security Interest securing any Financial Indebtedness of Türkiye Finans 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, syndication and repurchase transactions and any netting or set-off arrangements entered into in the ordinary course of Türkiye Finans' 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 Türkiye Finans after the Closing Date, if such Security Interest was created at the time of such acquisition to secure any Financial Indebtedness incurred for the purpose of financing such acquisition;

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

(g) any Security Interest created in connection with any Securitisation Indebtedness (as defined in the Purchase Undertaking);

(h) any Security Interest arising in connection with any payment or close-out netting or set off arrangement pursuant to any hedging transaction entered into by Türkiye Finans 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 Türkiye Finans in an aggregate principal amount at any time outstanding not exceeding an amount equal to 20 per cent. of Türkiye Finans' consolidated tangible net worth. For the purpose of this paragraph, Türkiye Finans' "**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 unconsolidated annual financial statements of Türkiye Finans prepared in accordance with BRSA Principles; and

"**Security Interest**" means any mortgage, charge, pledge, lien, or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

In the Purchase Undertaking, Türkiye Finans will further undertake as follows:

Maintenance of Authorisations

Türkiye Finans shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents required in or by the laws and regulations of Turkey to enable it lawfully to enter into and perform its obligations under the Transaction Documents or to ensure the legality, validity, enforceability or admissibility in evidence in Turkey of the Transaction Documents including, without limitation, if required, the registration of the Transaction Documents.

So long as any Certificates remain outstanding (as defined in the Representative Agreement), Türkiye Finans shall take all necessary action to maintain, obtain and promptly renew, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, permissions, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Republic of Turkey (including, for the avoidance of doubt, with the CMB and the BRSA) for (i) the execution, delivery or performance of the Transaction Documents or for the validity or enforceability thereof, or (ii) the conduct by it of the Permitted Business, save for any consents, permissions, licences, approvals, authorisations, registrations, recordings and filings (collectively, "**Permissions**") which are immaterial in the conduct by Türkiye Finans of the Permitted Business. For the avoidance of doubt, any Permissions relating to Türkiye Finans' ability or capacity to undertake its banking or financial advisory functions shall not be deemed to be immaterial in the conduct by Türkiye Finans of its Permitted Business.

For these purposes, "**Permitted Business**" means any business which is the same as or related, ancillary or complementary to any of the businesses of Türkiye Finans on the Issue Date.

Transactions with Affiliates

Türkiye Finans shall not, and shall not permit any of its Subsidiaries to, in any twelve month period, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties, revenues or assets to, or purchase any properties, revenues or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance, indemnity or guarantee (whether related or not) which has or in the aggregate have a value in excess of U.S.$10,000,000 with or for the benefit of, any Affiliate (each, an "**Affiliate Transaction**") unless: (i) such Affiliate Transaction is on terms that are no less favourable to Türkiye Finans or the relevant Subsidiary than those that would have been obtained in a comparable transaction by Türkiye Finans or such Subsidiary with an unrelated Person; (ii) such Affiliate Transaction involves the sale, transfer or disposal of property or equipment or intangible assets (including software programmes) relating to or forming part of Türkiye Finans' information technology infrastructure; or (iii) such Affiliate Transaction is made pursuant to an Islamic financing structure, **provided that** the assets which are the subject of such financing structure cannot be ultimately sold or otherwise disposed of, except to Türkiye Finans and no other person.

The Purchase Undertaking is governed by, and shall be construed in accordance with, the laws of England. Each Sale Agreement will be governed by, and construed in accordance with, the laws of Turkey.

Financial Reporting

So long as the Certificates remain outstanding (as defined in the Representative Agreement), Türkiye Finans shall deliver to the Principal Paying Agent:

(i) not later than six months after the end of Türkiye Finans' financial year, copies of Türkiye Finans' audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding period, and all such annual financial statements of Türkiye Finans shall be accompanied by the report of the auditors thereon; and

(ii) not later than 120 days after the end of the first six months of each of Türkiye Finans' financial years, copies of its unaudited consolidated financial statements for such six-month period, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding period.

Notification of Türkiye Finans Events, and Potential Türkiye Finans Events and Change of Control

Türkiye Finans undertakes that it shall forthwith notify the Representative of any (a) Change of Control, (b) Türkiye Finans Event (and the steps, if any, being taken to remedy it) or (c) any Potential Türkiye Finans Event, in each case promptly upon becoming aware of its occurrence.

Sale Undertaking

Pursuant to a sale undertaking (the "**Sale Undertaking**") dated on or about the Closing Date granted by the Issuer in favour of Türkiye Finans and the Representative, the Issuer irrevocably grants to Türkiye Finans the right to require the Issuer, upon the occurrence of a Tax Event which is continuing, to accept the payment of the Sale Undertaking Exercise Price on the Tax Redemption Date specified in the Sale Undertaking Exercise Notice, **provided that** no Dissolution Event has occurred.

In order to exercise this right, Türkiye Finans is required to deliver a Sale Undertaking Exercise Notice to the Issuer (with a copy to the Representative) specifying the Tax Redemption Date (which must be a Periodic Distribution Date and must be no less than 45 days and no more than 60 days after the date on which the Sale Undertaking Exercise Notice is delivered to the Issuer).

In addition, if, following a Change of Control, 75 per cent. or more in face amount of the Certificates are redeemed in accordance with Condition 9(d) (*Redemption at the Option of the Certificateholders (Change of Control Put Option)*), Türkiye Finans will, by exercising its right under the Sale Undertaking and serving a Sale Undertaking Exercise Notice on the Issuer (with a copy to the Representative) specifying the Change of Control Call Option Date (which shall be no less than 45 days and no more than 60 days after the date on which the Sale Undertaking Exercise Notice is delivered to the Issuer), oblige the Issuer to accept payment of the Sale Undertaking Exercise Price from Türkiye Finans on the date specified in the Exercise Notice.

Subject to the payment of the Sale Undertaking Exercise Price in accordance with the terms of the Sale Undertaking, the Issuer will:

(a) sell all of the Issuer's interests, rights, benefits and entitlements in, to and under the Portfolio Assets to Türkiye Finans, in which case the Sale Undertaking Exercise Price will represent the purchase price for such interests, rights, benefits and entitlements in, to and under the Portfolio Assets; and

(b) enter into a Sale Agreement so as to give effect to the purchase referred to in paragraph (a) above.

In addition, pursuant to the Sale Undertaking, the Issuer irrevocably grants to Türkiye Finans the right to oblige the Issuer to transfer on any Substitution Date all of the Issuer's interests, rights, benefits and entitlements in, to and under certain Substituted Assets against the transfer to the Issuer of all of Türkiye Finans' interests, rights, benefits and entitlements in, to and under certain New Assets.

This right can be exercised at any time by Türkiye Finans, delivering a Substitution Notice to the Issuer specifying the Substitution Date (which may be the same date as the Substitution Notice) and **provided that** in such Substitution Notice Türkiye Finans represents and warrants that:

(a) the representations set out in clause 4.1.2 of the Initial Asset Portfolio Sale and Purchase Agreement are true and accurate with respect to the relevant New Assets;

(b) the aggregate Outstanding Principal Value of the relevant New Assets is at least equal to the Outstanding Principal Value of the relevant Substituted Assets immediately prior to such substitution;

(c) immediately following such substitution, the aggregate of:

    (i) the Outstanding Principal Value of the Portfolio Assets (including such New Assets);

    (ii) the amount standing to the credit of the Principal Collection Account (if any);

    (iii) the amount invested in the remaining Shari'a Compliant Investments (if any); and

    (iv) the outstanding Deferred Principal Amount under the Murabaha Contract,

    will be at least equal to the face amount of the Certificates then outstanding; and

(d) for the purposes of the Transaction Documents, the purchase price for such New Assets shall be deemed to be the Outstanding Principal Value of the Substituted Assets at the time of such substitution.

Following the exercise of the substitution right, the substitution of the Substituted Assets for New Assets shall occur by the execution of a Transfer Agreement between the Issuer and Türkiye Finans.

The Issuer agrees and acknowledges that Türkiye Finans may select, in its sole and absolute discretion, the relevant Substituted Assets and New Assets **provided always that** following the selection of the Substituted Assets and New Assets:

(a) the aggregate Outstanding Principal Value of the relevant New Assets is at least equal to the Outstanding Principal Value of the relevant Substituted Assets immediately prior to such substitution;

(b) immediately following such substitution, the aggregate of:

    (i) the Outstanding Principal Value of the Portfolio Assets (including such New Assets);

    (ii) the amount standing to the credit of the Principal Collection Account (if any);

    (iii) the amount invested in the remaining Shari'a Compliant Investments (if any); and

    (iv) the outstanding Deferred Principal Amount under the Murabaha Contract,

    will be at least equal to the face amount of the Certificates then outstanding.

Nothing in the Sale Undertaking will require the Representative to determine the value of the relevant Substituted Assets or New Assets.

The exercise of the rights granted under the Sale Undertaking is subject to the Issuer (or the Representative or Principal Paying Issuer on its behalf) not having previously delivered a Purchase Undertaking Exercise Notice to Türkiye Finans or, in the case of the substitution right granted under the Sale Undertaking, Türkiye Finans not having delivered to the Issuer a Sale Undertaking Exercise Notice. A Sale Undertaking Exercise Notice and a Substitution Notice will cease to have any effect from (and including):

(a) the occurrence of a Dissolution Event;

(b) the date of delivery of a Purchase Undertaking Exercise Notice; or

(c) in the case of a Substitution Notice, the date of delivery of a Sale Undertaking Exercise Notice; or

(d) in the case of a Sale Undertaking Exercise Notice, the date on which Türkiye Finans fails to settle the Sale Undertaking Exercise Price in accordance with the terms of the Sale Undertaking.

The Sale Undertaking is governed by, and shall be construed in accordance with, the laws of England. Each Sale Undertaking Sale Agreement and each Transfer Agreement will be governed by, and construed in accordance with the laws of Turkey.

For these purposes:

"**New Assets**" means the Lease Assets or Investment Sukuk specified as such in a Substitution Notice, the identity of which shall be determined by Türkiye Finans in its sole and absolute discretion subject to the terms of the Sale Undertaking;

"**Sale Undertaking Exercise Notice**" means a notice substantially in the form set out in Schedule 1 (*Form of Sale Undertaking Exercise Notice*) of the Sale Undertaking;

"**Sale Undertaking Exercise Price**" means: (a) the Outstanding Principal Value of each Portfolio Asset on the Dissolution Date; (b) without duplication or double-counting, an amount equal to any accrued but unpaid Management Costs; and (c) without duplication or double-counting, an amount representing any prior ranking claims (as described in items (i) and (ii) of Condition 5(b) (*The Asset Leasing Corporation — Application of Proceeds from Lease Certificate Assets)*) in accordance with Condition 5(b) (*The Asset Leasing Corporation — Application of Proceeds from Lease Certificate Assets*); and "**Sale Undertaking Sale Agreement**" means an agreement substantially in the form set out in Schedule 3 (*Form of Sale Agreement*) of the Sale Undertaking;

"**Substituted Assets**" means the Portfolio Assets specified as such in a Substitution Notice, the identity of which shall be determined by Türkiye Finans in its sole and absolute discretion subject to the terms of the Sale Undertaking;

"**Substitution Date**" means the date specified as such in a Substitution Notice;

"**Substitution Notice**" means a notice substantially in the form set out in Schedule 2 (*Form of Substitution Notice*) of the Sale Undertaking; and

"**Transfer Agreement**" means an agreement substantially in the form set out at Schedule 4 (*Form of Transfer Agreement*) of the Sale Undertaking.

Redemption Undertaking

Pursuant to a redemption undertaking (the "**Redemption Undertaking**") dated on or about the Closing Date granted by the Issuer in favour of Türkiye Finans and the Representative, the Issuer irrevocably grants to Türkiye Finans the right to require the Issuer to purchase the Redemption Certificates from Türkiye Finans in consideration for:

(a) the sale and transfer of its interests, rights, benefits and entitlements in, to and under the relevant Redemption and Cancellation Assets to Türkiye Finans; and

(b) the payment of an amount equal to the Redemption Amount to Türkiye Finans,

and the cancellation of the Redemption Certificates on the relevant Redemption and Cancellation Date in accordance with the terms of the Representative Agreement, the Conditions and the terms of the Redemption Undertaking.

The right granted to Türkiye Finans under the Redemption Undertaking may only be exercised by Türkiye Finans delivering a Redemption and Cancellation Notice to the Issuer specifying the Redemption Certificates to be transferred to the Issuer and the Redemption and Cancellation Date (which must also be a Periodic Distribution Date), the Redemption and Cancellation Assets and the Redemption Amount (together with a breakdown of the constituent elements of that amount) and **provided that** in such Redemption and Cancellation Notice, Türkiye Finans represents and warrants that:

(a) the aggregate face amount of the relevant Redemption Certificates is at least equal in value to the aggregate Outstanding Principal Value of the relevant Redemption and Cancellation Assets and the Redemption Amount specified therein; and

(b) on the relevant Redemption and Cancellation Date, immediately following the redemption and cancellation of the relevant Redemption Certificates, the transfer of the Redemption and Cancellation Assets and the payment of the Redemption Amount in accordance with the terms of the Redemption Undertaking and the other Transaction Documents, the aggregate of:

(i) the Outstanding Principal Value of the remaining Portfolio Assets;

(ii) the amount standing to the credit of the Principal Collection Account (if any) as reduced pursuant to the Management Agency Agreement;

(iii) the remaining principal amount invested in the remaining Shari'a Compliant Investments (if any); and

(iv) the outstanding Deferred Principal Amount under the Murabaha Contract, will be at least equal to the face amount of the Certificates then outstanding; and

(c) the:

(i) sale of the Issuer's interests, rights, benefits and entitlements in, to and under the relevant Redemption and Cancellation Assets in accordance with the Redemption Undertaking and the relevant Redemption Sale Agreement; and

(ii) the payment of the relevant Redemption Amount (in the manner described below),

represents fair and valuable consideration for the relevant Redemption Certificates which shall be transferred by Türkiye Finans and cancelled by the Issuer in accordance with the Redemption Undertaking, the Representative Agreement and the Conditions.

Following the exercise of the right granted to Türkiye Finans under the Redemption Undertaking, the Issuer will:

(a) purchase the relevant Redemption Certificates from Türkiye Finans on the relevant Redemption and Cancellation Date;

(b) cancel the relevant Redemption Certificates on the relevant Redemption and Cancellation Date;

(c) sell and transfer the Issuer's interests, rights, benefits and entitlements in, to and under the relevant Redemption and Cancellation Assets to Türkiye Finans by entering into a Redemption Sale Agreement with Türkiye Finans on the terms and subject to the conditions of the Redemption Undertaking and the Redemption and Cancellation Notice on or after the Redemption and Cancellation Date, in which case the redemption and cancellation of the relevant proportion of the relevant Redemption Certificates shall represent the consideration for those Redemption and Cancellation Assets; and

(d) pay the relevant Redemption Amount (in the manner described below), in which case the redemption and cancellation of the remaining proportion of the relevant Redemption Certificates shall represent the consideration for such payment.

Türkiye Finans acknowledges that on a Redemption and Cancellation Date the relevant Redemption Amount to be paid by the Issuer to Türkiye Finans will be paid as follows:

(a) the amount equal to the Principal Collections Redemption Amount shall be paid, and be deemed to have been paid, by the Issuer authorising the Managing Agent to debit such amount from the Principal Collection Account and retain it for its own account in accordance with the terms of the Management Agency Agreement;

(b) the amount equal to the Shari'a Compliant Investments Redemption Amount shall be paid, and be deemed to have been paid, by the Issuer authorising the Managing Agent to liquidate a corresponding amount of the Shari'a Compliant Investments and retain such amount for its own account in accordance with the terms of the Management Agency Agreement; and

(c) the amount equal to the Murabaha Contract Redemption Amount shall be set-off against the amount of the Deferred Principal Amount to be paid by Türkiye Finans to the Issuer on the Redemption and Cancellation Date under the Murabaha Agreement.

The exercise of the right granted to Türkiye Finans under the Redemption Undertaking is subject to the Issuer or Representative not having previously delivered a Purchase Undertaking Exercise Notice or Change of Control Exercise Notice under the Purchase Undertaking and a Redemption and Cancellation Notice will cease to have any effect following the occurrence of a Dissolution Event.

Türkiye Finans may select, in its sole and absolute discretion, the relevant Redemption and Cancellation Assets **provided always that** following such selection:

(a) the Outstanding Principal Value of the Redemption and Cancellation Assets immediately prior to the redemption and cancellation of the Redemption Certificates is equal to the Redemption and Cancellation Asset Value;

(b) on the relevant Redemption and Cancellation Date, immediately following the redemption and cancellation of the relevant Redemption Certificates, the transfer of the Redemption and Cancellation Assets and the payment of the Redemption Amount in accordance with the terms of the Redemption Undertaking and the other Transaction Documents, the aggregate of:

   (i) the Outstanding Principal Value of the remaining Portfolio Assets;

   (ii) the amount standing to the credit of the Principal Collection Account (if any) as reduced pursuant to the Management Agency Agreement;

   (iii) the remaining principal amount invested in the remaining Shari'a Compliant Investments (if any); and

   (iv) the outstanding Deferred Principal Amount under the Murabaha Contract, will be at least equal to the outstanding face amount of the Certificates then outstanding.

Nothing in the Redemption Undertaking shall require the Representative to determine the value of the relevant Redemption and Cancellation Assets.

Türkiye Finans will acknowledge and agree that, where the proportion of a Portfolio Asset forming part of the Redemption and Cancellation Assets is less than the whole of that Portfolio Asset, a Redemption Sale Agreement shall not be entered into in respect of part of that Portfolio Asset and the possible transfer to Türkiye Finans of such proportion of that Portfolio Asset shall be deferred until such time that the face amount of Redemption Certificates that have been purchased and cancelled by the Issuer which relate to such Portfolio Asset when aggregated with any Change of Control Exercise Price that has been paid to the Issuer which relates to that Portfolio Asset in accordance with the terms of the Purchase Undertaking is at least equal to the Outstanding Principal Value of that Portfolio Asset.

The Redemption Undertaking is governed by, and shall be construed in accordance with, the laws of England. Each Redemption Sale Agreement will be governed by, and construed in accordance with the laws of Turkey.

Representative Agreement

Pursuant to a representative agreement to be dated on or about the Closing Date entered into by way of a deed between Türkiye Finans, the Issuer and the Representative (the "**Representative Agreement**"), the Representative will act as trustee for the Certificateholders and undertake certain administrative functions in respect of the Certificates and the Transaction Documents.

Pursuant to the Representative Agreement, upon issue of the Certificates, the Representative shall hold, the benefit of certain covenants given by the Issuer on trust for the Certificateholders. Such covenants include, amongst others:

(i) the covenant to pay the face amount of the Certificates when due for redemption or repayment;

(ii) the covenant to pay Periodic Distribution Amounts due to be paid;

(iii) certain undertakings of the Issuer to, amongst others, cause all income from the Portfolio Assets to be collected, and all payments in respect of the Certificates to be made, in accordance with the Conditions, the Representative Agreement and the Paying Agency Agreement;

(iv) the Negative Pledge given by Türkiye Finans in the Purchase Undertaking; and

(v) covenants given by Türkiye Finans in the Purchase Undertaking (such as to purchase the Lease Assets if certain conditions are met).

Pursuant to the Representative Agreement, the Issuer will declare that it will hold the Lease Certificate Assets comprising:

(i) all of the Issuer's rights, interest and benefit (present and future) in, to and under the Sukuk Assets;

(ii) all monies standing to the credit of the Transaction Account;

(iii) all of the Issuer's rights, interest and benefit (present and future) in, to and under the Transaction Documents (excluding any representations given to the Issuer by Türkiye Finans pursuant to any of the Transaction Documents); and

(iv) all proceeds of the foregoing (which are held by the Issuer),

in its own name and on its own behalf and for the account and benefit of the Certificateholders and the income accruing to the Issuer from the Lease Certificate Assets, together with any capital arising from disposal of such Lease Certificate Assets, shall be for the benefit of, and shall be accounted by the Issuer to, the Certificateholders, on a *pro rata* basis in the proportion which the face amount of such Certificateholder's Certificates bears to the aggregate outstanding Certificates and will rank *pari passu*, without any preference, with the other Certificates.

The Representative Agreement will specify that, on or after the Scheduled Dissolution Date or, as the case may be, the Dissolution Date, the rights of recourse in respect of the Certificates shall be limited to the amounts from time to time available and comprising the Sukuk Assets, subject to the priority of payments set out in the Representative Agreement, the Certificates and the Conditions. The Certificateholders have no claim or recourse against the Issuer, Türkiye Finans, the Representative, the Agents or any other person in respect of any amount which is or remains unsatisfied and any unsatisfied amounts will be extinguished.

In the Representative Agreement, the Representative may, upon the occurrence of a Dissolution Event (subject to it being indemnified and/or secured and/or prefunded to its satisfaction), exercise all of the rights of the Issuer under the Transaction Documents and the Conditions (**provided that** no obligations, duties, Liabilities or covenants of the Issuer pursuant to the Representative Agreement or any other Transaction Document shall be imposed on the Representative by virtue of this delegation). The Representative may also refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction or, to the extent applicable, of England. Furthermore, the Representative may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or in England or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or in England or if it is determined by any court or other competent authority in that jurisdiction or in England that it does not have such power.

The Issuer will undertake in the Representative Agreement that it shall: (i) following it becoming aware of the occurrence of a Potential Dissolution Event in respect of any Certificates and subject to Condition 13 (*Dissolution Events*) promptly notify the Representative and the Certificateholders of the occurrence of such Dissolution Event; and (ii) take all such steps as are necessary to enforce the obligations of Türkiye Finans under the Initial Asset Portfolio Sale and Purchase Agreement, the Murabaha Agreement, the Purchase Undertaking, the Redemption Undertaking, the Management Agency Agreement and any other Transaction Document to which Türkiye Finans is a party in accordance with the provisions of the relevant Transaction Document.

Following the occurrence of a Dissolution Event, the Representative shall (subject to it being indemnified and/or secured and/or prefunded to its satisfaction), if notified in writing of the occurrence of such Dissolution Event, give notice in writing of the occurrence of such Dissolution Event to the Certificateholders in accordance with Condition 16 (*Notices*) with a request to such holders to indicate if they wish the Certificates to be redeemed. If so requested in writing by the holders of at least 25 per cent. of the then outstanding aggregate face amount of the Certificates or if so directed by an Extraordinary Resolution of the Certificateholders (a "**Dissolution Request**"), the Representative shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer (with a copy to Türkiye Finans) of the Dissolution Request and, upon receipt of such notice, the Issuer shall promptly exercise its rights under the Purchase Undertaking by serving a Purchase Undertaking Exercise Notice on

Türkiye Finans in accordance with the terms of the Purchase Undertaking and use the proceeds of the resultant sale to redeem the Certificates at the Dissolution Distribution Amount on the date specified in such notice.

Upon the occurrence of a Dissolution Event, to the extent that the Dissolution Distribution Amount payable in respect of the Certificates has not been paid in full (and subject to it being indemnified and/or secured and/or prefunded to its satisfaction) the Representative shall pursuant to the Representative Agreement and/or any other Transaction Document, as applicable, and further subject to Condition 14 (*Enforcement and Exercise of Rights*), take one or more of the following steps:

(i) enforce the provisions of the Purchase Undertaking against Türkiye Finans; and/or

(ii) take such other steps as the Issuer or the Representative may consider necessary or desirable to exercise all of the rights of the Issuer or the Representative under the Purchase Undertaking and any of the other Transaction Documents and make such distributions from the Sukuk Assets as the Issuer is bound to make in accordance with the Representative Agreement.

The Representative Agreement specifies, *inter alia*, that:

(i) following the enforcement and ultimate distribution of the net proceeds of the Sukuk Assets in respect of the Certificates to the Certificateholders in accordance with the Conditions and the Representative Agreement, neither the Issuer nor the Representative shall be liable for any amounts which remain unpaid under the Certificates and, accordingly, Certificateholders may not take any action against the Issuer, the Representative or any other person to recover any such sum or asset in respect of the relevant Certificates;

(ii) subject to clause 18 (*Remuneration and Indemnification*) of the Representative Agreement, shall not be bound in any circumstances to take any action to enforce the rights of the Certificateholders in respect of the Lease Certificate Assets or take any action against the Issuer or Türkiye Finans under any Transaction Document to which either of the Issuer or Türkiye Finans (as applicable) is a party unless directed or requested to do so: (a) by an Extraordinary Resolution; or (b) in writing by the holders of at least 66 2/3 per cent. of the then outstanding aggregate face amount of the Certificates and in either case then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction by the Certificateholders against all Liabilities which it may thereby render itself liable to incur or which it may incur by so doing; and

(iii) paragraphs (i) and (ii) above are subject to this paragraph (iii). After distributing the net proceeds of the Sukuk Assets in accordance with Condition 5(b) (*The Asset Leasing Corporation — Application of Proceeds from Lease Certificate Assets*), the obligations of the Issuer in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Issuer (or any steps against the Representative) to recover any further sums in respect of the Certificates and the right to receive any unpaid sums shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding up of the Issuer.

Türkiye Finans will undertake in the Representative Agreement to the Issuer and the Representative that, for as long as any Certificate is outstanding, it will 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 Türkiye Finans.

The Representative Agreement will be governed by, and construed in accordance with, English law.

Paying Agency Agreement

Pursuant to a paying agency agreement (the "**Paying Agency Agreement**") to be dated on or about the Closing Date entered into between the Issuer, Türkiye Finans, the Representative, the Principal Paying Agent, the Registrar and the Transfer Agent:

(i) the Registrar has agreed to be appointed as agent of the Issuer and in such capacity has agreed, amongst other things, to complete, authenticate and deliver the Global Certificates;

(ii) the Principal Paying Agent has agreed to be appointed as agent of the Issuer and in such capacity has agreed, amongst other things, to pay all sums due under such Global Certificates, and to make all calculations and determinations in relation to amounts due under the Global Certificates; and

(iii) the Transfer Agent has agreed to be appointed as agent of the Issuer and in such capacity has agreed, amongst other things, to effect requests to transfer all or part of the Definitive Certificates and issue Definitive Certificates in accordance with each request.

Issue of Global Certificates

On the Closing Date, the Registrar will: (i) authenticate the Global Certificate in accordance with the Representative Agreement; and (ii) deliver, on the Closing Date, the Global Certificate to the common depositary or to such clearing system or other depositary or custodian for a clearing system as shall have been agreed between the Issuer, Türkiye Finans and the Principal Paying Agent or otherwise, at such time, on such date, to such person and in such place as may have been agreed between the Issuer, Türkiye Finans and the Principal Paying Agent.

Payments

The Issuer will pay in freely transferable, cleared funds to the Transaction Account opened by the Issuer with the Principal Paying Agent, any payment which becomes due in respect of a Certificate in accordance with the Conditions.

The Issuer will confirm within three Business Days preceding the day on which any payment is to be made to the Principal Paying Agent that the payment instructions have been given.

The Principal Paying Agent will notify the Issuer and the Representative if the Issuer has not made any payment or if it pays the full amount of any sum payable after the date specified for such payment. If the Principal Paying Agent decides in its discretion that the amounts are not sufficient to make a payment then neither the Principal Paying Agent nor any other Paying Agent is obliged to pay any sums to Certificateholders until the Principal Paying Agent has received the full amount.

The Principal Paying Agent is entitled to treat the registered holder of any Certificate as the absolute owner for all purposes.

Changes in Agents

The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and/or to appoint additional or other Agents by giving, *inter alia*, such Agent at least 60 days' prior written notice to that effect, **provided that**: (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity); (b) so long as any Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, there will at all times be a Paying Agent and a Transfer Agent having its specified office in such place (if any) as may be required by the rules of such listing authority, stock exchange and/or quotation system; and (c) there will at all times be a Paying Agent (which may be the Principal Paying Agent) located in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Costs Undertaking Deed

Pursuant to a costs undertaking deed (the "**Costs Undertaking Deed**") to be dated on or about the Closing Date granted by Türkiye Finans in favour of the Issuer and the Representative, Türkiye Finans irrevocably undertakes to and for the benefit of the Issuer and the Representative:

(i) that it will pay, as and when they fall due, all outstanding fees, costs and expenses due by the Issuer to an Agent pursuant to the Paying Agency Agreement or any other contract relating to the Certificates between the Issuer and such Agent;

(ii) that it will pay all amounts due by the Issuer to each Agent with respect to certain losses incurred by such Agents on the terms and conditions set out in the Paying Agency Agreement (in which Türkiye Finans indemnifies each Agent against any claim, demand, action, liability, damages, cost, actual loss or expense (including, without limitation, legal fees and any applicable value added tax) which the Agent properly incurs otherwise than by reason of its own fraud, gross negligence or wilful default, as a result or arising out of or in relation to its acting as the agent of the Issuer in relation to the Certificates and the appointment of or the exercise of the powers and duties by each Agent under the Paying Agency Agreement); and

(iii) that it will pay all outstanding taxes (including any government related costs, fees, penalties and charges in relation to such taxes) to be paid by the Issuer to the Turkish tax authorities when they become due and payable.

The Costs Undertaking Deed will be governed by, and construed in accordance with, English law.

Commodity Purchase Letter of Understanding

Pursuant to a commodity purchase letter of understanding (the "**Commodity Purchase Letter of Understanding**") dated on or about the Closing Date between the Issuer as purchaser of Commodities and the Supplier as seller of the Commodities, the Issuer will, on the Settlement Date, purchase the Commodities requested by Türkiye Finans in a Notice of Request to Purchase delivered under the Murabaha Agreement from the Supplier for a purchase price equal to no more than 49 per cent. of the issuance proceeds (the "**Commodity Purchase Price**") on spot payment and spot delivery terms.

The Issuer and the Supplier will agree in the Commodity Purchase Letter of Understanding that settlement of the Commodity Purchase Price shall occur in accordance with the terms of the Netting Deed.

Commodity Sale Letter of Understanding

Pursuant to a commodity sale letter of understanding (the "**Commodity Sale Letter of Understanding**") dated on or about the Closing Date between Condor Trading Limited (the "**On-Sale Broker**") as purchaser of Commodities and Türkiye Finans as seller of the Commodities, Türkiye Finans will, on the Settlement Date, sell the Commodities that it has acquired from the Issuer pursuant to the Murabaha Contract concluded in accordance with the Murabaha Agreement to the On-Sale Broker for an amount equal to the Commodity Purchase Price (the "**Commodity Sale Price**") on spot payment and spot delivery terms.

The On-Sale Broker and Türkiye Finans will agree in the Commodity Sale Letter of Understanding that settlement of the Commodity Sale Price shall occur in accordance with the terms of the Netting Deed.

Netting Deed

Pursuant to a netting deed (the "**Netting Deed**") dated on or about the Closing Date between the Issuer, Türkiye Finans, the Supplier and the On-Sale Broker, each of the parties agree that the obligation of the Issuer to pay the Commodity Purchase Price to the Supplier and the obligation of the On-Sale Broker to pay the Commodity Sale Price to Türkiye Finans in respect of the respective sales of Commodities under the Commodity Purchase Letter of Understanding and the Commodity Sale Letter of Understanding shall be netted off in accordance with the terms of the Netting Deed.

TAXATION

The following is a general description of certain Turkish and European Union tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates, whether in those countries or elsewhere. Prospective purchasers of Certificates should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Certificates and receiving payments of profit, principal and/or other amounts under the Certificates and the consequences of such actions under the tax laws of those countries. 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 following taxation section describes the principal tax consequences of an investment in the Certificates by a person who is not a resident of Turkey and will not hold the Certificates in connection with the conduct of a trade or business through a permanent establishment in Turkey. This summary does not intend to be a comprehensive description of all of the tax considerations that may be relevant to a decision to make an investment in the Certificates. In addition, it does not describe any tax consequences (a) arising under the laws of any taxing jurisdiction other than Turkey; or (b) applicable to a resident of Turkey or with a fixed base or permanent establishment in Turkey.

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile or its business centre is in Turkey. A legal entity having its corporate domicile and effective place of management outside of Turkey is a non resident of Turkey. A natural person is a resident of Turkey if it has established domicile or stays in Turkey for more than six months in a calendar year.

While resident legal entities and resident individuals are taxed on their worldwide income in Turkey, non resident legal entities acting without creating a permanent establishment in Turkey and non resident individuals are taxed only on the income that is sourced or derived in Turkey.

Income from capital investment including periodic distribution payment is sourced in Turkey when the principal is invested in Turkey. Capital gains derived from trading income is considered sourced in Turkey when the activity or transaction generating such income is performed or accounted for in Turkey. The term "**accounted for**" means that a payment is made in Turkey, or if the payment is made abroad, that it is recorded in the books in Turkey.

Any withholding tax levied on income derived by a non resident is the final tax for the non resident and no further declaration is needed. Any other income of a non resident sourced in Turkey that has not been subject to withholding tax will be subject to taxation and declaration where exemptions are reserved.

Article 30.1 of the Corporation Tax Law (Law No. 5520) ("**Corporation Tax Law**") requires a 15 per cent. withholding tax from the income received under the Certificates by the non resident legal entities. However, according to the Council of Ministers' Decree No. 2009/14593, changed through Decree No 2011/1854, issued pursuant to Article 30.8 of the Corporation Tax Law, the rate of such withholding tax is reduced to 0 per cent. for Certificates with a maturity of five years and more. The withholding tax rates for Certificates with a maturity of less than five years range between 3 per cent. and 10 per cent.

Article 94.7 of the Income Tax Law (Law No. 193) ("**Income Tax Law**") requires a 25 per cent. withholding tax from the income received under the Certificates by the non resident individuals. However, according to the Council of Ministers' Decree No. 2009/14592, as amended by Decree No. 2011/1854, issued pursuant to Article 94 of the Income Tax Law, the rate of such withholding tax is reduced to 0 per cent. for Certificates with a maturity of five years and more. The withholding tax rates for Certificates with a maturity of less than five years range between 3 per cent. and 10 per cent.

As noted, such withholding tax on the periodic distribution payments is final for the non resident individual Certificateholders and no declaration is required. Such withholding tax is also final for non-resident corporate Certificateholders if the corporate entity does not earn income through a permanent establishment in the Republic of Turkey. No declaration is required in such circumstances.

Please note that there can be no assurance that such rates will continue to be 0 per cent., but in the event of any increase in such rates, the Issuer will be obliged to pay additional amounts as specified in Condition 10 (*Taxation*) of the Terms and Conditions of the Certificates.

Capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the Certificates shall be subject to declaration. However, pursuant to Temporary Article 67.7 of the Income Tax Law, special or separate tax returns will not be submitted for capital gains derived from the sale of Certificates. Therefore, no tax is levied on non resident individuals and corporate entities not earning income through a permanent establishment in the Republic of Turkey on capital gains from such Certificates and no declaration is needed.

Article 30.7 of the Corporation Tax Law and Article 94 of the Income Tax Law provide for all payments to corporations and individuals established or operating in tax havens to be determined by a decision of the Cabinet of Ministers to be subject to withholding tax at a rate of 30 per cent. As of the date of this prospectus, the Cabinet of Ministers has not issued a list of tax havens. Therefore, Article 30.7 of the Corporate Tax Law would not be applied until such determination is made.

According to Section IV.41 of Table 2 of the Stamp Tax Law (Law No. 488) (as amended), Certificates are exempt from Turkish stamp tax.

A non resident holder will not be liable for Turkish inheritance, registration or similar tax or duty with respect to its investment in the Certificates.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income, which may include Periodic Distribution Amounts) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries including Turkey, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Council formally adopted a Council Directive amending the EU Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above (see also "*The proposed financial transactions tax ("FTT")*" below). Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the EU Savings Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest. Investors who are in any doubt as to their position should consult their professional advisers.

The proposed financial transactions tax (“*FTT*”)

The European Commission has published a proposal for a directive for a common financial transactions tax (the “**FTT**”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The proposed FTT has very broad scope and could, if introduced in its current form, 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 current proposals 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 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: (a) by transacting with a person established in a participating Member State; or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. 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 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 22 April 2014 between the Issuer, Türkiye Finans and Citigroup Global Markets Limited, Emirates NBD Capital Limited, HSBC Bank plc and QInvest LLC (the "**Joint Lead Managers**") and Commercial Bank International PSC and Dubai Islamic Bank PJSC (the "**Co-Managers**", and together with the Joint Lead Managers, the "**Managers**") the Issuer has agreed to issue and sell to the Managers U.S.$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 certain 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 Türkiye Finans has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Certificates.

General

Each Manager has represented, warranted and undertaken, that it has complied and will comply 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, Türkiye Finans 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 above) 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 or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Manager has agreed that it will not offer, sell or deliver Certificates: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the completion of the distribution of the Certificates, as certified to the Principal Paying Agent or the Issuer by such Manager (or, in the case of a sale of Certificates to or through more than one Manager, by each of such Managers as to the Certificates purchased by or through it, in which case the Principal Paying Agent, the Issuer or Türkiye Finans shall notify each such Manager when all such Managers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Manager will have sent to each manager to which it sells Certificates during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Certificates, any offer or sale of Certificates within the United States by any manager (whether or not participating in the offering) 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 an 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 Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or Türkiye Finans; 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 any Certificates in, from or otherwise involving the United Kingdom.

Hong Kong

Each Manager has represented, warranted and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than: (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, 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 Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "**FIEA**"). Accordingly, each Manager has represented and agreed that it has not, directly or indirectly, offered or sold Certificates, and will not, directly or indirectly, offer or sell any Certificates in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Malaysia

Each Manager has represented and agreed that:

(a) this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia (the "**SC**") under the Capital Markets and Services Act 2007 of Malaysia (the "**CMSA**"). While a copy of the Prospectus will be deposited with the SC, the SC takes no responsibility for its content; and

(b) accordingly, the Certificates have not been and will not be issued, offered for subscription or purchase, sold or delivered, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may this Prospectus, any application or the Certificates nor any document or other material in connection with the offering, the Prospectus or the Certificates be circulated or distributed in Malaysia, other than to persons falling within Schedule 6 or Section 229(1)(b)), Schedule 7 (or Section 230(1)(b), and 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 SC 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.

Singapore

Each Manager has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented and agreed that it has not offered or sold any Certificates or caused such Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell such Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Certificates, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"); (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), 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 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; or

(d) as specified in Section 276(7) of the SFA.

The Republic of Turkey

Each of the Managers has represented, warranted and agreed that:

(a) the offering of the Certificates has been authorised by the CMB for the purpose of the sale of the Certificates outside of Turkey only in accordance with Article 15(b) of Decree 32; and

(b) the Certificates shall not be offered or sold in Turkey in any circumstances which would constitute an offer to the public within the meaning of the Capital Markets Law and no prospectus, and other offering material related to the offering may be utilised in connection with any general offering to the public within Turkey for the purpose of any offer or sale of Certificates without the prior approval of the CMB. Pursuant to Article 15(d) (ii) of Decree 32, residents of Turkey may purchase or sell the Certificates in secondary markets, **provided that** (i) such Certificates are traded in financial markets outside of Turkey and (ii) such purchase is made through banks and/or licensed brokerage institutions in Turkey authorised pursuant to CMB regulations.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Markets Rules 2012 of the Dubai Financial Services Authority (the "**DFSA**"); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

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 "**Offer of Securities Regulations**" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**"), through a person authorised by the Capital Market Authority ("**CMA**") to carry on the securities activity of arranging and following a notification to the CMA under the 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 represents and agrees that any offer of Certificates to a Saudi Investor will comply with the KSA Regulations.

Investors are informed that Article 17 of the Regulations place restrictions on secondary market activity with respect to the Certificates, including as follows:

(a) 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:

  (i) 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;

  (ii) the Certificates are offered or sold to a sophisticated investor; or

  (iii) the Certificates are being offered or sold in such other circumstances as the CMA may prescribe for these purposes;

(b) if the requirement of paragraph (a)(i) 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;

(c) if the requirement in paragraph (b) above cannot be fulfilled, the transferor may offer or sell Certificates if he/she sells his entire holding of Certificates to one transferee; and

(d) the provisions of paragraphs (a), (b) and (c) above shall apply to all subsequent transferees of the Certificates.

Kingdom of Bahrain

Each Manager has represented, warranted and undertakes that it will only make any offer pursuant to this Prospectus available on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

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).

Qatar (excluding the Qatar Financial Centre)

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, except: (i) in compliance with all applicable laws and regulations of the State of Qatar; 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.

Qatar Financial Centre

This Prospectus has not been, and will not be, registered with or approved by the Qatar Financial Centre Regulatory Authority and may not be publicly distributed in the Qatar Financial Centre. This document is intended for the original recipient only and must not be provided to any other person. It is not for general circulation in the Qatar Financial Centre and may not be reproduced or used for any other purpose.

GENERAL INFORMATION

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Issuer dated 3 March 2014. 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 to which it is a party. The entry into the Transaction Documents to which it is a party has been duly authorised by a resolution of the Board of Directors of Türkiye Finans on 13 February 2014.

Listing of Certificates

Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the Official List and admitted to trading on the Main Securities Market. The listing of the Certificates is expected to be granted on or before 24 April 2014. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Certificates and is not itself seeking admission of the Certificates to the Official List of the Irish Stock Exchange or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

Legal and Arbitration Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer or Türkiye Finans is aware) which may have, or have had during the twelve months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer, Türkiye Finans, or Türkiye Finans and its subsidiaries taken as a whole.

Significant/Material Change

Save in respect of the issuance of the Outstanding Certificates (See "*Description of the Issuer — Business of the Issuer and Principal Activities*" for further details), 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.

Since 31 December 2013 there has been no significant change in the financial or trading position of Türkiye Finans and its subsidiaries taken as a whole and, since 31 December 2013, there has been no material adverse change in the prospects of Türkiye Finans and its subsidiaries taken as a whole.

Auditors

The consolidated financial statements of Türkiye Finans for the year ended 31 December 2013 and the unconsolidated financial statements of Türkiye Finans for the year ended 31 December 2012 have been audited without qualification in accordance with IFRS (and the consolidated financial statements of Türkiye Finans for the year ended 31 December 2013 have been audited in accordance with BRSA Principles) (as stated in their reports appearing elsewhere herein) and the unconsolidated financial statements of Türkiye Finans for the year ended 31 December 2011 have been audited without qualification in accordance with IFRS by KPMG, of Kavacık Rüzgarlı Bahçe Mah. Kavak Sok. No:29, Beykoz, 34805, Istanbul, Turkey. KPMG is an institution authorised by the BRSA to conduct independent audits of banks in Turkey. KPMG is a member of the Union of Certified Public Accountants and Sworn-in Certified Public Accountants of Turkey.

Expenses

The expenses relating to the admission to trading of the Certificates on the Regulated Market are expected to amount to €3,190.

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 both in electronic and physical format and in the English language, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the registered office of the Issuer and the specified London office of the Principal Paying Agent:

(a) the Transaction Documents;

(b) the Memorandum and Articles of Association of the Issuer;

(c) the Memorandum and Articles of Association of Türkiye Finans;

(d) the Audited Annual Financial Statements in each case together with any audit reports prepared in connection therewith;

(e) the BRSA Financial Statements together with the audit report prepared in connection therewith; and

(f) the Prospectus.

The Prospectus is available for viewing on the website of the Central Bank of Ireland (http: www.centralbank.ie).

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 XS1057852912. The Common Code for the Certificates is 105785291.

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.

Shari'a Advisory Boards

The transaction structure relating to the Certificates (as described in this Prospectus) has been reviewed by the *Sharia* Supervisory Board of Citi Islamic Investment Bank E.C., the *Sharia'a* Supervisory Board of QInvest LLC and the HSBC Saudi Arabia Executive Shari'ah Committee. Prospective Certificateholders should not rely on the review referred to above in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction is in compliance with *Shari'a* principles.

SUMMARY OF DIFFERENCES BETWEEN IFRS AND BRSA PRINCIPLES

Certain financial information contained in this Prospectus, and in particular "Selected Financial Information", is presented in accordance with BRSA Principles (see "*Presentation of Unconsolidated Financial and Certain Other Information*").

BRSA Principles differ from IFRS. Such differences primarily relate to the format of presentation of financial statements, disclosure requirements 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.
- **Specific provisioning for loan losses**: BRSA Principles 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, BRSA Principles 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.
- **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 Bank, whereas under BRSA Principles there are some specific exemptions. For example, under BRSA Principles, no deferred tax is computed in relation to general loan loss provisions.

INDEX TO FINANCIAL STATEMENTS

Türkiye Finans Katılım Bankası Anonim Şirketi

Consolidated Financial Statements

As of and For the Year Ended

31 December 2013

(Convenience Translation of Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)

With Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik AŞ

14 February 2014

This report contains "Independent Auditors' Report" comprising 1 page and; "Consolidated Financial Statements and Related Disclosures and Footnotes" comprising 83 pages.

KPMG

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
Kavacık Rüzgarlı Bahçe Mah.
Kavak Sok. No: 29
Beykoz 34805 İstanbul

Telephone +90 (216) 681 90 00
Fax +90 (216) 681 90 90
Internet www.kpmg.com.tr

Convenience Translation of the Independent Auditors' Report Originally Prepared and Issued in Turkish (See Note 1 in Third Section)

To the Board of Directors of Türkiye Finans Katılım Bankası AŞ:

We have audited the consolidated balance sheet of Türkiye Finans Katılım Bankası AŞ ("the Bank") and its financial subsidiary (together "the group") as of 31 December 2013 and the consolidated statements of income, cash flows, changes in shareholders' equity for the year then ended and a summary of significant accounting policies and notes to the financial statements.

Disclosure for the Responsibility of the Bank's Board of Directors

The Bank's Board of Directors is responsible for establishing and maintaining effective internal control over financial reporting to prevent the misstatements caused by error or fraud, that are material to the financial statements; and for adopting sound accounting policies in compliance with the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published on the Official Gazette no 26333 dated 1 November 2006, Turkish Accounting Standards, Turkish Financial Reporting Standards and other regulations, circular and communiqués published by the Banking Regulation and Supervision Board, and the statements made by the Banking Regulation and Supervision Agency on accounting and financial reporting principles.

Disclosure for the Responsibility of the Authorized Audit Firm

Our responsibility, as independent auditors, is to express an opinion on these consolidated financial statements based on our audit. Our audit is performed in accordance with the "Regulation on the Assignment and Activities of the Banks' Independent Audit Firms" published on the Official Gazette no.26333 dated 1 November 2006 and international standards on auditing. We planned and conducted our audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. Our audit includes using the audit techniques for the purpose of obtaining evidence supporting the amounts and disclosures in the financial statements. The selection of the audit techniques is made in accordance with our professional judgment by taking the effectiveness of the controls over financial reporting into consideration and assessing the appropriateness of the applied accounting policies. We believe that our audit provides a reasonable basis for our opinion.

Independent Auditor's Opinion:

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Türkiye Finans Katılım Bankası AŞ and its financial subsidiary as of 31 December 2013 and the result of its operations and cash flows for the year then ended in accordance with the accounting principles and standards as per the existing regulations described in Article 37 and 38 of (Turkish) Banking Law No 5411 and other regulations, circular and communiqués published by the Banking Regulation and Supervision Board, and the statements made by the Banking Regulation and Supervision Agency on accounting and financial reporting principles.

İstanbul,
14 February 2014

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

Erdal TIKMAK
Partner

Additional paragraph for convenience translation to English:
As explained in Note 1 in Third Section, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Turkey.

Türkiye'nin Finans'ı
Türkiye Finans

Türkiye Finans Katılım Bankası A.Ş.
Genel Müdürlük
Yakacık Mevkli Adnan Kahveci Cd.
No:139 34876 Kartal/İST.
Tic. Sic. No.:401492/349074

www.turkiyefinans.com.tr
444 2 444

THE CONSOLIDATED FINANCIAL REPORT OF TÜRKİYE FİNANS KATILIM BANKASI AŞ FOR THE YEAR ENDED 31 DECEMBER 2013

Address of the Headquarter of the Bank	:	Adnan Kahveci Caddesi No:139 34876 Yakacık –Kartal / İstanbul
Phone and Fax Numbers of the Bank	:	0 216 586 70 00 / 0 216 586 63 26
Website of the Bank	:	www.turkiyefinans.com.tr
Electronic Mail Address to Contact	:	maliisler@turkiyefinans.com.tr

The consolidated Year-End Financial Report prepared in accordance with the communique of "Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks" as regulated by Banking Regulation and Supervision Agency, is comprised of the following sections:

GENERAL INFORMATION ABOUT THE BANK
CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK
EXPLANATIONS ON ACCOUNTING POLICIES OF THE BANK
EXPLANATIONS ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK
INFORMATION ON FINANCIAL STRUCTURE OF THE BANK
EXPLANATORY DISCLOSURES AND FOOTNOTES ON CONSOLIDATED FINANCIAL STATEMENTS
OTHER EXPLANATORY AND OTHER FOOTNOTES
INDEPENDENT AUDITORS' REPORT

The subsidiary whose financial statements have been consolidated in the consolidated financial report is as follows:

Subsidiaries

1-TF Varlık Kiralama AŞ

The Consolidated Financial Statements for the year ended 31 December 2013 and related disclosures and footnotes that were subject to independent report are prepared in accordance with the Regulation on Accounting Applications for the Banks and Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and the related statements and guidance in compliance with the financial records of our Bank and, unless stated otherwise, presented in **thousands of Turkish Lira (TL)**

Mustafa BOYDAK Chairman of the Board of Directors	M. Derya GÜRERK CEO	Abdüllatif ÖZKAYNAK Finance Executive Vice President	Mete M. KANAT Legal Reporting & Financial Control Dep. Vice President

Oğuz KAYHAN Audit Committee Responsible For Internal Audit & Risk Management	Brian Keith BELCHER Audit Committee Responsible For Internal Audit & Risk Management

Information on the authorized personnel to whom questions may be directed related to this financial report:
Name-Surname/Title: Sefa SEYHAN / Assistant Vice President
Phone Nr: 0216 586 91 86 Fax Nr : 0216 586 63 34

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SECTION FIVE
EXPLANATIONS AND DISCLOSURES ON UNCONSOLIDATED FINANCIAL STATEMENTS

SECTION SIX
OTHER EXPLANATİONS

SECTION SEVEN
INDEPENDENT AUDITOR'S REPORT

SECTION ONE

GENERAL INFORMATION

I. Explanations on the date of establishment and the initial status of the Parent Participation Bank, and the history including the changes in the former status

Participation banks started their operations in accordance with the Provision on Establishment of Participation Banks of Decree No. 83/7506 dated 16 December 1983, and the related Communiqués issued by Prime Ministry Undersecretariat of Treasury and by Central Bank of Turkish Republic. Participation banks then continued their operations in accordance with Banking Act Nr. 4389, dated 18 June 1999, with the change declared in Act Nr. 4491, dated 17 December 1999. In the Provisional Article Nr. 3, of Act Nr. 4491, a transition period of two years is stated to complete the compliance to Banking Act. The Parent Participation Bank is now operating in accordance with Banking Act Nr. 5411.

The Parent Participation Bank began its operations on 4 November 1991 in accordance with the regulation nr. 83/7506 published on 16 December 1983.

According to the decision made by Board of Directors' meeting of Anadolu Finans Kurumu AŞ nr. 1047 on 31 May 2005, it is decided that Anadolu Finans Kurumu AŞ is merged with Family Finans Kurumu AŞ.

The merger was realized by transferring all assets, liabilities and off-balance sheet items of Family Finans Kurumu AŞ to Anadolu Finans Kurumu AŞ. Banking Regulation and Supervision Agency ("BRSA") affirmed both the transfer agreement signed between Anadolu Finans Kurumu AŞ and Family Finans Kurumu AŞ and alterations in primary contract of Anadolu Finans Kurumu AŞ on 20 October 2005. Decision related to merger was approved by the decree nr. 1764 dated 28 December 2005 of BRSA.

BRSA approved the title of the Participation Bank to be Türkiye Finans Katılım Bankası AŞ ("the Parent Participation Bank"), during the merger process, with the decision dated 30 November 2005 and Nr. 1747, in compliance with Article 48 of Turkish Commercial Code, and subject to the approval of Council of Ministers. The change in title of the Participation Bank was registered by T.R. Istanbul Trade Registry Office on 30 December 2005, in compliance with Turkish Commercial Code Nr. 6762.

As 31 December 2013 the Parent Bank operates through 250 branches with 3,990 employees.

II. Explanations regarding Participation Bank's shareholder structure, shareholders holding directly or indirectly, collectively or individually, the managing and controlling power and changes in current period, if any and explanations on the controlling group of the Parent Participation Bank

The shareholder structure of the Participation Bank is presented in note IV.

With the authorization of BRSA, numbered 2489 and dated 28 February 2008, 60% of the Parent Participation Bank was acquired by the National Commercial Bank. The Parent Participation Bank increased its capital from TL 292,047 to TL 800,000 with the capital increase in 2008. As per the decision has been taken by the Extraordinary General Assembly on 6 June 2012, the Parent Bank's share capital will increase by TL 975,000 from TL 800,000 to TL 1,775,000. The part of this increase amounting to TL 700,000 will be transferred from general reserve and the remaining part amounting to TL 275,000 will be paid in cash. This decision has been published and approved in the trade official gazette on 2 July 2012. The portion amounting to TL 150,000 of the capital increase which has been committed to be paid in cash as TL 275,000 in total will be paid in three months after the registration of the capital increase, and the remaining portion amounting to TL 125,000 will be paid until 31 December 2012. Cash commitment amounting to TL 150,000 was paid by shareholders on 2 October 2012 and recorded into capital accounts on 19 November 2012. As of 31

(Thousands of Turkish Lira (TL) unless otherwise stated)

December 2012, cash commitment amounting to TL 125,000 was paid by shareholders and recorded into capital accounts on with the approval of Banking Regulation and Supervision Agency on increase dated 6 February 2013. As of 31 December 2013,the shares are as follows; the National Commercial Bank 66.27%, Boydak Group holds 22.09%, Ülker Group holds 11.57%; and they have the main controlling power after merger.

As of 31 December 2013, the Parent Participation Bank's paid-in-capital consists of 1,775,000,000 shares of TL 1 nominal each.

The Parent Participation Bank is controlled by the National Commercial Bank group.

The National Commercial Bank (NCB) established as the first and the biggest bank of Saudi Arabia. The Parent Bank is performing its banking operations through cross-border in Bahrain and Lebanon. The headquarter of The National Commercial Bank is located in Jeddah.

III. Explanations regarding the Chairman and the Members of Board of Directors, Audit Committee, Chief Executive Officer and Assistants, if any, their shares and responsibilities in the Parent Participation Bank

Title	Name and Surname	Educational Degree	Responsibilities	Ownership percentage %
Chairman of the Board of Directors	Mustafa Boydak	University	Chairman of the Board of Directors	1.87
Members of the Board	Saeed Mohammed A.	University	Member of the Board	-
	Oğuz Kayhan	Master	Member of the Board and the Audit Committee	-
	Mehmet Atila Kurama	Master	Member of the Board	-
	Alsharif Khalid AlGhalib	Master	Member of the Board	-
	Brian Keith Belcher	University	Member of the Board and the Audit Committee	-
	Veysel Derya Gürerk (General Manager)	Master	Member of the Board and General Manager	-
Members of the Audit Committee	Oğuz Kayhan	Master	Member of the Board and the Audit Committee	-
	Brian Keith Belcher	University	Member of the Board and the Audit Committee	-
Presidents	Osman ÇELİK	University	Loans	-
	İkram GÖKTAŞ	University	Distribution and Service	-
	Zühal Ulutürk	Master	Human Resources	-
	Erol GÖRGÜN	Master	Commercial Banking	-
	Menduh KARA	University	SME Banking	-
	Fahri ÖBEK	Master	Information Technology	-
	Semih ALŞAR	Master	Retail Banking	-
	Abdüllatif ÖZKAYNAK	University	Finance	-
	Ali GÜNEY	University	Treasury	-
	Dursun ARSLAN	Master	Operation and Strategy	-

According to a decision of Board of Directors on 28 March 2013, Saeed Mohammed A. Alghamdi is appointed as Member of Board instead of Abdulkareem Asaad A. Abualnasr who has resigned. According to a decision of Board of Directors on 28 March 2013, Vice General Manager Bedri Sayın's resignation is accepted. According to a decision of Board of Directors on 15 April 2013, Dursun Arslan appointed as Vice General Manager responsible of Operation and Strategy. According to a decision of Board of Directors on 29 May 2013, Alsharif Khalid AlGhalib is appointed as Member of Board instead of Donald Paul Hill who has resigned. Osman Çelik appointed as Vice General Manager responsible of Commercial Banking on 1 October 2013 instead of Aydın Gündoğdu who has resigned on 30 September 2013. Erol Görgün appointed as Vice General Manager responsible of Loans instead of Osman Çelik who has resigned on 1 October 2013.

(Thousands of Turkish Lira (TL) unless otherwise stated)

IV. Explanations on the people and institutions that have qualified shares of the Parent Participation Bank

Name Surname / Commercial Name	Share Amounts	Share Ratio %	Paid Up Shares	Unpaid Shares
THE NATIONAL COMMERCIAL BANK	1,176,369	66.27	1,176,369	-
GÖZDE GİRİŞİM SERMAYESİ YATIRIM ORTAKLIĞI A.Ş.	205,405	11.57	205,405	-
(HACI) MUSTAFA BOYDAK (1934)	41,173	2.32	41,173	-
BOYDAK HOLDİNG A.Ş.	39,213	2.21	39,213	-
BEKİR BOYDAK	33,269	1.87	33,269	-
MEMDUH BOYDAK	33,269	1.87	33,269	-
MUSTAFA BOYDAK (1963)	33,250	1.87	33,250	-
YUSUF BOYDAK	31,309	1.76	31,309	-
ŞÜKRÜ BOYDAK	27,730	1.56	27,730	-
HACI BOYDAK	26,678	1.50	26,678	-

V. Summary on the Parent Participation Bank's functions and areas of activity

The Parent Participation Bank operates in accordance with the principles of interest-free banking as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending such funds through production support, finance lease and profit/loss sharing partnership.

The Parent Participation Bank has two ways of collecting funds; current accounts and profit sharing accounts. The Participation Bank classifies current accounts and profit sharing accounts in accordance with their maturities in its accounting system. Profit sharing accounts are categorized into five different maturity groups; one month, up to three months (three months included), up to six months (six months included), up to one year and one year and more than one year (one month, three months, six months and one year profit share payment).

The Parent Participation Bank could determine the participation rates on profit/loss sharing accounts with respect to the maturity group of Turkish Lira and foreign currency accounts, separately under the limitation that the participation rate on loss shall not be less than 50%, for different currency type, amount and maturity groups specifically.

The Parent Participation Bank constitutes specific fund pools, allocated to the individually predetermined projects for financing purposes. Profit sharing accounts, which are part of the funds collected for project financing purpose, are distinguished from others with respect to the terms, accounted separately from the others and it is not allowed to make any transfers from these accounts to any other maturity groups. Specific fund pools are clarified at the end of the financing period.

In addition to ordinary banking activities, the Parent Participation Bank has services through branches.It has insurance agency operations through Eureko Sigorta, Işık Sigorta, Aviva Sigorta, Neova Sigorta and HDI Sigorta. Besides, it has private pension insurance agency operations on behalf of Garanti Emeklilik and Groupama Emeklilik. In addition, it has stock broker agency services on behalf of Bizim Menkul Değerler A.Ş.

On the other hand Parent Participation Bank mainly has services such as letters of guarantee, import credits and acceptance credits and other kind of non-cash credits as well.

The Parent Participation Bank's operations are not limited as mentioned above. In case of any transaction else made, not mentioned above, and considered as in favor of participating bank, upon the request of the board of directors, this case is adjudicated by general meeting and is proceeded to be got required approval from competent authority and depends on the approval of Ministry of commerce and customs. Thus, the approved decision is added on main agreement.

TF Varlık Kiralama AŞ which is wholly owned by the Parent Participation Bank has been established to generate (leasing/rental) income by leasing assets back to the originating company which were taken over from the originating company; by issuing leasing certificate related to aforementioned leasing (rental) income and then transferring the related assets back to the originating company.

VI. Differences Between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards and Short Explanation About the Institutions Subject to Line-by-Line Method or Proportional Consolidation and Institutions Which are Deducted From Equity or Not Included in These Three Methods

TF Varlık Kiralama AŞ, which was established on 11 February 2013 and the subsidiary of the Parent Participation Bank with 100% ownership is fully consolidated in the consolidated financial statements of the Participation Bank from 30 June 2013.

VII. The Existing or Potential, Actual or Legal Obstacles on the Transfer of Shareholder's Equity Between the Parent Bank and Its Subsidiaries or the Reimbursement of Liabilities

The transfer of shareholder's equity between the Parent Bank and its subsidiaries is not in question.

There is no restriction on existing or potential, actual or legal obstacles on the Reimbursement of Liabilities between the Parent Bank and its subsidiaries. The Parent Bank can receive or pay the amounts regarding rendering and getting services from its subsidiaries within the framework service agreements.

SECTION TWO

CONSOLIDATED FINANCIAL STATEMENTS

TÜRKİYE FİNANS KATILIM BANKASI A.Ş. CONSOLIDATED BALANCE SHEET (Statement of Financial Position)								
			THOUSAND TURKISH LIRA					
			CURRENT PERIOD Audited (31/12/2013)			PRIOR PERIOD Audited (31/12/2012)		
	ASSETS	Footnotes (5-I)	TL	FC	Total	TL	FC	Total
I.	**CASH AND BALANCES WITH CENTRAL BANK**	(1)	**558,306**	**3,277,948**	**3,836,254**	**473,666**	**2,344,502**	**2,818,168**
II.	**FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)**	(2)	**33,927**	**12,742**	**46,669**	**6,476**	**7,797**	**14,273**
2.1	Financial assets held for trading		33,927	12,742	46,669	6,476	7,797	14,273
2.1.1	Government debt securities		-	-	-	-	-	-
2.1.2	Equity securities		-	-	-	-	-	-
2.1.3	Derivative financial assets held for trading		33,793	12,678	46,471	6,398	7,692	14,090
2.1.4	Other marketable securities		134	64	198	78	105	183
2.2	Financial assets at fair value through profit or loss		-	-	-	-	-	-
2.2.1	Government debt securities		-	-	-	-	-	-
2.2.2	Equity securities		-	-	-	-	-	-
2.2.3	Loans		-	-	-	-	-	-
2.2.4	Other marketable securities		-	-	-	-	-	-
III.	**BANKS**	(3)	**484,448**	**469,755**	**954,203**	**106,548**	**390,480**	**497,028**
IV.	**MONEY MARKET PLACEMENTS**		**-**	**-**	**-**	**-**	**-**	**-**
V.	**FINANCIAL ASSETS AVAILABLE FOR SALE (Net)**	(4)	**1,067,307**	**345,718**	**1,413,025**	**466,785**	**198,330**	**665,115**
5.1	Equity securities		4,225	151	4,376	-	121	121
5.2	Government debt securities		1,063,082	345,567	1,408,649	466,785	198,209	664,994
5.3	Other marketable securities		-	-	-	-	-	-
VI.	**LOANS**	(5)	**16,528,993**	**918,968**	**17,447,961**	**12,071,578**	**691,822**	**12,763,400**
6.1	Loans		16,414,441	916,269	17,330,710	11,978,060	688,629	12,666,689
6.1.1	Loans to the Bank's Risk Group		159,248	24,123	183,371	77,518	-	77,518
6.1.2	Government debt securities		-	-	-	-	-	-
6.1.3	Other		16,255,193	892,146	17,147,339	11,900,542	688,629	12,589,171
6.2	Non-performing loans		431,195	9,877	441,072	352,498	5,761	358,259
6.3	Specific provisions (-)		(316,643)	(7,178)	(323,821)	(258,980)	(2,568)	(261,548)
VII.	**INVESTMENTS HELD TO MATURITY (Net)**	(6)	**-**	**-**	**-**	**-**	**-**	**-**
VIII.	**INVESTMENTS IN ASSOCIATES (Net)**	(7)	**-**	**-**	**-**	**4,211**	**-**	**4,211**
8.1	Consolidated under equity method		-	-	-	-	-	-
8.2	Unconsolidated associates		-	-	-	4,211	-	4,211
8.2.1	Financial investments		-	-	-	4,211	-	4,211
8.2.2	Non-financial investments		-	-	-	-	-	-
IX.	**INVESTMENTS IN SUBSIDIARIES (Net)**	(8)	**-**	**-**	**-**	**-**	**-**	**-**
9.1	Unconsolidated financial subsidiaries		-	-	-	-	-	-
9.2	Unconsolidated non-financial subsidiaries		-	-	-	-	-	-
X.	**JOINTLY CONTROLLED ENTITIES (JOINT VENTURES) (Net)**	(9)	**-**	**-**	**-**	**-**	**-**	**-**
10.1	Consolidated under equity method		-	-	-	-	-	-
10.2	Unconsolidated associates		-	-	-	-	-	-
10.2.1	Financial investments		-	-	-	-	-	-
10.2.2	Non-Financial investments		-	-	-	-	-	-
XI.	**LEASE RECEIVABLES (Net)**	(10)	**841,649**	**-**	**841,649**	**304,369**	**-**	**304,369**
11.1	Finance lease receivables		968,255	-	968,255	354,710	-	354,710
11.2	Operating lease receivables		-	-	-	-	-	-
11.3	Other		-	-	-	-	-	-
11.4	Unearned income (-)		(126,606)	-	(126,606)	(50,341)	-	(50,341)
XII.	**DERIVATIVE FINANCIAL ASSETS HELD FOR RISK MANAGEMENT**	(11)	**-**	**-**	**-**	**-**	**-**	**-**
12.1	Fair value hedges		-	-	-	-	-	-
12.2	Cash flow hedges		-	-	-	-	-	-
12.3	Net foreign investment hedges		-	-	-	-	-	-
XIII.	**TANGIBLE ASSETS (Net)**	(12)	**211,689**	**-**	**211,689**	**196,617**	**-**	**196,617**
XIV.	**INTANGIBLE ASSETS (Net)**	(13)	**37,149**	**-**	**37,149**	**18,881**	**-**	**18,881**
14.1	Goodwill		-	-	-	-	-	-
14.2	Other intangibles		37,149	-	37,149	18,881	-	18,881
XV.	**INVESTMENT PROPERTY (Net)**	(14)	-	-	-	-	-	-
XVI.	**TAX ASSET**		**22,649**	**-**	**22,649**	**11,115**	**-**	**11,115**
16.1	Current tax asset		-	-	-	-	-	-
16.2	Deferred tax asset	(15)	22,649	-	22,649	11,115	-	11,115
XVII.	**ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)**	(16)	**67**	**-**	**67**	**-**	**-**	**-**
17.1	Assets held for sale		67	-	67	-	-	-
17.2	Assets of discontinued operations		-	-	-	-	-	-
XVIII.	**OTHER ASSETS**	(17)	**311,348**	**3,916**	**315,264**	**308,554**	**14,773**	**323,327**
	TOTAL ASSETS		**20,097,532**	**5,029,047**	**25,126,579**	**13,968,800**	**3,647,704**	**17,616,504**

The accompanying notes are an integral part of these consolidated financial statements.

TÜRKİYE FİNANS KATILIM BANKASI A.Ş. CONSOLIDATED BALANCE SHEET (Statement of Financial Position)

			THOUSAND TURKISH LIRA					
			CURRENT PERIOD Audited (31/12/2013)			PRIOR PERIOD Audited (31/12/2012)		
	LIABILITIES AND EQUITY	Footnotes (5-II)	TL	FC	Total	TL	FC	Total
I.	**FUNDS COLLECTED**	(1)	**9,641,940**	**5,499,740**	**15,141,680**	**7,444,772**	**3,984,764**	**11,429,536**
1.1	Funds from risk group of the Bank		178,072	139,514	317,586	233,746	90,393	324,139
1.2	Other		9,463,868	5,360,226	14,824,094	7,211,026	3,894,371	11,105,397
II.	**DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING**	(2)	**21,646**	**16,660**	**38,306**	**6,117**	**2,358**	**8,475**
III.	**FUNDS BORROWED**	(3)	**161,147**	**3,930,615**	**4,091,762**	**-**	**2,503,943**	**2,503,943**
IV.	**MONEY MARKET BALANCES**		**721,560**	**-**	**721,560**	**-**	**-**	**-**
V.	**MARKETABLE SECURITIES ISSUED (Net)**	(4)	**-**	**1,074,246**	**1,074,246**	**-**	**-**	**-**
VI.	**MISCELLANEOUS PAYABLES**		**523,932**	**111,031**	**634,963**	**522,787**	**55,953**	**578,740**
VII.	**OTHER LIABILITIES**	(5)	**529,523**	**19,752**	**549,275**	**640,100**	**32,997**	**673,097**
VIII.	**LEASE PAYABLES (Net)**	(6)	**-**	**-**	**-**	**-**	**-**	**-**
8.1	Finance lease payables		-	-	-	-	-	-
8.2	Operating lease payables		-	-	-	-	-	-
8.3	Other		-	-	-	-	-	-
8.4	Deferred finance lease expenses (-)		-	-	-	-	-	-
IX.	**DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT**	(7)	**-**	**-**	**-**	**-**	**-**	**-**
9.1	Fair value hedges		-	-	-	-	-	-
9.2	Cash flow hedges		-	-	-	-	-	-
9.3	Net foreign investment hedges		-	-	-	-	-	-
X.	**PROVISIONS**	(8)	**275,284**	**35,005**	**310,289**	**236,480**	**18,107**	**254,587**
10.1	General loan loss provision		150,439	-	150,439	139,804	-	139,804
10.2	Provision for Restructuring		-	-	-	-	-	-
10.3	Reserve for employee benefits		70,111	-	70,111	46,645	-	46,645
10.4	Insurance technical reserves (Net)		-	-	-	-	-	-
10.5	Other provisions		54,734	35,005	89,739	50,031	18,107	68,138
XI.	**TAX LIABILITY**	(9)	**42,117**	**-**	**42,117**	**42,964**	**-**	**42,964**
11.1	Current tax liability		42,117	-	42,117	42,964	-	42,964
11.2	Deferred tax liability		-	-	-	-	-	-
XII.	**LIABILITIES FOR ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)**	(10)	**-**	**-**	**-**	**-**	**-**	**-**
12.1	Assets held for sale		-	-	-	-	-	-
12.2	Assets of discontinued operations		-	-	-	-	-	-
XIII.	**SUBORDINATED DEBTS**	(11)	-	-	-	-	-	-
XIV.	**SHAREHOLDERS' EQUITY**	(12)	**2,538,340**	(15,959)	**2,522,381**	**2,125,177**	**(15)**	**2,125,162**
14.1	Paid-in capital		1,775,000	-	1,775,000	1,650,000	**-**	1,650,000
14.2	Capital reserves		55,417	(15,959)	39,458	96,531	(15)	96,516
14.2.1	Share premium		-	-	-	-	-	-
14.2.2	Share cancellation profits		-	-	-	-	-	-
14.2.3	Securities value increase fund		(20,836)	(15,959)	(36,795)	6,916	(15)	6,901
14.2.4	Tangible assets revaluation reserve		89,615	-	89,615	89,615	-	89,615
14.2.5	Intangible assets revaluation reserve		-	-	-	-	-	-
14.2.6	Investment property revaluation reserve		-	-	-	-	-	-
14.2.7	Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Ventures)		-	-	-	-	-	-
14.2.8	Hedging reserves (effective portion)		-	-	-	-	-	-
14.2.9	Accumulated revaluation reserves on assets held for sale and discontinued operations		-	-	-	-	-	-
14.2.10	Other capital reserves		(13,362)	-	(13,362)	-	-	-
14.3	Profit reserves		378,646	-	378,646	95,073	-	95,073
14.3.1	Legal reserves		72,236	-	72,236	58,083	-	58,083
14.3.2	Statutory reserves		-	-	-	-	-	-
14.3.3	Extraordinary reserves		306,410	-	306,410	36,990	-	36,990
14.3.4	Other profit reserves		-	-	-	-	-	-
14.4	Profit or loss		329,277	-	329,277	283,573	-	283,573
14.4.1	Prior years' profit/loss		-	-	-	-	-	-
14.4.2	Current period net profit/loss		329,277	-	329,277	283,573	-	283,573
14.5	Non-controlling interest		-	-	-	-	-	-
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**14,455,489**	**10,671,090**	**25,126,579**	**11,018,397**	**6,598,107**	**17,616,504**

The accompanying notes are an integral part of these consolidated financial statements.

TÜRKİYE FİNANS KATILIM BANKASI A.Ş. CONSOLIDATED OFF-BALANCE SHEET ITEMS			THOUSAND TURKISH LIRA					
			CURRENT PERIOD Audited (31/12/2013)			PRIOR PERIOD Audited (31/12/2012)		
		Footnotes (5-III)	TL	FC	Total	TL	FC	Total
A. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)			**9,027,390**	**9,374,362**	**18,401,752**	**6,728,746**	**5,381,442**	**12,110,188**
I.	**GUARANTEES AND SURETIES**	(1)	**5,366,183**	**3,537,956**	**8,904,139**	**4,179,894**	**2,928,803**	**7,108,697**
1.1.	Letters of guarantee		5,358,131	2,368,148	7,726,279	4,176,322	2,021,458	6,197,780
1.1.1.	Guarantees subject to State Tender Law		189,098	-	189,098	172,793	-	172,793
1.1.2.	Guarantees given for foreign trade operations		-	-	-	-	-	-
1.1.3.	Other letters of guarantee		5,169,033	2,368,148	7,537,181	4,003,529	2,021,458	6,024,987
1.2.	Bank acceptances		3,911	432,029	435,940	2,328	289,897	292,225
1.2.1.	Import letter of acceptance		953	432,029	432,982	2,328	289,897	292,225
1.2.2.	Other bank acceptances		2,958	-	2,958	-	-	-
1.3.	Letters of credit		4,141	737,779	741,920	1,244	617,448	618,692
1.3.1.	Documentary letters of credit		4,141	737,779	741,920	1,244	617,448	618,692
1.3.2.	Other letters of credit		-	-	-	-	-	-
1.4.	Guaranteed prefinancings		-	-	-	-	-	-
1.5.	Endorsements		-	-	-	-	-	-
1.5.1.	Endorsements to the Central Bank of Turkey		-	-	-	-	-	-
1.5.2.	Other endorsements		-	-	-	-	-	-
1.6.	Other guarantees		-	-	-	-	-	-
1.7.	Other sureties		-	-	-	-	-	-
II.	**COMMITMENTS**	(1),(3)	**2,039,251**	**323,509**	**2,362,760**	**1,600,937**	**262,636**	**1,863,573**
2.1.	Irrevocable commitments		2,039,251	323,509	2,362,760	1,600,937	262,636	1,863,573
2.1.1.	Forward asset purchase and sale commitments		169,159	323,509	492,668	38,997	262,636	301,633
2.1.2.	Share capital commitments to associates and subsidiaries		-	-	-	-	-	-
2.1.3.	Loan granting commitments		17,018	-	17,018	-	-	-
2.1.4.	Securities issuance brokerage commitments		-	-	-	-	-	-
2.1.5.	Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.6.	Commitments for cheque payments		1,109,434	-	1,109,434	1,066,949	-	1,066,949
2.1.7.	Tax and fund obligations on export commitments		2,033	-	2,033	2,976	-	2,976
2.1.8.	Commitments for credit card limits		706,334	-	706,334	461,707	-	461,707
2.1.9.	Commitments for credit cards and banking services promotions		1,068	-	1,068	1,026	-	1,026
2.1.10.	Receivables from "short" sale commitments on securities		-	-	-	-	-	-
2.1.11.	Payables from "short" sale commitments on securities		-	-	-	-	-	-
2.1.12.	Other irrevocable commitments		34,205	-	34,205	29,282	-	29,282
2.2.	Revocable commitments		-	-	-	-	-	-
2.2.1.	Revocable loan granting commitments		-	-	-	-	-	-
2.2.2.	Other revocable commitments		-	-	-	-	-	-
III.	**DERIVATIVE FINANCIAL INSTRUMENTS**	(2)	**1,621,956**	**5,512,897**	**7,134,853**	**947,915**	**2,190,003**	**3,137,918**
3.1	Derivative financial instruments held for risk management		-	-	-	-	-	-
3.1.1	Fair value hedges		-	-	-	-	-	-
3.1.2	Cash flow hedges		-	-	-	-	-	-
3.1.3	Net foreign investment hedges		-	-	-	-	-	-
3.2	Trading derivatives		1,621,956	5,512,897	7,134,853	947,915	2,190,003	3,137,918
3.2.1	Forward foreign currency buy/sell transactions		1,621,956	5,136,960	6,758,916	947,915	2,123,362	3,071,277
3.2.1.1	Forward foreign currency transactions-buy		793,861	2,566,164	3,360,025	700,994	808,585	1,509,579
3.2.1.2	Forward foreign currency transactions-sell		828,095	2,570,796	3,398,891	246,921	1,314,777	1,561,698
3.2.2	Other forward buy/sell transactions		-	375,937	375,937	-	66,641	66,641
3.3	Other		-	-	-	-	-	-
B. CUSTODY AND PLEDGED ITEMS (IV+V+VI)			**227,673,881**	**21,497,196**	**249,171,077**	**166,274,003**	**16,305,185**	**182,579,188**
IV.	**ITEMS HELD IN CUSTODY**		**2,015,989**	**1,560,842**	**3,576,831**	**1,756,485**	**705,284**	**2,461,769**
4.1.	Customers' securities held		-	-	-	-	-	-
4.2.	Investment securities held in custody		28,604	2,085	30,689	28,604	1,706	30,310
4.3.	Checks received for collection		1,460,839	137,363	1,598,202	1,283,898	89,747	1,373,645
4.4.	Commercial notes received for collection		526,543	108,324	634,867	443,980	80,803	524,783
4.5.	Other assets received for collection		-	-	-	-	-	-
4.6.	Assets received through public offering		-	-	-	-	-	-
4.7.	Other items under custody		-	1,026,369	1,026,369	-	508,938	508,938
4.8.	Custodians		3	286,701	286,704	3	24,090	24,093
V.	**PLEDGED ITEMS**		**225,657,892**	**19,911,659**	**245,569,551**	**164,517,518**	**15,570,137**	**180,087,655**
5.1.	Securities		54,607	22,087	76,694	83,338	26,887	110,225
5.2.	Guarantee notes		57,500,671	1,688,884	59,189,555	32,103,318	802,127	32,905,445
5.3.	Commodities		1,976,516	404,229	2,380,745	1,473,959	268,813	1,742,772
5.4.	Warranties		-	-	-	-	-	-
5.5.	Real estates		46,924,906	100,480	47,025,386	38,687,297	94,112	38,781,409
5.6.	Other pledged items		119,157,958	17,541,242	136,699,200	92,137,339	14,110,808	106,248,147
5.7.	Pledged items-depository		43,234	154,737	197,971	32,267	267,390	299,657
VI.	**CONFIRMED BILLS OF EXCHANGE AND SURETIES**		**-**	**24,695**	**24,695**	**-**	**29,764**	**29,764**
	TOTAL OFF-BALANCE SHEET ITEMS (A+B)		**236,701,271**	**30,871,558**	**267,572,829**	**173,002,749**	**21,686,627**	**194,689,376**

The accompanying notes are an integral part of these consolidated financial statements.

TÜRKİYE FİNANS KATILIM BANKASI A.Ş. CONSOLIDATED INCOME STATEMENT				
			THOUSAND TURKISH LIRA	
	INCOME AND EXPENSE ITEMS	Footnotes	Audited CURRENT PERIOD	Audited PRIOR PERIOD
		(5-IV)	1 January- 30 December 2013	1 January- 31 December 2012
I.	**PROFIT SHARE INCOME**	(1)	**1,566,233**	**1,410,356**
1.1	Profit share on loans		1,436,930	1,350,262
1.2	Profit share on reserve deposits		-	-
1.3	Profit share on banks		437	1,312
1.4	Profit share on money market placements		-	-
1.5	Profit share on marketable securities portfolio		66,568	25,044
1.5.1	Financial assets held for trading		-	-
1.5.2	Financial assets at fair value through profit and loss		-	-
1.5.3	Financial assets available for sale		66,568	25,044
1.5.4	Investments held to maturity		-	-
1.6	Finance lease income		40,612	14,957
1.7	Other profit share income		21,686	18,781
II.	**PROFIT SHARE EXPENSE**	(2)	**692,151**	**618,245**
2.1	Expense on profit sharing accounts		542,840	543,512
2.2	Profit share expense on funds borrowed		110,450	74,733
2.3	Profit share expense on money market borrowings		12,118	-
2.4	Expense on securities issued		26,743	-
2.5	Other profit share expense		-	-
III.	**NET PROFIT SHARE INCOME / EXPENSE (I - II)**		**874,082**	**792,111**
IV.	**NET FEES AND COMMISSIONS INCOME / EXPENSE**		**128,272**	**108,231**
4.1	Fees and commisions received		177,712	152,448
4.1.1	Non-Cash loans		83,128	75,743
4.1.2	Other	(12)	94,584	76,705
4.2	Fees and commisions paid		49,440	44,217
4.2.1	Non-Cash loans		-	-
4.2.2	Other	(12)	49,440	44,217
V.	**DIVIDEND INCOME**	(3)	**-**	**-**
VI.	**TRADING INCOME/EXPENSES (Net)**	(4)	**71,677**	**56,700**
6.1	Gains/Losses on securities trading		1,201	1,171
6.2	Derivative financial transactions gains/losses		37,110	138,915
6.3	Foreign exchange gains/losses		33,366	(83,386)
VII.	**OTHER OPERATING INCOME**	(5)	**108,234**	**91,808**
VIII.	**TOTAL OPERATING INCOME / EXPENSE (III+IV+V+VI+VII)**		**1,182,265**	**1,048,850**
IX.	**PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)**	(6)	**(202,750)**	**(226,379)**
X.	**OTHER OPERATING EXPENSES (-)**	(7)	**(567,003)**	**(460,645)**
XI.	**NET OPERATING INCOME/EXPENSE (VIII-IX-X)**		**412,512**	**361,826**
XII.	**AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGEI**		**-**	**-**
XIII.	**PROFIT/LOSS FROM ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD**		**-**	**-**
XIV.	**NET MONETARY POSITION GAIN/LOSS**		**-**	**-**
XV.	**PROFIT/LOSS ON CONTINUING OPERATIONS BEFORE TAX (XI+...+XIV)**	(8)	**412,512**	**361,826**
XVI.	**TAX PROVISION FOR CONTINUING OPERATIONS (±)**	(9)	**(83,235)**	**(78,253)**
16.1	Current tax provision		(80,719)	(78,760)
16.2	Deferred tax provision		(2,516)	507
XVII.	**NET PERIOD PROFIT/LOSS FROM CONTUNUING OPERATIONS (XV±XVI)**	(10)	**329,277**	**283,573**
XVIII.	**INCOME ON DISCONTINUED OPERATIONS**		**-**	**-**
18.1	Income on assets held for sale		-	-
18.2	Income on sale of associates, subsidiaries and jointly controlled entities (Joint Vent.)		-	-
18.3	Income on other discontinued operations		-	-
XIX.	**EXPENSE ON DISCONTINUED OPERATIONS (-)**		**-**	**-**
19.1	Expense on assets held for sale		-	-
19.2	Expense on sale of associates, subsidiaries and jointly controlled entities (Joint Vent.)		-	-
19.3	Expense on other discontinued operations		-	-
XX.	**PROFIT/(LOSS) ON DISCONTINUED OPERATIONS BEFORE TAXES (XVIII-XIX)**		**-**	**-**
XXI.	**TAX PROVISION FOR DISCONTINUED OPERATIONS (±)**		**-**	**-**
21.1	Current tax provision		-	-
21.2	Deferred tax provision		-	-
XXII.	**NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)**		**-**	**-**
XXIII.	**NET PROFIT/LOSS (XVII+XXII)**	(11)	**329,277**	**283,573**
23.1	Group's Profit / Loss		329,277	283,573
23.2	Non-controlling Interest (-)		-	-

The accompanying notes are an integral part of these consolidated financial statements.

TÜRKİYE FİNANS KATILIM BANKASI A.Ş. CONSOLIDATED STATEMENT OF INCOME/EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY

	INCOME/EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY	THOUSAND TURKISH LIRA CURRENT PERIOD Audited (01/01/2013 - 31/12/2013)	THOUSAND TURKISH LIRA PRIOR PERIOD Audited (01/01/2012 - 31/12/2012)
I.	**MARKET VALUE GAINS ON AVAILABLE FOR SALE ASSETS ACCOUNTED UNDER "SECURITIES VALUE INCREASE FUND"**	**(54,620)**	**12,368**
II.	**REVALUATION SURPLUS ON TANGIBLE ASSETS**	**-**	**71,615**
III.	**REVALUATION SURPLUS ON INTANGIBLE ASSETS**	**-**	**-**
IV.	**TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCIES**	**-**	**-**
V.	**GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (effective portion)**	**-**	**-**
VI.	**GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS (effective portion)**	**-**	**-**
VII.	**EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS**	**-**	**-**
VIII.	**OTHER INCOME/EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY AS PER TAS**	**(16,702)**	**-**
IX.	**DEFERRED TAXES ON VALUE INCREASES/DECREASES**	**14,264**	**(6,053)**
X.	**NET INCOME/EXPENSE ITEMS ACCOUNTED DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+…+IX)**	**(57,058)**	**77,930**
XI.	**CURRENT PERIOD PROFIT/LOSSES**	**329,277**	**283,573**
1.1	Net changes in fair value of securities (transferred to income statement)	(133)	(1,713)
1.2	Gains/losses on derivative financial assets held for cash flow hedges, reclassified and recorded in income statement	-	-
1.3	Gains/losses on hedges of net investment in foreign operations, reclassified and recorded in income statement	-	-
1.4	Others	329,410	285,286
XII.	**TOTAL PROFIT/LOSS ACCOUNTED FOR THE CURRENT PERIOD (X±XI)**	**272,219**	**361,503**

TÜRKİYE FİNANS KATILIM BANKASI A.Ş. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

THOUSAND TURKISH LIRA

	STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	Footnotes	Paid-in Capital	Effect of inflation Accounting on Capital and Other Capital Reserves	Share Premium	Share Certificate Cancellation Profits	Legal Reserves	Statutory Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Income / (Loss)	Prior Period Net Income / (Loss)	Securities Value Increase Fund	Revaluation Surplus on Tangible and Intangible Assets	Bonus Shares of Equity Participations	Hedge Reserves	Accu. Rev.Surp. on Assets Held for Sale and Assets of Discont. Op.s	Total Shareholders' Equity
	PRIOR PERIOD Audited (01.01-31.12.2012)																	
I.	**Balances at beginning of the period**		**800,000**	**-**	**-**	**-**	**46,748**	**-**	**516,738**	**-**	**231,587**	**-**	**(2,996)**	**21,582**	**-**	**-**	**-**	**1,613,659**
II.	**Correction made as per TAS 8**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Effect of corrections		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2	Effect of changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	**Adjusted balances at beginning of the period (I+II)**		**800,000**	**-**	**-**	**-**	**46,748**	**-**	**516,738**	**-**	**231,587**	**-**	**(2,996)**	**21,582**	**-**	**-**	**-**	**1,613,659**
	Changes during the period																	
IV.	**Mergers**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	**Market value changes of securities**		-	-	-	-	-	-	-	-	-	-	**9,897**	-	-	-	-	**9,897**
VI.	**Hedging reserves**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.1	Cash flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.2	Hedge of net investment in foreign operations		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	**Revaluation surplus on tangible assets**		-	-	-	-	-	-	-	-	-	-	-	**68,033**	-	-	-	**68,033**
VIII.	**Revaluation surplus on intangible assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	**Bonus shares of associates, subsidiaries and joint-ventures**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	**Translation differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	**Changes resulted from disposal of assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	**Changes resulted from resclassification of assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	**Effect of change in equities of associates on bank's equity**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	**Capital increase**		**850,000**	-	-	-	-	-	(700,000)	-	-	-	-	-	-	-	-	**150,000**
14.1	Cash		150,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	150,000
14.2	Internal sources		700,000	-	-	-	-	-	(700,000)	-	-	-	-	-	-	-	-	-
XV.	**Share issuance**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	**Share cancellation profits**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII.	**Capital reserves from inflation adjustments to paid-in capital**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII.	**Others**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIX.	**Current period net profit/loss**		-	-	-	-	-	-	-	-	**283,573**	-	-	-	-	-	-	**283,573**
XX.	**Profit distribution**		-	-	-	-	**11,335**	-	**220,252**	-	(231,587)	-	-	-	-	-	-	-
20.1	Dividends		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.2	Transfers to reserves		-	-	-	-	11,335	-	220,252	-	(231,587)	-	-	-	-	-	-	-
20.3	Others		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Balances at the end of the period (I+II+III+…+XVI+XVII+XVIII)		**1,650,000**	**-**	**-**	**-**	**58,083**	**-**	**36,990**	**-**	**283,573**	**-**	**6,901**	**89,615**	**-**	**-**	**-**	**2,125,162**

The accompanying notes are an integral part of these consolidated financial statements.

TÜRKİYE FİNANS KATILIM BANKASI A.Ş. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDE

THOUSAND TURKISH LIRA

	STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY CURRENT PERIOD Audited (01.01-31.12.2013)	Footnotes (5-V)	Paid-in Capital	Paid-in Capital Inflation Adjustment	Share Premium	Share Certificate Cancellation Profits	Legal Reserves	Statutory Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Income / (Loss)	Prior Period Net Income / (Loss)	Securities Value Increase Fund	Revaluation Surplus on Tangible and Intangible Assets	Bonus Shares of Equity Participations	Hedging Reserves	Accu. Rev.Surp. on Assets Held for Sale and Assets of Discont. Op.s	Total Shareholders' Equity Except Non-controlling Interest	Non-controlling Interest	Total Shareholders' Equity
I.	Balances at beginning of the period		**1,650,000**	-	-	-	**58,083**	-	**36,990**	-	**283,573**	-	**6,901**	**89,615**	-	-	-	**2,125,162**	-	**2,125,162**
	Changes during the period																			
II.	**Mergers**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	**Market value changes of securities**	(1),(2)	-	-	-	-	-	-	-	-	-	-	(43,696)	-	-	-	-	(43,696)	-	(43,696)
IV.	**Hedging reserves**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1	Cash flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2	Hedge of net investment in foreign operations		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	**Revaluation surplus on tangible assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI.	**Revaluation surplus on intangible assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	**Bonus shares of associates, subsidiaries and joint-ventures**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII.	**Translation differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	**Changes resulted from disposal of assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	**Changes resulted from resclassification of assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	**Effect of change in equities of associates on bank's equity**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	**Capital increase**		**125,000**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**125,000**	-	**125,000**
12.1	Cash		125,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	125,000	-	125,000
12.2	Internal sources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	**Share issuance**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	**Share cancellation profits**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	**Capital reserves from inflation adjustments to paid-in capital**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	**Others**	(5)	-	-	-	-	-	-	-	(13,362)	-	-	-	-	-	-	-	(13,362)	-	(13,362)
XVII.	**Current period net profit/loss**		-	-	-	-	-	-	-	-	**329,277**	-	-	-	-	-	-	**329,277**	-	**329,277**
XVIII.	**Profit distribution**		-	-	-	-	**14,153**	-	**269,420**	-	(283,573)	-	-	-	-	-	-	-	-	-
18.1	Dividends	(3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.2	Transfers to reserves	(4)	-	-	-	-	14,153	-	269,420	-	(283,573)	-	-	-	-	-	-	-	-	-
18.3	Others		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Balances at end of the period (I+II+III+…+XVI+XVII+XVIII)		**1,775,000**	-	-	-	**72,236**	-	**306,410**	(13,362)	**329,277**	-	(36,795)	**89,615**	-	-	-	**2,522,381**	-	**2,522,381**

TÜRKİYE FİNANS KATILIM BANKASI A.Ş. CONSOLIDATED STATEMENT OF CASH FLOWS			THOUSAND TURKISH LIRA	
		Footnotes (5-VI)	CURRENT PERIOD Audited (01/01/2013 - 31/12/2013)	PRIOR PERIOD Audited (01/01/2012 - 31/12/2012)
A.	**CASH FLOWS FROM BANKING OPERATIONS**			
1.1	Operating profit before changes in operating assets and liabilities		**120,007**	**572,507**
1.1.1	Profit share income received		1,517,647	1,409,540
1.1.2	Profit share expense paid		(675,852)	(603,420)
1.1.3	Dividend received		-	-
1.1.4	Fees and commissions received		177,712	152,448
1.1.5	Other income		38,961	167,030
1.1.6	Collections from previously written off loans and other receivables		112,797	74,215
1.1.7	Cash payments to personnel and service suppliers		(437,671)	(353,724)
1.1.8	Taxes paid		(86,908)	(81,284)
1.1.9	Other	(1)	(526,679)	(192,298)
1.2	Changes in Operating Assets and Liabilities		**(714,915)**	**(482,000)**
1.2.1	Net (Increase) Decrease in financial assets held for trading		1	-
1.2.2	Net(Increase) Decrease in financial assets at fair value through profit or loss		-	-
1.2.3	Net (Increase) Decrease in due from banks and other financial institutions		(1,205,195)	(1,045,448)
1.2.4	Net (Increase) Decrease in loans		(5,261,777)	(2,753,571)
1.2.5	Net (Increase) Decrease in other assets		27,267	(189,188)
1.2.6	Net Increase (Decrease) in bank deposits		(11,225)	346,918
1.2.7	Net Increase (Decrease) in other deposits		3,716,760	1,571,622
1.2.8	Net Increase (Decrease) in funds borrowed		1,392,768	978,993
1.2.9	Net Increase (Decrease) in due payables		-	-
1.2.10	Net Increase (Decrease) in other liabilities	(1)	626,486	608,674
I.	Net cash provided from banking operations		**(594,908)**	**90,507**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
II.	Net cash provided from investing activities		**(796,433)**	**(91,932)**
2.1	Cash paid for purchase of entities under common control, associates and subsidiaries	(2)	-	(1,211)
2.2	Cash obtained from sale of entities under common control, associates and subsidiaries	(3)	-	-
2.3	Purchases of tangible assets		(71,016)	(51,244)
2.4	Sales of tangible assets		279	1,555
2.5	Cash paid for purchase of financial assets available for sale		(786,782)	(594,485)
2.6	Cash obtained from sale of financial assets available for sale		61,086	553,453
2.7	Cash paid for purchase of investment securities		-	-
2.8	Cash obtained from sale of investment securities		-	-
2.9	Other	(1)	-	-
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
III.	Net cash provided from financing activities		**1,192,150**	**150,000**
3.1	Cash obtained from funds borrowed and securities issued		1,067,150	-
3.2	Cash used for repayment of funds borrowed and securities issued		-	-
3.3	Equity instruments issued		125,000	150,000
3.4	Dividends paid		-	-
3.5	Payments for financial leases		-	-
3.6	Others		-	-
IV.	Effect of change in foreign exchange rate on cash and cash equivalents	(1)	**477,828**	**(78,768)**
V.	Net increase/(decrease) in cash and cash equivalents		**278,637**	**69,807**
VI.	Cash and cash equivalents at beginning of period	(4)	**1,599,964**	**1,530,157**
VII.	Cash and cash equivalents at end of period	(4)	**1,878,601**	**1,599,964**

The accompanying notes are an integral part of these consolidated financial statements.

TÜRKİYE FİNANS KATILIM BANKASI A.Ş. PROFIT DISTRIBUTION TABLE		THOUSAND TURKISH LIRA	
		CURRENT PERIOD Audited (31/12/2013)	PRIOR PERIOD Audited (31/12/2012)
I.	**DISTRIBUTION OF CURRENT PERIOD PROFIT (*)**		
1.1	CURRENT PERIOD PROFIT	412,512	361,826
1.2	TAXES AND DUES PAYABLE (-)	(83,235)	(78,253)
1.2.1	Corporate Tax (Income Tax)	(80,719)	(78,760)
1.2.2	Income Tax Witholding	-	-
1.2.3	Other Taxes and Dues Payable (**)	(2,516)	507
A.	**NET PROFIT FOR THE PERIOD (1.1-1.2)**	**329,277**	**283,573**
1.3	PRIOR YEAR'S LOSSES (-)	-	-
1.4	FIRST LEGAL RESERVES (-)	-	(14,153)
1.5	OTHER STATUTORY RESERVES (-) (***)	-	(507)
B.	**DISTRIBUTABLE NET PERIOD PROFIT [(A-(1.3+1.4+1.5)]**	**-**	**268,913**
1.6	FIRST DIVIDEND TO SHAREHOLDERS (-)	-	-
1.6.1	To Owners of Ordinary Shares	-	-
1.6.2	To Owners of Preferred Stocks	-	-
1.6.3	To Owners of Preferred Stocks (Preemptive Rights)	-	-
1.6.4	To Profit Sharing Bonds	-	-
1.6.5	To Owners of the profit and loss Sharing Certificates	-	-
1.7	DIVIDEND TO PERSONNEL (-)	-	-
1.8	DIVIDEND TO BOARD OF DIRECTORS (-)	-	-
1.9	SECOND DIVIDEND TO SHAREHOLDERS (-)	-	-
1.9.1	To Owners of Ordinary Shares	-	-
1.9.2	To Owners of Preferred Stocks	-	-
1.9.3	To Owners of Preferred Stocks (Preemptive Rights)	-	-
1.9.4	To Profit Sharing Bonds	-	-
1.9.5	To Owners of the profit /loss Sharing Certificates	-	-
1.10	SECOND LEGAL RESERVE (-)	-	-
1.11	STATUTORY RESERVES (-)	-	-
1.12	EXTRAORDINARY RESERVES	-	268,913
1.13	OTHER RESERVES	-	-
1.14	SPECIAL FUNDS	-	-
II.	**DISTRIBUTION FROM RESERVES**		
2.1	DISTRIBUTED RESERVES	-	-
2.2	SECOND LEGAL RESERVES (-)	-	-
2.3	DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1	To Owners of Ordinary Shares	-	-
2.3.2	To Owners of Preferred Stocks	-	-
2.3.3	To Owners of Preferred Stocks (Preemptive Rights)	-	-
2.3.4	To Profit Sharing Bonds	-	-
2.3.5	To Owners of the profit /loss Sharing Certificates	-	-
2.4	SHARE TO PERSONNEL (-)	-	-
2.5	SHARE TO BOARD OF DIRECTORS (-)	-	-
III.	**EARNINGS PER SHARE**		
3.1	TO OWNERS OF STOCKS	0.19	0.17
3.2	TO OWNERS OF STOCKS (%)	19	17
3.3	TO OWNERS OF PREFERRED STOCKS	-	-
3.4	TO OWNERS OF PREFERRED STOCKS (%)	-	-
IV.	**DIVIDEND PER SHARE**		
4.1	TO OWNERS OF STOCKS	-	-
4.2	TO OWNERS OF STOCKS (%)	-	-
4.3	TO OWNERS OF PREFERRED STOCKS	-	-
4.4	TO OWNERS OF PREFERRED STOCKS (%)	-	-

(*) Authorized unit is general assembly on current period profit distribution. Ordinary General assembly of the Participation Bank is not held as of the date of report.

(**) Other tax and duties include defered tax Gains / (Losses) amounts.

(***) Is follawed under Extraordinary Reserves

SECTION THREE

ACCOUNTING POLICIES

I. Basis of Presentation

1. Presentation of Financial Statements

As per the Article 37 and 38 of "Accounting and Recording Rules" of the Turkish Banking Law No 5411 published on the Official Gazette no.25983 dated 1 November 2005 and became effective, the Parent Participation Bank keeps its accounting records and prepares its consolidated financial statements and the related footnotes in accordance with accounting and valuation standards described in "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published by the Banking Regulatory and Supervisory Agency (BRSA) and in effect since 1 November 2006, Turkish Accounting Standards (TAS) and Turkish Financial Reporting Standards (TFRS) issued by Turkish Accounting Standards Board and the related statements and guidance.

The Participation Bank prepares consolidated financial statements by applying accounting policies and basis of accounting in accordance with the Turkish Accounting Standards and related communiqués, pronouncements and explanations issued by the Banking Regulation and Supervision Agency. The related accounting policies and basis of accounting are explained in disclosures II to XXIII below.

Amounts in Consolidated Financial Statements and related explanations and disclosures are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.

2. Restatement of Financial Statements upon the Current Purchasing Power Parity

The Participation Bank's financial statements have been prepared in accordance with TAS 29 "Reporting in Hyperinflationary Economies" until 31 December 2004. By a Circular declared by BRSA at 28 April 2005, it was stated that the indicators of a need for inflation accounting have been ceased and inflation accounting would not be applied starting from 1 January 2005.

3. Additional Paragraph for Convenience Translation to English

The differences between accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying financial statements are to be distributed, and International Financial Reporting Standards ("IFRS"), may have significant influence on the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles generally accepted in such countries and IFRS.

II. Explanations on Usage Strategy of Financial Assets and Foreign Currency Transactions

The Parent Participation Bank receives profit share accounts on the basis of taking share from both profit and loss. These profit loss based accounts are generally evaluated as Corporate Financing Support, Individual Financing Support, Financial Leasing and Profit Loss Joint Project. Yields of these funds are fixed.

Active credit risk management procedures are applied due to fixed yields of funds. The rating and scoring systems applied by the Participation Bank, includes detailed company analysis realized in annually or semi-annually and enables rating of all companies and loans without any restrictions regarding credibility. Loans and companies, which have been renewed, restructured or rescheduled, are rated within the scope of this system and if acceptable, loan limits are revised.

In order to maintain the ratio of liquid assets to total assets (except statutory reserves) around 15%-17% is adopted as liquidity principle by the Participation Bank. Equity profitability is maximized by evaluating this liquidity opportunity in short maturity transactions in international markets.

Foreign exchange gains and losses arising from foreign currency transactions are recorded at transaction dates. At the end of the periods, foreign currency assets and liabilities evaluated with the Central Bank of

Turkey's spot purchase rates and the differences are recorded as foreign exchange gain or loss in the income statement.

Net foreign currency position is followed in legal limits and ensured that the ratio is within +-20% level. Besides, different policies and strategies are settled according to macro economic situations about foreign currency position. However, the Parent Participation Bank always avoids taking positions that expose high level of currency risk.

III. Explanations on Consolidated Subsidiaries

Türkiye Finans Katılım Bankası A.Ş. and its subsidiary TF Varlık Kiralama A.Ş. are consolidated by full consolidation method in the accompanying consolidated interim financial statements. The consolidated interim financial statements have been prepared in accordance with the procedures listed in the "Communiqué Related to Regulation on the Preparation of the Consolidated Financial Statements of Banks" published in the Official Gazette numbered 26340 dated 8 November 2006. The Parent Participation Bank and the consolidated subsidiary are referred to as together "the Group".

Basis of consolidation of the subsidiary:

A subsidiary is an entity that is controlled directly or indirectly by the Parent Participation Bank.

Subsidiaries are consolidated using the full consolidation method. Financial statements of related subsidiaries are consolidated from the date when the control is transferred to the Parent Bank.

Control is defined as the power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Parent Participation Bank's returns.

In full consolidation method, 100% of the assets, liabilities, income and expenses and off-balance sheet items of subsidiary are combined with the Parent Participation Bank's assets, liabilities and income, expense and off-balance sheet items. The carrying amount of the Group's investment in subsidiary and the Group's portion of the cost value of the capital of each subsidiary are eliminated. All significant transactions and balances between the Parent Participation Bank and its consolidated subsidiary are eliminated reciprocally.

When there are differences between the accounting policies of the subsidiary with the Parent Participation Bank, the financial statements are adjusted in accordance with the principle of materiality.

TF Varlık Kiralama AŞ, which was established on 11 February 2013, has been fully consolidated in the consolidated financial statements of the Participation Bank from 30 June 2013.

IV. Explanations on Forward and Option Contracts and Derivative Instruments

The Group's derivative financial instruments consist of forward foreign currency buy/sell agreements. The Group has no derivative products that are detached from the host contract.

Derivatives are initially recorded in off-balance sheet accounts at their contract values.

Subsequently, the derivative transactions are valued at their fair values and the changes in their fair values are recorded on balance sheet under "derivative financial assets" or "derivative financial liabilities", respectively. Subsequent fair value changes for trading derivatives are recorded under income statement.

The Group does not have any derivative financial instruments held for risk management as of balance sheet date.

V. Explanations on Profit Share Income and Expenses

Profit share income and expenses are recognized in the income statement on an accrual basis.

Realized and unrealized profit share accruals of the non-performing loans are reversed and profit share income in connection with these loans is recorded as profit share income only when they are collected.

VI. Explanations and Disclosures on Fees and Commission Income and Expenses

Banking service revenues are recognized as income only when they are collected while only the current portion of the prepaid commission income obtained from corporate loans is recorded as income on an accrual basis.

Fees and commissions for funds borrowed paid to other financial institutions, as part of the transaction costs, are recorded as prepaid expenses and calculated based on internal rate of return method.

VII. Explanations and Disclosures on Financial Assets

Financial instruments comprise of financial assets, financial liabilities and derivative instruments. Basically, financial assets form majority of the commercial activities and operations of the Group. Risks due to these instruments are substantial portion of the total risk taken by the Group. Financial instruments expose, change or reduce the liquidity, credit and market risks of the Group's financial statements. Buying/selling of these financial instruments is carried out in the name of customers and on behalf and account of the Group.

Basically, financial instruments generate commercial operations of the Group. These instruments reveal, affect and decrease liquidity and credit risk on financial statements.

Buying/selling of financial instruments is recognized on settlement date basis. It is the date which an asset is delivered to the Group or by the Group. Settlement date accounting requires (a) recognizing of the asset in purchase date, and (b) to exclude the asset from balance sheet as of delivery date and recognizing profit or loss due to disposal of the assets as of the same date. Changes in fair value of the assets between trading date and settlement date are recognized for the financial assets at fair value through profit&loss and financial assets available for sale.

Ordinary purchase and sale generally suppose to purchase or sale of an asset based on a contract that requires the delivery of the asset in legal procedures and market precedents. Changes in fair value of the asset acquired between trading date and settlement date are recognized as the same in assets purchased. Changes in fair value of the asset are not recognized if it is recorded with its purchase or amortized cost. Gain or loss due to a financial asset at fair value is recorded in profit or loss, gain or loss due to an asset available for sale is recorded in equity.

Methods and assumptions used to determine reasonable value of every financial instrument are specified below.

Cash, Banks, and Other Financial Institutions

Cash and cash equivalents comprise of cash on hand, demand deposits, and highly liquid short-term investments not bearing risk of significant value change, and that are readily convertible to a known amount of cash. The book value of these financial assets approximate to their fair value.

Marketable securities at fair value through profit or loss are classified in two categories; i) marketable securities classified as trading securities: acquired or incurred principally for the purpose of selling or repurchasing it in the near term in order to benefit from short-term profit opportunities; ii) marketable securities classified as marketable securities at fair value through profit or loss at initial recognition. The Group uses the above-mentioned classification when permitted, or for the purposes of providing a more appropriate presentation.

In this group, trading securities are initially recognized at cost and measured at fair value on the financial statements. Fair value of debt securities traded in an active market is determined based on the quoted prices or current market prices.

The difference between initial cost and fair value of financial assets at fair value through profit and loss is reflected to profit share income or diminution in value of marketable securities accounts. Profit share income from financial assets at fair value through profit and loss is reflected in profit share income.

Investments held to maturity include securities with fixed or determinable payments and fixed maturity when there is an intention of holding till maturity and the relevant conditions for fulfillment of such intention, including the funding ability. This portfolio excludes loans and receivables. Subsequent to initial recognition, held to maturity investments are measured at amortized cost by using the internal rate of return method less impairment losses, if any. The Group has no financial assets acquired and classified as held to maturity investments that cannot be subject to such classification for two years because of the non-performance of tainting rules.

The profit share income received from held to maturity investments is recorded as profit share income in the income statement.

The Group does not have any investments held to maturity as of balance sheet date.

Marketable securities classified as available for sale are initially recognized at cost including the transaction costs. After initial recognition, available for sale securities are measured at fair value and unrealized gains/losses originating from the difference between the amortized cost and the fair value are recorded in "Securities Value Increase Fund" under equity. At the disposal of available for sale financial assets, value increase/decrease recorded in "Securities Value Increase Fund" under equity is transferred to the income statement.

Loans

Loans and receivables are recognized at purchase cost and valued at amortized cost. Fees, transaction costs and other similar costs in connection with the guarantees of loans are considered as part of the transaction cost.

Individual and corporate loans followed in cash loans are recognized at their original amounts according to Uniform Chart of Accounts (UCA) and accounts determined in its prospects based on loans' contents.

Foreign currency indexed retail and commercial loans are converted to Turkish Lira at the rate on the lending date; they are followed under Turkish Lira ("TL") accounts. Repayment amounts are calculated at the exchange rate on the repayment date and the foreign exchange differences are reflected in the profit/loss accounts.

VIII. Explanations on Impairment on Financial Assets

At each balance sheet date, the Group evaluates the carrying amounts of its financial asset or a group of financial assets to determine whether there is objective evidence that those assets have suffered an impairment loss.

If any such indication exists, the Group determines the related impairment. A financial asset or a group of financial assets are impaired and have impairment loss if, and only if, there is an objective indicator of a single or multiple event ("event of loss") occurring after the initial recognition of the related asset and that the expected future cash flows of financial asset or group of financial assets are adversely affected by that event (or events). The losses expected to incur due to future events are not accounted regardless of high probability.

Loans considered as non-performing are classified in accordance with the "Regulation on Procedures and Principles Determination of Qualifications of Loans and Other Receivables by Banks and Provision", published on the Official Gazette nr.26333 dated 1 November 2006.

The provisions released in the same year are accounted by crediting the Provision Expenses Account and the released parts of the previous years' provisions are recorded to the Collections from Prior Years Expense account.

In addition to specific loan loss provisions, within the framework of the regulation and principles referred to above; the Group records general loan loss provisions for loans and other receivables.

IX. Explanations on Offsetting of Financial Assets

In cases where the fair values of trading securities, securities available-for-sale, securities quoted at the stock exchanges, associates and subsidiaries are less than their carrying values, a provision for impairment is allocated, and the net value is shown on the balance sheet.

The Participation Bank provides specific allowances for loan and other receivables in accordance with the "Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables". The allowances are recorded under "loans" as negative balances on the asset side.

Other financial assets and liabilities than explained above are offset when the Group has a legally enforceable right to set off, and when the Participation Bank has the intension of collecting or paying the net amount of related assets and liabilities or when the Participation Bank has the right to offset the assets and liabilities simultaneously.

X. Explanations on Sales and Repurchase Agreements and Lending of Securities

The Group does not have any repurchase agreements or lending of securities.

XI. Explanations on Assets Held For Sale and Discontinued Operations and Debts due to These Assets

The principles on accounting, assessment and disposal of assets held for sale of the Group are determined based on the Communiqué of "Principles and Procedures on Bank's Disposal of Precious Metals and Assets Held for Sale" published on 1 November 2006 in the Official Gazette numbered 26333.

If assets acquired due to receivables of the Group are under a plan, they are followed in assets held for sale account.

Assets which meet the criteria to be classified as held for sale are measured by the book value or the fair value from which the cost of sales is deducted, whichever is lower and no more amortization is made for the said assets; and these assets are shown separately on the balance sheet. In order to classify an asset as an asset held for sale, the related asset (or the group of assets to be disposed of) should be able to be sold immediately and the probability of sale for such assets (or group of assets to be disposed of), should be high under current conditions. In order for the sale to be highly probable, a plan should have been made by the suitable management for the sale of the asset (or the group of assets to be disposed of) and an active program should have been started to determine the buyers and to carry out the plan. Furthermore, the asset (or the group of assets to be disposed of) should be actively marketed at a price consistent with its fair value. Various events and conditions may extend the period for the completion of the sales process to more than a year. If there is enough evidence that the related delay has occurred beyond the Participation Bank's control and that the Participation Bank's plans for selling the related asset (or the group of assets to be disposed of) is still in progress, the related assets are continued to be classified as assets held for sale.

A discontinued operation is a part of a bank's business classified as sold or held-for-sale. The results of the discontinued operations are disclosed separately in the income statement. There is not a discontinued operation of the Group in the current period.

XII. Explanations and Disclosures on Goodwill and Other Intangible Assets

As of the balance sheet date, The Group does not have any goodwill in its accompanying consolidated interim financial statements.

Intangible assets purchased before 1 January 2005, are presented with their inflation adjusted historical acquisition cost as of 31 December 2004 and intangible assets purchased in the subsequent periods, are presented with their acquisition cost less the accumulated amortization, and impairment provisions. Intangible assets are amortized by the straight-line method, considering their useful life. The amortization method and period are periodically reviewed at the end of each year. Intangible assets are comprised of computer software.

(Thousands of Turkish Lira (TL) unless otherwise stated)

XIII. Explanations and Disclosures on Tangible Assets

Tangible assets are accounted for at acquisition cost plus any other direct costs incurred to bring the asset for ready to use. Tangible assets are remeasured at their acquisition cost less accumulated depreciation and impairment loss, if any. The Parent Participation Bank adopted a revaluation method in 2006 for its real estates in tangible assets due to (TAS 16) Standard for Tangible Assets. Expert values determined in December 2012 by an independent expert company are reflected to the consolidated financial statements. Such revaluation increase is realized net TL 89,615 after deferred tax as of balance sheet date (31 December 2012: TL 89,615 TL).

The depreciation of an asset held for a period less than a full financial year is calculated as a proportion of the full year depreciation charge from the date of acquisition to the financial year end.

Gains/losses arising from the disposal of tangible assets or the inactivation of a tangible asset are recognized in the income statement by taking into account the difference between the net book value and the net proceeds.

Regular maintenance and repair costs incurred for tangible assets are recorded as expense.

There are no restrictions such as pledges, mortgages or any other restriction on tangible assets.

The estimated useful lives of the tangible assets used by the Group are as follows:

Tangible Assets	Estimated Useful Lives
Safety Boxes	5-50 years
Office equipment	3-10 years
Leasehold Improvements	2-10 years
Other Movables	3-15 years
Furniture and Fixtures	3-10 years
Vehicles	5 years
Real Estates	50 years

XIV. Explanations and Disclosures on Leasing Transactions

The Group as a Lessor;

The Group acts as a Lessor in leasing transactions. Assets subject to leasing are accounted in the Group's financials as receivables that equal to net leasing investment amount. Total of rental payments including profit shares and principals are recorded under "finance lease receivables" as gross. The difference, i.e. the profit share, between the total of rental payments and the cost of the related tangible asset is recorded under "unearned income". When the rent payment incurs, the rent amount is deducted from "finance lease receivables"; and the profit share is recorded as finance lease income in the income statement.

The Group as a Lessee;

Assets held under finance leases are recognized as assets of the Participation Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. While the corresponding liability to the lessor is included in the balance sheet as a finance lease obligation, profit share amounts are accounted as deferred profit share amounts. Leased assets are followed in tangible assets account and subjected to the same accounting policy.

XV. Explanations on Provisions and Contingent Liabilities

Apart from specific and general provisions set for funds given and other receivables, other provisions and contingent liabilities are set based on TAS 37 standard.

Specific and general provision expenses related with profit share accounts which are set by the Group are met from profit share accounts.

There are 910 ongoing suits filed against to the Group as of balance sheet date. Total amount of these suits are TL 168,231 (31 December 2012: 319 suits, TL 162,888). The Group set TL 7,664 provision for ongoing suits filed against to the Participation Bank for which cash outflow is probable and measurable (31 December 2012: TL 4,913).

XVI. Explanations on Liabilities Regarding Employee Benefits

Under the existing Labor Law, the Company is required to pay termination benefits to each employee who earned the right to receive termination indemnities with the end of their employment contract. In addition, under the existing Social Security Law No.506, clause No. 60, amended by the Labor Laws dated 6 March 1981, No. 2422 and 25 August 1999, No. 4447, the Company is also required to pay termination benefits to each employee who has earned the right to retire by receiving termination indemnities.

Employment termination benefit is not a funded liability and there is no requirement to fund it. Employment termination benefit is calculated based on the estimation of the present value of the employee's probable future liability arising from the retirement. IAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the bank's obligation under defined employee plans. IAS 19 ("Employee Benefits") has been revised effective from the annual period beginning after 1 January 2013. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognized in other comprehensive income.

Accordingly actuarial assumptions were used in the calculation of the total liability as these actuarial assumptions apply to each individual company's defined benefit plan and legal framework in which those companies operate. The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2013, the provision has been calculated by estimating the present value of the future probable obligation arising from the retirement of the employees. The average discount rate is 6,20% and share rate is 9,50% at the respective balance sheet date (31 December 2012: 5,10% and 8%). Severance pay ceiling is revised semi-annually. TL 3,254.44 severance pay ceiling, which is effective on 1 January 2013, has been considered in the provision for employment termination benefits calculations of the Group.

XVII. Explanations on Taxation

Tax expense is the total amount of current tax expense and deferred tax expense.

Taxable profit is different from the profit on the income statement, due to the fact that it excludes the income and expense items, which can be taxed or deducted in the following periods and the items, which cannot be taxed or deducted, permanently. Liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability or asset is determined by calculating tax effects of temporary differences between the base amounts of the financial statement and legally enacted tax base amounts of liabilities and assets by using balance sheet method and considering legal tax rates. Deferred tax liabilities are calculated for all the temporary taxable differences, while the deferred tax assets composed of temporary deductible differences, are calculated in case it is highly probable to use these differences in the future to gain taxable profit. Deferred tax liability is not calculated for temporary timing differences, which are arising from the initial entering of assets or liabilities, except for goodwill and mergers, and which do not affect either the commercial or financial profit or loss.

The book value of deferred tax liability is reviewed at each balance sheet date. The book value of the deferred tax is reduced as probability of gaining enough taxable profit decreases.

Deferred tax is calculated at enacted tax rates valid in the period when the assets are formed or liabilities are fulfilled, and the tax is recorded as income or expense in the income statement. Nonetheless, if the deferred tax is related to assets directly associated with the equity in the same or different period, it is directly recognized in the group of equity accounts.

A portion of provision directly associated with the equity is offset with related accounts in equity. Therefore, TL 7,823 deferred tax provision (31 December 2012: TL 6,441) directly associated with the equity is offset with "Revaluation Surplus on Tangible Assets", "Securities Value Increase Fund"and "Other Capital Reserves" accounts in equity as of 31 December 2013.

(Thousands of Turkish Lira (TL) unless otherwise stated)

Current tax liability is offset with prepaid tax amounts due to its association. Deferred tax asset and liability is also offset.

XVIII.Additional Explanations on Borrowings

Borrowings are recognized in accordance with TAS 39 "Financial Instruments: Recognition and Measurement". Borrowings except derivatives financial liabilities held for trading are recorded at their purchase costs and discounted by using the internal rate of return. Derivatives financial liabilities held for trading are recorded at their fair value amounts as explained in the accounting policy numbered IV.

XIX. Explanations on Share Certificates

The Group increased its capital by TL 1,650,000 to TL 1,775,000. As of 31 December 2013, the Group's paid-in-capital consists of 1,775,000,000 shares of TL 1 nominal each.

XX. Explanations and Disclosures on Acceptances

Acceptances are realized simultaneously with the payment dates of the customers and they are presented as probable commitments in the off-balance sheet accounts.

XXI. Explanations and Disclosures on Government Incentives

There are no government incentives used by the Group as of balance sheet date.

XXII. Explanations and Disclosures on Segment Reporting

The Group operates in individual banking, specific customer current accounts, profit sharing accounts, credit and ATM cards, consumer loans, long term housing and car loans and other individual bank services.

The Group operates in automatic transfer services, internet banking services, current accounts, profit share accounts, cash/non cash loans, financial leasing, foreign trade transactions, insurance transactions and corporate banking services.

There are not any economic, financial and political factors that affect segmenting of activities and investments. Due to fluctuations in economic situation, investments are affected from instability and available resources are evaluated as liquid.

Current Period	Retail Banking	Corporate Banking	Treasury	Unallocated	**Total**
Operating Income	348,093	624,878	209,295	-	**1,182,266**
Net profit of segment (*)	134,736	250,506	27,270	-	**412,512**
Profit Before Tax	134,736	250,506	27,270	-	**412,512**
Tax Provision	-	-	-	83,235	**83,235**
Profit after tax	134,736	250,506	27,270	(83,235)	**329,277**
Net period profit	134,736	250,506	27,270	(83,235)	**329,277**
Assets of segment	4,324,661	14,722,791	5,296,392	782,735	**25,126,579**
Total Assets	4,324,661	14,722,791	5,296,392	782,735	**25,126,579**
Liabilities of segment	10,014,493	6,596,642	5,465,287	527,776	**22,604,198**
Equity	-	-	-	2,522,381	**2,522,381**
Total liabilities and equity	10,014,493	6,596,642	5,465,287	3,050,157	**25,126,579**
Other segment items	-	-	-	38,610	**38,610**
Depreciation(**)	-	-	-	38,184	**38,184**
Impairment	-	-	-	426	**426**

(*) Personnel and administrative expenses are allocated according to ratio of asset and liabilities of the segments.
(**) Depreciation amount of TL 38,144 comprise of TL 25,659 of tangible assets' depreciation, TL 11,738 of intangible assets' depreciation and TL 787 of depreciation for assets held for resale.

(Thousands of Turkish Lira (TL) unless otherwise stated)

Prior Period	Retail Banking	Corporate Banking	Treasury	Unallocated	**Total**
Operating Income	255,996	524,245	268,609	-	**1,048,850**
Net profit of segment (*)	115,824	236,843	9,159	-	**361,826**
Profit Before Tax	115,824	236,843	9,159	-	**361,826**
Tax Provision	-	-	-	78,253	**78,253**
Profit after tax	115,824	236,843	9,159	(78,253)	**283,573**
Net period profit	115,824	236,843	9,159	(78,253)	**283,573**
Assets of segment	3,107,769	10,288,504	3,750,299	469,932	**17,616,504**
Total Assets	3,107,769	10,288,504	3,750,299	469,932	**17,616,504**
Liabilities of segment	8,099,591	4,413,103	2,574,752	403,896	**15,491,342**
Equity	-	-	-	2,125,162	**2,125,162**
Total liabilities and equity	8,099,591	4,413,103	2,574,752	2,529,058	**17,616,504**
Other segment items	-	-	-	30,633	**30,633**
Depreciation (**)	-	-	-	30,455	**30,455**
Impairment	-	-	-	178	**178**

(*) Personnel and administrative expenses are allocated according to ratio of asset and liabilities of the segments.
(**)Depreciation amount of TL 30,455 comprise of TL 22,334 of tangible assets' depreciation, TL 7,553 of intangible assets' amortization and TL 568 of depreciation for fixed assets to be sold.

XXIII. Explanations on Other Matters

There are no explanations exist other than the accounting policies stated above.

SECTION FOUR

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE

I. Explanations and Disclosures Related to the Consolidated Capital Adequacy Standard Ratio

The capital adequacy ratio of the Group in accordance with the communiqué "Financial Statements and Related Disclosures and Footnotes to be Announced to Public" which is published in Official Gazette no 28337 dated 28 June 2012 is 12.81% (31 December 2012: 14.76%).

Risk Measurement Methods in Calculation of Capital Adequacy Ratio

Capital adequacy ratio is calculated within the scope of the "Communiqué on Measurement and Assessment of Capital Adequacy Ratios of Banks (the "Regulation")", "Regulation on Credit Risk Mitigation Techniques" and "Regulation on Calculation of Risk Weighted Amounts for Securitisations" published in the Official Gazette no.28337 dated 28 June 2012 and the "Regulation on Equities of Banks" published in the Official Gazette no.26333 dated 1 November 2006.

In the calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as "trading book" and "banking book" according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and provisions.

In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the "Regulation on Procedures and Principles Determination of Qualifications of Loans and Other Receivables by Banks and Provision". The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

The amount subject to credit risk is calculated and reported with Simple Approach, the amount subject to market risk is calculated and reported with the Standard Method and the amount subject to operational risk is calculated and reported with Basic Indicator Method, described in the Communiqué on "Measurement and Assessment of Capital Adequacy Ratios of Banks (the "Regulation") published in the Official Gazette No: 28337 dated 28 June 2012.

In the calculation of counterparty credit risk arising from derivative instruments and marketable securities, "the valuation method according to the fair value" is used in accordance with the Regulation.

(Thousands of Turkish Lira (TL) unless otherwise stated)

Information on the Unconsolidated Capital Adequacy Standard Ratio

	Risk Weightness								
	Participation Bank								
	0%	10%	20%	50%	75%	100%	150%	200%	250%
The Amount Subject to	5,469,986	-	738,049	6,602,824	4,298,637	10,723,978	113,551	163,976	1,493
Risk Types	-	-	-	-	-	-	-	-	--
Contingent and Non-Contingent Claims on Sovereigns	5,027,039	-	-	651,030	-	-	-	-	--
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	29	-	-	-	-	-	--
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	-	-	-	904	-	19,329	-	-	--
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-	-	-	-	-	--
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-	-	-	-	--
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	-	-	586,945	405,604	-	-	-	-	--
Contingent and Non-Contingent Claims on Corporate Receivables	290,834	-	151,063	-	-	9,938,941	-	-	--
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	-	4,298,637	123,048	-	-	--
Contingent and Non-Contingent Claims Secured by Residential Property	-	-	-	5,477,406	-	-	-	-	--
Past Due Loans	-	-	-	20,178	-	47,509	-	-	--
Higher-Risk Categories Defined by Agency	-	-	-	46,044	-	5,541	113,551	163,976	1,493
Collateralized Mortgage Marketable Securities	-	-	-	-	-	-	-	-	--
Securitization Exposures	-	-	-	-	-	-	-	-	--
Short-Term Claims on Banks and Corporate	-	-	-	-	-	-	-	-	--
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	-	-	-	-	--
Other Claims	152,113	-	12	1,658	-	589,610	-	-	--

(Thousands of Turkish Lira (TL) unless otherwise stated)

Information on the Consolidated Capital Adequacy Standard Ratio

	Risk Weightness								
	Participation Bank								
	0%	10%	20%	50%	75%	100%	150%	200%	250%
The Amount Subject to Credit Risk	5,469,986	-	738,049	6,602,824	4,298,637	10,723,928	113,551	163,976	1,493
Risk Types	-	-	-	-	-	-	-	-	--
Contingent and Non-Contingent Claims on Sovereigns	5,027,039	-	-	651,030	-	-	-	-	--
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	29	-	-	-	-	-	--
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	-	-	-	904	-	19,329	-	-	--
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-	-	-	-	-	--
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-	-	-	-	--
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	-	-	586,945	405,604	-	-	-	-	--
Contingent and Non-Contingent Claims on Corporate Receivables	290,834	-	151,063	-	-	9,938,941	-	-	--
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	-	4,298,637	123,048	-	-	--
Contingent and Non-Contingent Claims Secured by Residential Property	-	-	-	5,477,406	-	-	-	-	--
Past Due Loans	-	-	-	20,178	-	47,509	-	-	--
Higher-Risk Categories Defined by Agency	-	-	-	46,044	-	5,541	113,551	163,976	1,493
Collateralized Mortgage Marketable Securities	-	-	-	-	-	-	-	-	--
Securitization Exposures	-	-	-	-	-	-	-	-	--
Short-Term Claims on Banks and Corporate	-	-	-	-	-	-	-	-	--
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	-	-	-	-	--
Other Claims	152,113	-	12	1,658	-	589,560	-	-	--

(Thousands of Turkish Lira (TL) unless otherwise stated)

Summary of the Unconsolidated and Consolidated Capital Adequacy Standard Ratio

	Participation Bank		Consolidated	
	Current Period	Prior Period	Current Period	Prior Period
Required Capital Liabilities for Credit Risk (Main Amount related with Credit Risk*0,08) (RCLCR)	1,431,919	1,019,101	1,431,915	1,019,101
Required Capital Liabilities for Market Risk (RCLMR)	9,194	19,966	9,194	19,966
Required Capital Liabilities for Operational Risk (RCLOR)	118,776	103,234	118,776	103,234
Shareholders' Equity	2,498,204	2,107,599	2,498,204	2,107,599
Shareholders' Equity/((RCLCR+RCLMR+RCLOR) *12,5)*100	12.81	14.76	12.81	14.76

Information about the shareholders' consolidated equity items

	Current period	**Prior period**
CORE CAPITAL		
Paid-in capital	1,775,000	1,650,000
Nominal capital	1,775,000	1,775,000
Capital commitments (-)	-	(125,000)
Adjustment to paid-in capital	-	-
Share Premiums	-	-
Share Cancellation Profits	-	-
Transfers from reserves	365,284	95,073
Reserves from Inflation Adjustments	-	-
Profit	329,277	283,573
Net current period profit	329,277	283,573
Prior period profit	-	-
Provisions for possible losses up to 25% of core capital	-	-
Profit on sale of associates, subsidiaries and buildings	-	-
Primary subordinated loans	-	-
Loss that is not covered with reserves (-)	-	-
Net current period loss	-	-
Prior period loss	-	-
Leasehold improvements (-)	29,884	30,004
Intangible assets (-)	37,149	18,881
Deferred-assets for tax which exceeds 10% of core capital (-)	-	-
Excess amount expressed in the Law (Article 56, 3rd paragraph) (-)	-	-
Total Core Capital	2,402,528	1,979,761

(*) Actuarial losses amount to TL 13,362 are represented under other capital reserves which are accounted under other reserves.

(Thousands of Turkish Lira (TL) unless otherwise stated)

SUPPLEMENTARY CAPITAL	**Current period**	**Prior period**
General reserves	93,950	85,862
45% of increase in revaluation fund of movables	-	-
45% of increase in revaluation fund of fixed assets	40,327	40,327
Bonus shares from investment and associates, subsidiaries and joint ventures (business partners)	-	-
Primary subordinated loans which are ignored in the calculation of core capital	-	-
Secondary subordinated loans	-	-
45% of marketable securities and investment securities value increase fund	(36,795)	3,105
Adjustment to paid-in capital, profit reserves and previous years losses(except adjustment to legal, status and extraordinary reserves)	-	-
Total Supplementary Capital	97,482	129,294
CAPITAL	2,500,010	2,109,055
DEDUCTIONS FROM THE CAPITAL	1,806	1,456
Partnership share on banks and financial institutions (domestic and abroad) that are not consolidated, with a shareholding of 10% and above	-	-
The sum of partnership share on banks and financial institutions (domestic and abroad), with shareholding of less than 10%, but exceeding 10% and more of the sum of core and supplementary capital of the bank	-	-
Loans extended to banks, financial institutions (domestic and abroad) and qualified shareholders, like secondary subordinated loan and debt instruments purchased from these institutions issued, like primary and secondary subordinated loan	-	-
Loans extended being noncompliant with articles 50 and 51 of the Law	-	-
Net book values of properties owned, exceeding 50% of banks' equity and properties, and trade goods overtaken in exchange for loans and receivables that should be disposed within five years in accordance with article 57 of the Law, but not yet disposed	1,767	1,456
Securitization positions deducted from preferred equity	-	-
Other	39	-
TOTAL SHAREHOLDERS' EQUITY	**2,498,204**	**2,107,599**

The Approaches for Internal Capital Adequacy Assessment Process about Current and Future Activities

The internal capital adequacy assessment process is carried out by taking into account characteristics of operations, scale, risk profile, complexity, capital structure and 5 years strategic plans of the participation bank within the framework of "The Regulation on the Internal System of Banks" and related legislations. As part of this process, identification, measurement, management and monitoring processes of all significant risks that the Participation Bank has been exposed in the existing case and may be exposed in the future depending on the strategic plans, have been specified and implementing. For this reason, not only the credit, market and operational risks but also profit share rate risk caused by accounting system of banks, liquidity risk, concentration risk, residual risk, reputational risk, business risk, strategic risk, compliance risk, country risk and transfer risk which directly affect the capital adequacy ratio are included in this assessment process. With the process of Internal Capital Adequacy Assessment, solid, efficient and comprehensive processes are identified and implemented in order to evaluate and maintain the amount of capital, its components and distribution, required to compensate the risk that the Participation Bank has been exposing or may be exposed in the future. In this context, the Participation Bank's current and future capital requirements are analyzed together with the bank's strategic objectives. In addition, with stress tests and scenario analysis the Participation Bank's potential losses that may be incurred, the methods of estimating the level of capital adequacy to afford these losses and as a result of assessments actions needed to maintain adequate capital levels are determined.

Internal Capital Adequacy Assessment Process is taken on as a developing process and the areas of a scheme of development are determining and the operation plans are forming. Additionally, management and monitoring of the Participation Bank operations and including of the top management into these processes are forcing by defining risk appetite for important risks in the general of the Participation Bank.

II. Explanations and Disclosures Related to Credit Risk

Credit risk is the risk of a counter party with whom the Group has a commercial relation. This risk represents the losses of the Group when its counter party can not conform to a signed contract by disregarding the related obligations partially or totally in specified periods.

Credit worthiness of loan customers are monitored and reviewed by the Credit Allocation Department of the Participation Bank semiannually or annually in accordance with the Communiqué on “Determining the Nature of Loan and Other Receivable Provisions Allocated by Banks and Procedures and Principles of Allocating Provisions”. The account statements are obtained based on the prevailing regulations. Credit limits are determined by the Board of Directors, the Credit Committee of the Participation Bank and the Credit Administration. The Participation Bank obtains guarantees for its loans and other receivables. Guarantees received comprised of real and legal person sureties with a high credibility, bonds issued with guarantees of Treasury, Privatization Administration and Housing Development Administration of Turkey, securities issued with the guarantees of central governments and central banks of OECD countries, European Central Bank and securities issued with this Bank’s guarantee, gold and other precious metals, investment equity shares listed on the stock exchange, asset based securities, private sector bonds, letters of guarantee and other guarantees by the banks, guarantees of banks operating in OECD countries, the guarantees of central governments and central banks of OECD countries, transfer or pledge of claims arise from public institutions, customer check, vehicle pledges, export documents, pledge of assets, hypothecs such as ship, aircraft and real estate and cash blockages.

In case of any significant credit risk exposure, the Participation Bank do not use forward, option or similar kind of contracts to reduce these risks by exercising their rights, fulfilling their obligations or selling them.

Indemnified non-cash loans are subject to the same risk weight with the unpaid cash loans although their maturity was due.

The risk of the Group from its top 100 and top 200 cash loan customers share in total cash loans ratios are 13.88 % and 20.34% (31 December 2012: 14.04% and 20.69%).

The risk of the Group from its top 100 and top 200 non-cash loan customers share in total non-cash loan ratios are 29.14% and 39.85% (31 December 2012: 29.96 % and 40.32%).

The cash receivables of the Group from its top 100 and top 200 loan customers shares in total balance sheet assets are 10.04% and 14.71% (31 December 2012: 10.34% and 15.23%).

The non-cash receivables of the Group from its top 100 and top 200 loan customers shares in total non-cash loan ratios are 0.97% and 1.33% (31 December 2012: 1.09% and 1.47%).

The Group’s general provision amount for its credit risk is TL 150,439 (31 December 2012: TL 139,804).

(Thousands of Turkish Lira (TL) unless otherwise stated)

Risk Classifications	Current Period Risk Amount (*)	Average Risk Amount
Contingent and Non-Contingent Claims on Sovereigns	5,678,069	4,108,112
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	29	29
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	20,631	14,028
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	992,549	665,870
Contingent and Non-Contingent Claims on Corporate Receivables	10,209,512	8,364,565
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	4,588,954	4,069,619
Contingent and Non-Contingent Claims Secured by Residential Property	5,477,406	5,178,687
Past Due Loans	67,759	65,078
Higher-Risk Categories Defined by Agency	334,019	143,583
Collateralized Mortgage Marketable Securities	-	-
Securitization Exposures	-	-
Short-Term Claims on Banks and Corporate	-	-
Undertakings for Collective Investments in Transferable Securities	-	-
Other Claims	743,517	601,717

(*) Includes to risk amounts before credit risk mitigation but after credit conversions.

(Thousands of Turkish Lira (TL) unless otherwise stated)

Risk Profile According to the Geographical Concentration

		Risk Classifications*										Total
		Contingent and Non-Contingent Claims on Sovereigns	Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	Contingent and Non-Contingent Claims on Corporate Receivables	Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	Contingent and Non-Contingent Claims Secured by Residential Property	Past Due Loans	Higher-Risk Categories Defined by Agency	Other Claims	
	Current Period											
1	Domestic	5,678,069	29	20,631	864,489	10,099,830	4,579,143	5,470,902	67,759	318,082	743,515	27,842,449
2	EU countries	-	-	-	34,951	24,716	5,268	2,363	-	307	1	67,606
3	OECD countries **	-	-	-	6,543	781	85	419	-	-	-	7,828
4	Off-shore banking regions	-	-	-	-	4,827	-	-	-	-	-	4,827
5	USA, Canada	-	-	-	46,473	8	182	473	-	-	-	47,136
6	Other countries	-	-	-	40,093	79,350	4,276	3,249	-	15,630	1	142,599
7	Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-
8	Undistributed Assets / Liabilities***	-	-	-	-	-	-	-	-	-	-	-
9	**Total**	**5,678,069**	**29**	**20,631**	**992,549**	**10,209,512**	**4,588,954**	**5,477,406**	**67,759**	**334,019**	**743,517**	**28,112,445**
	Prior Period	-	-	-	-	-	-	-	-	-	-	-
1	Domestic	3,302,463	29	2,846	309,858	6,700,169	3,252,651	5,021,518	44,699	49,081	650,665	19,333,979
2	EU countries	-	-	-	131,225	4,540	289	3,434	-	-	938	140,426
3	OECD countries **	-	-	-	2,513	839	1	283	-	-	-	3,636
4	Off-shore banking regions	-	-	-	-	5,493	382	-	-	-	-	5,875
5	USA, Canada	-	-	-	41,908	-	33	-	-	-	4,573	46,514
6	Other countries	-	-	-	43,182	32,489	1,320	4,368	-	14,803	1	96,163
7	Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-
8	Undistributed Assets / Liabilities***	-	-	-	-	-	-	-	-	-	-	-
9	**Total**	**3,302,463**	**29**	**2,846**	**528,686**	**6,743,530**	**3,254,676**	**5,029,603**	**44,699**	**63,884**	**656,177**	**19,626,593**

* Risk classifications in the "Regulaton on Measurement and Evaluation of Capital Adequacy of Banks" will be used. Includes to risk amounts before credit risk mitigation but after credit conversions.

** OECD Countries other than EU countries, USA and Canada.

*** Includes assets and liabilities items that can not be allocated on a consistent basis.

(Thousands of Turkish Lira (TL) unless otherwise stated)

Risk profile by sectors or counterparties

		Risk Classifications*										TC	FC	Total
	Sectors/Counterparties	1	2	3	4	5	6	7	8	9	10			
1	**Agriculture**	**-**	**-**	**-**	**-**	**213,580**	**51,392**	**70,627**	**2,293**	**1,288**	**92**	**294,857**	**44,415**	**339,272**
1.1	Farming and Stockbreeding	-	-	-	-	213,580	51,392	70,627	2,293	1,288	92	294,857	44,415	339,272
1.2	Forestry	-	-	-	-	-	-	-	-	-	-	-	-	-
1.3	Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-
2	**Manufacturing**	**-**	**6**	**3,580**	**-**	**3,998,495**	**901,315**	**718,323**	**14,449**	**17,054**	**738**	**4,191,738**	**1,462,222**	**5,653,960**
2.1	Mining	-	6	14	-	257,565	25,213	21,953	49	51	40	272,372	32,519	304,891
2.2	Production	-	-	1,905	-	3,358,945	867,089	656,167	12,452	16,754	630	3,641,202	1,272,740	4,913,942
2.3	Electricity, Gas, Water	-	-	1,661	-	381,985	9,013	40,203	1,948	249	68	278,164	156,963	435,127
3	**Construction**	**-**	**-**	**769**	**-**	**1,695,589**	**581,718**	**1,036,130**	**19,003**	**1,507**	**1,155**	**3,003,600**	**332,271**	**3,335,871**
4	**Services**	**5,678,069**	**8**	**12,169**	**992,549**	**3,971,078**	**1,641,831**	**1,513,196**	**24,391**	**8,535**	**2,784**	**8,908,010**	**4,936,600**	**13,844,610**
4.1	Wholesale and Retail Trade	-	-	7	-	2,452,174	1,325,371	1,052,961	21,287	6,894	911	4,296,716	562,889	4,859,605
4.2	Hotel, Food and Beverage Services	-	-	-	-	146,510	22,938	116,857	475	194	184	153,774	133,384	287,158
4.3	Transportation and Telecommunication	-	-	-	-	552,309	97,512	91,009	1,017	228	177	542,352	199,900	742,252
4.4	Financial Institutions	5,678,069	-	-	992,549	41,989	4,179	3,801	-	283	1,264	2,764,424	3,957,710	6,722,134
4.5	Real Estate and Renting Services	-	8	32	-	625,641	144,184	156,506	1,273	849	210	846,489	82,214	928,703
4.6	"Self-Employment" Type Services	-	-	-	-	-	-	-	-	-	-	-	-	-
4.7	Educational Services	-	-	12,113	-	42,989	10,596	45,744	39	-	11	111,454	38	111,492
4.8	Health and Social Services	-	-	17	-	109,466	37,051	46,318	300	87	27	192,801	465	193,266
5	**Other**	**-**	**15**	**4,113**	**-**	**330,770**	**1,412,698**	**2,139,130**	**7,623**	**305,635**	**738,748**	**4,738,165**	**200,567**	**4,938,732**
6	**Total**	**5,678,069**	**29**	**20,631**	**992,549**	**10,209,512**	**4,588,954**	**5,477,406**	**67,759**	**334,019**	**743,517**	**21,136,370**	**6,976,075**	**28,112,445**

1-Contingent and Non-Contingent Claims on Sovereigns
2-Contingent and Non-Contingent Claims on Regional Governments and Local Authorities
3-Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises
4-Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary
5-Contingent and Non-Contingent Claims on Corporate Receivables
6-Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios
7-Contingent and Non-Contingent Claims Secured by Residential Property
8-Past Due Loans
9-Higher-Risk Categories Defined by Agency
10-Other Claims

* Risk classifications in the "Regulaton on Measurement and Evaluation of Capital Adequacy of Banks" will be used. Includes to risk amounts before credit risk mitigation but after credit conversions.

(Thousands of Turkish Lira (TL) unless otherwise stated)

Analysis of maturity-bearing exposures according to remaining maturities

	Risk Classifications*	Term To Maturity				
		Up to 1 Month	**1-3 Months**	**3-6 Months**	**6-12 Months**	**Over 1 Year**
1	Contingent and Non-Contingent Claims on Sovereigns	3,496,217	-	-	395,744	1,012,905
2	Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	-	-	8
3	Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	4,559	3	7	734	14,901
4	Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	11,968	2,299	-	1,281	22,533
5	Contingent and Non-Contingent Claims on Corporate Receivables	743,300	882,559	1,556,378	2,066,276	4,883,985
6	Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	495,587	468,908	685,473	873,817	1,940,544
7	Contingent and Non-Contingent Claims Secured by Residential Property	118,535	192,565	344,175	750,151	4,053,285
8	Past Due Loans	67,759	-	-	-	-
9	Higher-Risk Categories Defined by Agency	14,032	-	-	6,258	313,725
10	Other Claims	5,500	-	-	-	-
	TOTAL	**4,957,457**	**1,546,334**	**2,586,033**	**4,094,261**	**12,241,886**

(*) Includes to risk amounts before credit risk mitigation but after credit conversions.

Risk balances according to risk weights

	Risk Weights	0%	10%	20%	50%	75%	100%	150%	200%	250%	Deductions from the shareholders' equity
1	Pre-Amount of Credit Risk Mitigation	5,179,152	-	586,986	3,814,265	5,492,777	12,705,245	138,462	193,792	1,765	-
2	Amount after Credit Risk Mitigation	5,469,986	-	738,050	6,602,824	4,298,637	10,723,928	113,551	163,976	1,493	-

(Thousands of Turkish Lira (TL) unless otherwise stated)

Information by Major Sectors and Type of Counterparties:

Impaired Credits; are the credits that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such credits, "specific provisions" are allocated as per the Provisioning Regulation.

Past Due Credits; are the credits that overdue up to 90 days but not impaired. For such credits, "general provisions" are allocated as per the Provisioning Regulation.

	Major Sectors/Counterparties	Credits			
		Impaired Credits	Past Due Credits	Value Adjustments	Provisions
1	**Agriculture**	**11,698**	**7,535**	**2,572**	**5,275**
1.1	Farming and Stockbreeding	11,651	7,535	2,572	5,229
1.2	Forestry	34	-	-	33
1.3	Fishery	13	-	-	13
2	**Manufacturing**	**127,894**	**171,978**	**36,274**	**103,750**
2.1	Mining	1,312	6,694	2,525	1,199
2.2	Production	123,010	164,612	31,389	100,456
2.3	Electricity, Gas, Water	3,572	672	2,360	2,095
3	**Construction**	**82,930**	**119,008**	**20,290**	**57,637**
4	**Services**	**164,066**	**264,072**	**47,977**	**116,345**
4.1	Wholesale and Retail Trade	146,665	147,294	33,517	104,220
4.2	Hotel, Food and Beverage Services	1,738	8,738	1,401	981
4.3	Transportation and Telecommunication	4,876	70,936	5,163	3,624
4.4	Financial Institutions	2,338	23	1,011	2,311
4.5	Real Estate and Renting Services	6,689	32,444	4,774	3,892
4.6	"Self-Employment" Type Services	-	-	-	-
4.7	Educational Services	171	1,264	826	107
4.8	Health and Social Services	1,589	3,373	1,285	1,210
5	**Other**	**54,484**	**111,745**	**43,326**	**40,814**
6	**Total**	**441,072**	**674,338**	**150,439**	**323,821**

Information About Value Adjustments and Changes in the Loan Impairment:

		The opening balance	Provision amounts set aside during the period	The cancelation of the provisions (**)	Other adjustments (*)	Close out balance
1	Specific Provisions	261,548	166,147	(108,645)	4,771	323,821
2	General Provisions	139,804	13,349	(6,542)	3,828	150,439

(*) Determined according to exchange rate differences.

(**) The amount of TL 108,645 of the cancelation of the provisions include write off amounting to TL 53,432 and loans sold to asset management company amounting to TL 4,522.

(Thousands of Turkish Lira (TL) unless otherwise stated)

The credit quality of financial assets as of 31 December 2013 is as follows:

	Neither overdue nor impaired	Overdue and impaired	Total
Banks	4,635,667	-	4,635,667
Financial assets at fair value through profit and loss	46,669	-	46,669
Financial asset available for sale	1,408,649	-	1,408,649
Loans (*)	18,172,359	441,072	18,613,431
Corporate loans	6,431,976	192,451	6,624,427
Loans to SMEs	8,369,896	211,892	8,581,788
Consumer loans	3,370,487	36,729	3,407,216
Other	-	-	-
Total	24,263,344	441,072	24,704,416

(*) Leasing receivables are also included in loans.

The credit quality of financial assets as of 31 December 2012 is as follows:

	Neither overdue nor impaired	Overdue and impaired	Total
Banks	3,199,772	-	3,199,772
Financial assets at fair value through profit and loss	14,273	-	14,273
Financial asset available for sale	664,994	-	664,994
Loans (*)	12,971,058	358,259	13,329,317
Corporate loans	4,049,434	168,809	4,218,243
Loans to SMEs	6,522,522	169,004	6,691,526
Consumer loans	2,399,102	20,446	2,419,548
Other	-	-	-
Total	16,850,097	358,259	17,208,356

(*) Leasing receivables are also included in loans.

Information on Risk Classifications

Risk classifications of receivables from countries or central banks are regarded by grade of Fitch Ratings, global credit rating institution, whereas other institutions remaining outside of Fitch Ratings are subject to the credit ratings country risk classification issued by Organization of Economic Corporation and Development. In case credit rating grades of institutions like Standard & Poor’s (S&P), Moody’s and Fitch Ratings are available, grades are in use together. Corporate receivables from counterparties are settled abroad with other risk classes, corporate receivables from residents and receivables from banks are accepted as ‘’gradeless’’. Credit quality grades corresponding to score of Fitch Ratings, Moody’s and Standard &Poor’s are shown below.

(Thousands of Turkish Lira (TL) unless otherwise stated)

Ratings to be matched	Credit Quality Grade	Fitch	Moody's	S&P
Long term credit ratings	1	AAA to AA-	Aaa to Aa3	AAA to AA-
	2	A+ to A-	A1 to A3	A+ to A-
	3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
	4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
	5	B+ to B-	B1 to B3	B+ to B-
	6	CCC+ and below	Caa1 and below	CCC+ and below
Short term credit ratings	1	F1+ to FI	P-1	A-1+ to A-1
	2	F2	P-2	A-2
	3	F3	P-3	A-3
	4	below F3	NP	below A-3
	5	—	—	—
	6	—	—	—
Long term securitization positions ratings	1	AAA to AA-	Aaa to Aa3	AAA to AA-
	2	A+ to A-	A1 to A3	A+ to A-
	3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
	4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
	5	B+ and below	B1 and below	B+ and below
Short term securitization positions ratings	1	F1+ to F1	P-1	A-1+ to A-1
	2	F2	P-2	A-2
	3	F3	P-3	A-3
	Others	below F3	NP	below A-3
Match for collective investment undertakings	1	AAA to AA-	Aaa to Aa3	FCQR: AAAf to AA-f; PSFR: AAAm to AA-m
	2	A+ to A-	A1 to A3	FCQR: A+f to A-f; PSFR: A+m to A-m
	3	BBB+ to BBB-	Baa1 to Baa3	FCQR: BBB+f to BBB-f; PSFR: BBB+m to BBB-m
	4	BB+ to BB-	Ba1 to Ba3	FCQR:BB+f to BB-f; PSFR: BB+m to BB-m
	5	B+ to B-	B1 to B3	FCQR: B+f to B-f; PSFR: B+m to B-m
	6	CCC+ and below	Caa1 and below	FCQR: CCC+f and below; PSFR: CCC+m and below

FCQR: Fund Credit Quality Ratings.
PSFR: Principal Stability Fund Ratings.

Credit Rating System

The credit risk is assessed through the internal rating system of the Participation Bank. Credits listed from the best ratings (high) to the lowest degrees (below standard) presented below; also in the bottom of the table, non-performing loans (impaired loans) is presented.

Current period**	Historical Default Rates %	Total*
High	0.14%	15,637,688
Standard	0.53%	7,123,347
Below Standard	0.00%	7,904
Non-performing Loans	-	441,072
Not Graded	0.42%	4,307,559
Total		**27,517,570**

(*)The amounts comprise of loans, leasing receivables and commitments and contingencies.
(**)Default ratios are the rate of non-performing loans (impaired loans) in 2013 to loans given in 2013.

(Thousands of Turkish Lira (TL) unless otherwise stated)

The category "High" means that the borrower has a strong financial structure; the category "Standard" means that the borrower has a good and sufficient financial structure, and the category "Below Standard" means that the borrower's financial structure is under risk in the medium and short term.

Carrying values of rescheduled financial assets:

	Current Period	Prior Period
Banks	-	-
Financial assets at fair value through profit and loss	-	-
Loans	29,760	54,302
Corporate loans	8,449	25,922
Loans to SMEs	21,288	28,232
Consumer loans	23	148
Other	-	-
Total	**29,760**	**54,302**

III. Explanations and Disclosures Related to Consolidated Market Risk

The amount subject to market risk is calculated and reported with the Standard Method described in Article 2 of Section 2 of the Communiqué on "Measurement and Assessment of Banks' Capital Adequacy" published in the Official Gazette No: 28337 dated 28 June 2012. Market risk is measured on a monthly basis.

1.1 Information on the consolidated market risk

	Amount
(I) Capital requirement to be employed for general market risk - Standard method	1,394
(II) Capital requirement to be employed for specific risk - Standard method	-
(III) Standard method for specific risk of necessary capital requirement on securitization positions	-
(IV) Capital requirement to be employed for currency risk - Standard method	2,491
(V) Capital requirement to be employed for commodity risk - Standard method	2,029
(VI) Capital requirement to be employed for settlement risk - Standard method	-
(VII) Total capital requirement to be employed for market risk resulting from options–Standard method	-
(VIII) Counterparty credit risk capital requirement - Standard method	3,279
(IX) Total capital requirement to be employed for market risk in banks using risk measurement model	-
(X) Total capital requirement to be employed for market risk (I+II+III+IV+V+VI+VII+VIII)	9,194
(XI) Market Value at Risk (12,5 x IX) or (12,5 x X)	114,925

(Thousands of Turkish Lira (TL) unless otherwise stated)

1.2. Monthly average values at market risk

	Current Period			Prior Period		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest Rate Risk	796	1,394	263	512	840	249
Common Share Risk	-	-	-	2	18	-
Currency Risk	2,897	4,348	1,722	4,956	17,246	1,124
Stock Risk	2,120	2,406	1,646	1,513	1,999	1,084
Exchange Risk	-	-	-	-	-	-
Option Risk	-	-	-	-	-	-
Counterparty Credit Risk	1,552	3,664	496	1,319	2,492	665
Total Value at Risk	92,068	135,966	59,427	95,525	249,570	43,763

2. Quantitative information on counterparty risk

The Methods Related Credit Limits, Internal Capital Allocation and Distribution for Counterparty Risk

Credibility measure, limit allocation, the authorities and responsibilities of the users involved in the processes for transactions subjected to counterparty risk were determined in the bank's internal policies.

Within the scope of counterparty risk, the creditworthiness of customers are evaluated according to their ability in compliance with international and national legislations, the ratings taken from independent rating agencies, their operations, geographical regions and countries, the legislation, economic and social status of the region and countries as well as the customers financial information. Criterias which are regarding to transactions with customers according to considerations results (amount, maturity, exception etc.), are determined based on the rules of the Participation Bank's internal policies and processes.

Collaterals for transactions with customers related the counterparty credit risks, when necessary providing additional collaterals and also provision policies are assessed in the scope of the Participation Bank's credit policies.

The bank does not have a policy for opposite tendency risk mentioned in the Regulation on Measurement and Evaluation of Capital Adequacy of Banks Annex 2.

Positive fair value of agreements, benefits of netting off, netted current risk amount, indemnities and net derivative position

The counterparty risk of trading books for derivative financial instruments is calculated by fair use valuation method within the framework of Regulation on Measurement and Evaluation of Capital Adequacy of Banks in Annex-2. The renewal costs of contracts with positive values are determined by valuation based on the fair value of the contracts. Potential credit risk is calculated by multiplying credit conversion rates with contract amounts mentioned in the Regulation Annex-2. Total amount of counterparty risk is calculated by summing of the renewal costs of contracts with positive values and the potential credit risk of all contracts.

(Thousands of Turkish Lira (TL) unless otherwise stated)

Information About Counterparty Risk	**Balance**
Contracts based on Interest rate	-
Contracts based on currency	3,834,592
Contracts based on commodity	-
Contracts based on stocks	-
Other	-
Gross Positive Fair Value	46,668
Benefits of clarification	-
Clarified current risk amount	-
The securities which are held	-
The net position of derivatives	85,014

In the scope of trading books, there isn't any securement that is traded with loan derivatives, from the bank.

IV. Explanations and disclosures related to consolidated operational risk

The value at operational risk is calculated according to the basic indicator approach as per the Section 3 of "Regulation regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012. The value at operational risk used in the calculation of Capital Adequacy Standard Ratio is computed with the data dated 31 December 2012, 31 December 2011 and 31 December 2010.

	2 PP value (2009)	1 PP value (2010)	CP value (2011)	Total/ No. of Years of Positive Gross	Rate (%)	Total
Gross Income	634,453	758,123	982,944	791,840	15	118,776
Amount subject to operational risk (Total*12,5)					-	1,484,700

V. Explanations and Disclosures Related to Consolidated Currency Risk

Currency risk is included in foreign currency buying/selling portfolio so that how available position affects the general risk profile is calculated. Sensitivity analysis made by RMD results and stress tests are reported to top management.

The Group does not have any derivative instruments held for risk management as of 31 December 2013.

The Group centralized currency risk and ensured the managing and bearing of all currency risk by Fund Management. Other profit centers transfers the currency risk on them to Fund Management and the risk is followed in foreign currency buying/selling portfolio.

The Participation Bank efforts not to take short position based on the foreign currency risk. When any currency risk is occurred due to customer transactions, currency risk is eliminated by taking reverse position.

(Thousands of Turkish Lira (TL) unless otherwise stated)

Foreign exchange buying rates of the Parent Participation Bank at the date of the balance sheet and for the previous five working days are in the following table:

	EUR	USD
Buying Rate at Balance Sheet Date	2.9365	2.1343
December 31, 2013	2.9365	2.1343
December 30, 2013	2.9844	2.1604
December 27, 2013	2.8693	2.0957
December 26, 2013	2.8353	2.0710
December 25, 2013	2.8466	2.0812
December 24, 2013	2.8573	2.0877

The Parent Participation Bank's average foreign currency buying rate over a period of thirty days preceding the date of the financial statement is in the table below:

1 USD	2.0578	TL
1 EUR	2.8180	TL

Information on consolidated currency risk of the Group: Foreign Currencies (Thousand of TL)

	EUR	USD	Other FC	Total
Current Period				
Assets				
Cash and Balances with the Central Bank of Turkey	504,108	2,139,941	633,899	3,277,948
Banks	163,956	281,116	24,683	469,755
Financial Assets at Fair Value through Profit/Loss(****)	-	-	-	-
Money Market Placements	-	-	-	-
Financial Assets Available for Sale	151	345,567	-	345,718
Loans (*)	1,688,436	4,333,225	-	6,021,661
Investment in Associates, Subsidiaries and Jointly Controlled Entities (Joint Ventures)	-	-	-	-
Investments Held to Maturity	-	-	-	-
Derivative Financial Assets Held for Risk Management	-	-	-	-
Tangible Assets	-	-	-	-
Intangible Assets	-	-	-	-
Other Assets (**)	404,548	175,000	42	579,590
Total Assets	**2,761,199**	**7,274,849**	**658,624**	**10,694,672**
	-	-	-	-
Liabilities	-	-	-	-
Funds Collected from Banks Via Current and Profit Sharing Accounts	116,991	57,010	382	174,383
Current and Profit Sharing Accounts	1,616,526	3,023,737	685,094	5,325,357
Money Market Deposits	-	-	-	-
Funds Provided from Other Financial Institutions	242,241	3,688,374	-	3,930,615
Marketable Securities Issued	-	1,074,246	-	1,074,246
Miscellaneous Payables	29,608	81,336	87	111,031
Derivative Financial Liabilities Held for Risk Management	-	-	-	-
Other Liabilites (***)	25,135	44,704	516	70,355
Total Liabilities	**2,030,501**	**7,969,407**	**686,079**	**10,685,987**
	-	-	-	-
Net Balance Sheet Position	730,698	(694,558)	(27,455)	8,685
Net Off Balance Sheet Position	(732,883)	666,557	42,098	(24,228)
Financial Derivative Assets	583,662	1,989,956	332,471	2,906,089
Financial Derivative Liabilities	1,316,545	1,323,399	290,373	2,930,317
Non-Cash Loans(*****)	1,143,731	2,327,049	67,176	3,537,956

(Thousands of Turkish Lira (TL) unless otherwise stated)

	EUR	USD	Other FC	Total
Prior Period				
Total Assets	1,670,187	4,925,877	471,161	7,067,225
Total Liabilities	1,373,188	4,721,710	516,327	6,611,225
Net Balance Sheet Position	296,999	204,167	(45,166)	456,000
Net Off Balance Sheet Position	(299,330)	(226,196)	63,065	(462,461)
Financial Derivative Assets	275,339	595,969	123,781	995,089
Financial Derivative Liabilities	574,669	822,165	60,716	1,457,550
Non-Cash Loans(*****)	917,456	1,970,960	40,387	2,928,803

(*) Loans given includes foreign currency indexed loans (principle, exchange rate differences, rediscounts and accruals) given as foreign currency indexed but followed in TL accounts amounting to TL 5,105,392.
(**) Other assets comprise of receivables from leasing operations, sundry debtors and other assets. Besides, foreign currency indexed leasing receivables amounting to TL 566,319 and foreign currency indexed closely monitored loans amounting to TL 7,210 are included to other assets. Besides, prepaid expenses amounting to TL 554 is deducted from other assets.
(***) Other liabilities include general loan loss provision set for foreign currency denominated and foreign currency indexed loans amounting to TL 15,736. Accrual of derivative financial liabilities held for trading amounting to TL 16,798 is deducted from other liabilities.Besides, securities value increase fund amounting to TL 15,959 is added into other liabilities.
(****) Accrual of derivative financial assets held for trading amounting to TL 12,742 is deducted from financial assets at fair value through profit or loss.
(*****) No effect on net off balance sheet position.

Foreign currency sensitivity

The Bank is mainly exposed to USD and EUR currency risks.

The following table details the Participation Bank's sensitivity to a 10% change in the TL against USD and EUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. A positive number indicates an increase in profit or loss and other equity in the case of TL strengthens 10% against USD and EUR. This analysis has been prepared with the assumption that all other variables remain constant.

	Change in currency rate in %*	Effect on profit / (loss)		Effect on equity	
		Current Period	Prior Period	Current Period	Prior Period
USD	10%	(2,800)	(2,203)	(2,800)	(2,203)
EUR	10%	(219)	(233)	(219)	(233)
Other FC	10%	1,464	1,790	1,464	1,790

(*) Includes the profit / (loss) effect in the case of a change for 10% in currency rates.

VI. Explanations and disclosures related to consolidated interest rate risk

Since the Participation Bank has interest-free banking operations, it does not have any interest sensitive asset or liability and consequently, it does not have any interest rate risk.

(Thousands of Turkish Lira (TL) unless otherwise stated)

VII. Explanations and Disclosures Related to Equity Position Risk due from Consolidated Banking Book

Comparison of carrying, fair value and market value of shares is stated below:

		Comparison		
	Invesment in Shares	**Carrying Value**	**Fair Value**	**Market Value**
1	**Securities Avaible-for-Sale**	**4,376**	**-**	**-**
	Quoted Securities	-	-	-
2	**Associates**	**-**	**-**	**-**
	Quoted Securities	-	-	-
3	**Subsidiaries**	**-**	**-**	**-**
	Quoted Securities	-	-	-

VIII. Explanations and Disclosures Related to Consolidated Liquidity Risk

The TL and FC liquidity need of the Group is met by the funds collected, when needed, certain amount of funds from abroad are used via syndication loans. The Participation Bank's cash inflows mainly come from profit share income and commissions earned from non-cash loans whereas the cash outflows mainly consist of profit share expenses given to the collected funds and operational expenses. Main reason of the liquidity risk is funding long-term assets with short-term resources. The Group uses its liquidity in foreign investments for one or two weeks in order to maintain regular cash inflows and collects loan installments monthly. Procedures for liquidity risk method and urgent action plan are available for the Group.

The ratios of liquid assets to total assets and liquid assets to funds collected are 24.87% (31 December 2012: 22.68%) and 41.28% (31 December 2012: 34.95%) respectively. Cash demands occurred in every maturity segment are determined via maturity dispersion (Gap) analysis. It is enforced to have short term liquid assets and long term liabilities. As of 31 December 2013 it is seen that 15.27% of total assets are in cash and cash equivalents (31 December 2012: 16%) and 3.80% of total assets are in banks (31 December 2012: 2.82%) in financial statements.

Condensation of funds collected to one month predominantly and having long term loans perceived as a threat as in the general conditions of Turkish banking system. In order to decrease related risk to minimum, the Participation Bank enforces to be liquid in up to one month group.

As per the BRSA Communiqué, "Measurement and Assessment of the Adequacy of Banks' Liquidity", the weekly (7 days) and monthly (31 days) liquidity ratios on a bank-only basis for foreign currency assets/liabilities and total assets/liabilities should be minimum 80% and 100%, respectively. The liquidity ratios of the years 2013 are as follows:

Current Period	**First Maturity Bracket (Weekly)**		**Second Maturity Bracket (Monthly)**	
	FC	**FC + TL**	**FC**	**FC + TL**
Average (%)	184.49	152.35	137.84	117.70
Maximum (%)	266.48	190.69	158.22	135.70
Minimum (%)	110.83	104.75	110.52	103.51

(Thousands of Turkish Lira (TL) unless otherwise stated)

Presentation of assets and liabilities according to their remaining maturities

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and over	Unallocated(*)	Total
Current Period								
Assets								
Cash and Balances with the Central Bank of Turkey	3,836,254	-	-	-	-	-	-	**3,836,254**
Banks and Other Financial Institutions	954,203	-	-	-	-	-	-	**954,203**
Financial Assets at Fair Value through Profit/Loss	-	32,040	9,731	4,898	-	-	-	**46,669**
Money Market Placements	-	-	-	-	-	-	-	**-**
Financial Assets Available for Sale	4,376	-	-	395,745	1,012,904	-	-	**1,413,025**
Loans	-	2,189,870	2,805,009	6,527,657	5,293,126	515,048	-	**17,330,710**
Investments Held to Maturity	-	-	-	-	-	-	-	**-**
Other Assets(**)	289,639	23,777	43,789	198,565	562,005	13,513	414,430	**1,545,718**
Total Assets	**5,084,472**	**2,245,687**	**2,858,529**	**7,126,865**	**6,868,035**	**528,561**	**414,430**	**25,126,579**
	-	-	-	-	-	-	-	**-**
Liabilities	-	-	-	-	-	-	-	**-**
Funds Collected from Banks via Current and Profit Sharing Accounts	12,066	337,053	1,498	-	-	-	-	**350,617**
Current and Profit Sharing Accounts	3,428,303	8,185,399	1,871,688	1,214,126	91,547	-	-	**14,791,063**
Funds Provided from Other Financial Institutions	-	220,645	544,607	1,398,207	1,928,303	-	-	**4,091,762**
Money Market Deposits	-	721,560	-	-	-	-	-	**721,560**
Marketable Securities Issued	-	-	-	-	1,074,246	-	-	**1,074,246**
Miscellaneous Payables	543,859	91,104	-	-	-	-	-	**634,963**
Other Liabilities(***)	549,275	45,829	31,120	3,474	-	-	2,832,670	**3,462,368**
Total Liabilites	**4,533,503**	**9,601,590**	**2,448,913**	**2,615,807**	**3,094,096**	**-**	**2,832,670**	**25,126,579**
Liquidity Gap	550,969	(7,355,903)	409,616	4,511,058	3,773,939	528,561	(2,418,240)	**-**
Prior Period	-	-	-	-	-	-	-	**-**
Total Assets	3,626,827	1,804,158	2,295,695	4,810,747	4,263,556	476,169	339,352	**17,616,504**
Total Liabilities	3,693,759	5,149,442	1,986,188	3,203,720	1,203,646	-	2,379,749	**17,616,504**
Liquidity Gap	(66,932)	(3,345,284)	309,507	1,607,027	3,059,910	476,169	(2,040,397)	**-**

(*)Certain assets in the balance sheet that are necessary for the banking operations but cannot be readily convertible into cash in the near future such as tangible assets, investments in associates and subsidiaries, stationary supplies, prepaid expenses and non-performing loans are included in this column.
(**)Other assets include net finance lease receivables amounting to TL 841,649 and non-performing loans (net) amounting to TL 117,251.
(***)Shareholders' equity and provisions is included in "other liabilities" line under "unallocated" column.

Analysis of financial liabilities based on the remaining contractual maturities:

The table below is drawn up based on the undiscounted contractual maturities and earliest payment dates of the financial liabilities. Profit share expenses to be paid on such liabilities are included in this table "Adjustments" column is the difference between the balance sheet values and undiscounted values of financial liabilities. These items are not included in the balance sheet value of such financial liabilities.

(Thousands of Turkish Lira (TL) unless otherwise stated)

Current Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Adjustments	Total
Funds Collected from Banks Via Profit Sharing Accounts	12,066	337,053	1,498	-	-	-	-	350,617
Other Profit Sharing Accounts	3,428,303	8,185,399	1,871,688	1,214,126	91,547	-	-	14,791,063
Funds Provided from Other Financial Institutions	-	221,588	564,962	1,465,900	3,082,491	-	(168,933)	5,166,008
Miscellaneous Payables	-	721,560	-	-	-	-	-	721,560
Other Liabilities	543,874	91,104	-	-	-	-	-	634,978
	224,706	-	-	-	-	-	-	224,706
Total	**4,208,949**	**9,556,704**	**2,438,148**	**2,680,026**	**3,174,038**	**-**	**(168,933)**	**21,888,932**

Prior Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Adjustments	Total
Funds Collected from Banks Via Profit Sharing Accounts	3,978	58,091	182,507	121,112	-	-	-	365,688
Other Profit Sharing Accounts	2,523,831	4,911,037	1,512,399	2,017,996	98,585	-	-	11,063,848
Funds Provided from Other Financial Institutions	-	67,805	284,200	1,092,091	1,189,281	-	(129,434)	2,503,943
Miscellaneous Payables	492,853	85,887	-	-	-	-	-	578,740
Other Liabilities	302,050	-	-	-	-	-	-	302,050
	-	-	-	-	-	-	-	-
Total	**3,322,712**	**5,122,820**	**1,979,106**	**3,231,199**	**1,287,866**	**-**	**(129,434)**	**14,814,269**

(Thousands of Turkish Lira (TL) unless otherwise stated)

Maturity analysis of conditioned liabilities and commitments is as follows:

Current Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Guarantees and Collaterals	2,706,414	1,190,773	788,461	1,345,119	2,654,675	218,697	8,904,139
Irrevocable Commitments	1,816,836	505,334	12,875	27,562	153	-	2,362,760
Forward asset purchase and sale commitments	-	492,668	-	-	-	-	492,668
Share capital commitments to associates and subsidiaries	-	1,744	2,506	12,768	-	-	17,018
Commitments for cheque payments	1,109,434	-	-	-	-	-	1,109,434
Tax and fund obligations on export commitments	-	1,262	131	487	153	-	2,033
Commitments for credit card limits	706,334	-	-	-	-	-	706,334
Commitments for credit cards and banking services promotions	1,068	-	-	-	-	-	1,068
Other irrevocable commitments	-	9,660	10,238	14,307	-	-	34,205
Revocable Commitments	-	-	-	-	-	-	-
Revocable loan allocation commitments	-	-	-	-	-	-	-
Forward foreign currency buy/sell transactions	-	5,722,240	1,051,437	361,176	-	-	7,134,853
Forward foreign currency transactions-buy	-	2,809,786	423,341	126,898	-	-	3,360,025
Forward foreign currency transactions-sell	-	2,689,385	529,231	180,275	-	-	3,398,891
Other forward foreign currency buy/sell transactions	-	223,069	98,865	54,003	-	-	375,937
Total	**4,523,250**	**7,418,347**	**1,852,773**	**1,733,857**	**2,654,828**	**218,697**	**18,401,752**

(Thousands of Turkish Lira (TL) unless otherwise stated)

Prior Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Guarantees and Collaterals	2,273,619	1,049,468	705,206	1,878,163	1,082,494	119,747	7,108,697
Irrevocable Commitments	1,529,682	302,455	29,152	1,253	1,030	1	1,863,573
Forward asset purchase and sale commitments	-	301,633	-	-	-	-	301,633
Share capital commitments to associates and subsidiaries	-	-	-	-	-	-	-
Commitments for cheque payments	1,066,949	-	-	-	-	-	1,066,949
Tax and fund obligations on export commitments	-	188	504	1,253	1,030	1	2,976
Commitments for credit card limits	461,707	-	-	-	-	-	461,707
Commitments for credit cards and banking services promotions	1,026	-	-	-	-	-	1,026
Other irrevocable commitments	-	634	28,648	-	-	-	29,282
Revocable Commitments	-	-	-	-	-	-	-
Revocable loan allocation commitments	-	-	-	-	-	-	-
Forward foreign currency buy/sell	-	2,650,740	265,932	221,246	-	-	3,137,918
Forward foreign currency transactions-buy	-	1,296,164	102,399	111,016	-	-	1,509,579
Forward foreign currency transactions-sell	-	1,287,935	163,533	110,230	-	-	1,561,698
Other forward foreign currency buy/sell transactions	-	66,641	-	-	-	-	66,641
Total	**3,803,301**	**4,002,663**	**1,000,290**	**2,100,662**	**1,083,524**	**119,748**	**12,110,188**

IX. Explanations and Disclosures Related to Consolidated Securitization Position

The Group has not securitization position.

X. Explanations and Disclosures Related to Consolidated Credit Risk Mitigation Techniques

The Group applies credit risk mitigation according to simple method that includes risk mitigation calculations considering the volatility-adjusted values of financial colleterals in compliance with the article 33 of the “Regulation on Credit Risk Mitigation Techniques”.

The risk mitigators that are used in credit process are stated below:

• Financial Colleterals(Cash or equivalent and high quality credit level had debt instruments)

• Guarantees

• Mortgage (In the implementation of the Basel II, although, risk mortgage loans evaluated as a class, in terms of valuation methods and concentrations they are also given in this section).

The value of mortgage is being revalued during the credit period. Only Treasury and the Banks’ guarantees are taken into account as risk mitigation within the framework of BRSA regulations. Besides, the credibility of Group is reviewed periodically.

There is no on-balance sheet netting and special netting agreement.

(Thousands of Turkish Lira (TL) unless otherwise stated)

Risk Classifications	Amount(*)	Financial Collaterals	Other/Physical Collaterals	Guarantees and credit derivatives
Contingent and Non-Contingent Claims on Sovereigns	5,678,069	721,184	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	124	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-Commercial Enterprises	30,659	666	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	994,144	-	-	-
Contingent and Non-Contingent Claims on Corporate Receivables	13,130,969	345,193	-	-
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	6,530,146	222,440	-	-
Contingent and Non-Contingent Claims Secured by Residential Property	5,906,349	-	-	-
Past Due Loans	67,759	72	-	-
Higher-Risk Categories Defined by Agency	334,036	3,414	-	-
Collateralized Mortgage Marketable Securities	-	-	-	-
Securitization Exposures	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-
Other Claims	743,517	174	-	-

(*)Includes total risk amounts before the effect of credit risk mitigation but after credit conversions.

XI. Explanations and Disclosures Related to Consolidated Risk Management Target and Policies

The risk measurement, description and following activities are being carried out by the Risk Management Department which reports to Audit Committee directly.

Risk Management Department consists of Risk Policy and Reporting and Risk Analysis Management.

The storage of the datas, analysis and measurement of risks, the results of analysis and monitor activities of compliance with limit and criteria which is determined due to the cre dit policy of the Parent Participation Bank's credit risk from banking book is regularly reported to the Board of Directors, the audit committee and the management by the Risk Management Department. The following of compliance and focusing of the limit of country, products, customer, maturity and sector has been carried out periodically.

The analysis about under close monitoring and non-performing loans and receivables is being made in order to provide suggestions to the Board of Directors, the audit committee and the management for risk factors on market, sector, customer, products and application process of internal banking.

In the scope of the assessment process of the Group, specifically developed and designed risk assessment and measurement systems are in use according to credit types of Bank portfolio and also these systems have been monitored, validated and taken actions if the improvement is necessary.

To ensure that credit risk exposure arising from personal loans and credit cards is measured reliably and effectively, policy- and rule-based decision support systems are consistently employed, as are a variety of portfolio-specific, statistics-based scoring models that have been developed. In the scope of these systems, avaiable fund amounts and credit card limits are determined by systemically applied policies with rating of customer's risk and calculating of ability to pay.

In the case of loans made to small-business, commercial, and corporate customers, credit risk quantification and grading employs rating models which are both sector-appropriate and international standard-compliant and which make use of portfolio-specific statistical methods. These rating models generate not only individual customers' ratings but also provide estimates of a customer's probability of default (PD).

In addition to these rating models, small-business, commercial, and corporate customer credit risk measurement and grading also involve the use of a suite of target market and risk acceptance criteria that make it possible to make judgments about individual customers' ratings based on their sector and appetite for risk.

The risk exposure of the credit portfolio of the Participation Bank in the negative economic circumstances proactively managed by estimating via scenario analysis and stress tests. Besides, product risk analysis is made with calculating the exposure of the new products on the Participation Bank's credit portfolio and financial structure.

The Board of Directors, the audit committee and the management of the Participation Bank are informed by the Risk Management Department monthly and quarterly about the quality of credit portfolio, statistics, eye catching fluctuations and compliance with the credit policies and the reports in which these analysis are took part in with the calculation, analysis and monitor activities; and thus, the required update on credit policies and processes are made after the evaluation of these results.

Market risk factors and its effects are measured and regularly reported to BRSA in the Group. The market risks are measured and reported with the standard method including trading accounts according to the "Comminuque on Measurement and Assessment of Capital Adequacy Ratios of Banks".

In addition, Internal Capital Adequacy Assessment Process (ICAAP) studies related to end of 2012 are completed on June 2013 approved by Board of Directors and delivered to relevant legal authorities.

Risk mitigating cautions are applied while managing the foreign exchange position with defining the trading of foreign exchange, stop loss and position limits. The risk calculation of specified limits, monitor the consistency of limits, control and reporting are performed by the Risk Management Department.

The Group apply some strategies in order to mitigate liquidity risk such as diversification of funding sources, obtaining funds with a longer term and catching the maturity match between the assets and liabilities.

Risk Management Department created some methodologies and methods to measure, analysis, report and manage the liquidity risk.

The liquidity position is analyzed by preparing the tables for the maximum cumulative cash outflows of all balance sheet items subject to liquidity risk according to their maturities. In addition, the measurement of liquidity ratios is calculated and evaluated on a monthly basis in the meetings of Asset/Liability Committee.

The stress tests are performed to calculate the liquidity risk of the Group.

The liquidity risk management and emergency plan in which the actions and the cautions defined with their priorities are built in case of any liquidity congestion results from the Participation Bank or market.

The Parent Participation Bank adopts a risk terminology which is in accordance with Basel II in order to create an international approach on Operational Risk Management. This common risk language provides a consistent view and communication about operational risk throughout the Parent Participation Bank. A software is used in order to support the standard framework for the management of operational risk by creating the data house for risk losses and reporting and analyzing of the mentioned data.

(Thousands of Turkish Lira (TL) unless otherwise stated)

The Parent Participant Bank performs necessary works for buying customary insurance policy in the sector with the aim of transfering loss and deficiency that existing as a result of operational risks, out of the bank.

Within the context of the "Regulation of Acquiring Support Services of Banks", for the support services acquired by the Parent Participant Bank , after the reports about the services and the provider prepared by the business units that acquired the service, are studied to have a Risk Point of View and presented to the Audit Commitee.

The Risk Control Evaluation (RCE) is performed periodically in the Parent Participation Bank as a basic principle of the Basel II Operational Risk implementations. It is aimed with RCE to restrict the operational risk effects by investigating the business processes subject to operational risk and performing controls by the process owners. In the departments where RCE study is implemented, 'Key Risk Indicators' and the threshold value for the mentioned risk points are determined.

Besides, in consequence of the Capital Adequacy Measurement and Reporting Project, it has been ensured that a flexible parametric model that shall be in compliance with legal framework changes has been built, a reporting infrastructure that is in accordance with Basel II standards has been created, stress tests to the capital adequacy related risks has been applied and current system infrastructure is still being used.

XII. Explanations and disclosures related to fair values of consolidated financial assets and liabilities

The table below shows the carrying value and the fair value of financial assets and liabilities of the Participation Bank:

	Carrying value		Fair value	
	Current	**Prior Period**	**Current**	**Prior Period**
Financial Assets	**20,539,587**	**14,133,201**	**20,435,721**	**14,405,770**
Equity Securities	-	-	-	-
Banks (*)	954,203	497,028	954,203	497,028
Financial Assets Available For Sale	1,413,025	665,115	1,413,025	665,115
Loans (**)	18,172,359	12,971,058	18,068,493	13,243,627
Financial Liabilities	**20,942,651**	**14,512,219**	**20,928,723**	**14,500,755**
Funds Collected from Banks Via Current and Profit Sharing Accounts (***)	350,617	365,688	350,617	365,688
Current and Profit Sharing Accounts (****)	14,791,063	11,063,848	14,791,063	11,063,848
Funds Provided from Other Financial Institutions	4,091,762	2,503,943	4,075,644	2,492,479
Marketable Securities Issued	1,074,246	-	1,076,436	-
Miscellaneous Payables	634,963	578,740	634,963	578,740

(*) Because due from banks are demand deposits, their carrying value and fair value is the same.
(**)In order to calculate the fair value of loans, current profit sharing rates are used as of the balance sheet date. Loan balance also includes finance lease receivables.
(***)Carrying value of the funds collected funds collected from banks via current and profit sharing accounts and current and profit sharing accounts equals to their fair value as it is revalued with the year end unit value.
(****)Loan rates that valued as balance sheet date are used for fair value calculation of funds that provided by other financial corporation.

(Thousands of Turkish Lira (TL) unless otherwise stated)

The table below analyses financial instruments carried at fair value, by valuation method:

Current Period	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets Available for Sale	-	1,408,649	-	1,408,649
Financial Assets Held for Trading	-	198	-	198
Derivative Financial Assets Held for Trading	-	46,471	-	46,471
Financial Assets at Fair Value	**-**	**1,455,318**	**-**	**1,455,318**
Financial Liabilities Held for Trading	-	39,140	-	39,140
Derivative Financial Liabilities Held for Trading	-	39,140	-	39,140

Prior Period	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets Available for Sale	-	664,994	-	664,994
Financial Assets Held for Trading	-	183	-	183
Derivative Financial Assets Held for Trading	-	14,090	-	14,090
Financial Assets at Fair Value	**-**	**679,267**	**-**	**679,267**
Financial Liabilities Held for Trading	-	8,577	-	8,577
Derivative Financial Liabilities Held for Trading	**-**	**8,577**	**-**	**8,577**

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs)

Observable market prices such as the marketable security prices which are announced by CBRT and the prices obtained from foreign capital markets are used for fair value determination of financial assets and liabilities measured at fair value except derivative assets and derivative liabilities held for trading. The similar ratios announced in the capital markets are used for discounting the contractual prices of derivative financial assets and derivative financial liabilities for fair value determination.

XIII. Transactions carried out on behalf of customers, items held in trust

The Group does not provide buying, selling and custody services and management and financial advisory services in the name of the third parties. The Group is not involved in trust activities.

(Thousands of Turkish Lira (TL) unless otherwise stated)

SECTION FIVE

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS

I. Explanations Related to the Assets of Consolidated Financial Statements

1. Cash and Central Bank of Turkey:

1.1. Information on Cash and Central Bank of Turkey:

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash	89,017	60,628	73,962	27,629
Central Bank of Turkey	469,277	3,212,187	399,574	2,303,169
Others	12	5,133	130	13,704
Total	**558,306**	**3,277,948**	**473,666**	**2,344,502**

1.2. Information on Balances with the Central Bank of Turkey

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted Demand Deposit	467,739	305,464	399,574	601,641
Unrestricted Time Deposit	-	-	-	-
Restricted Time Deposit	1,538	-	-	-
Others (*)	-	2,906,723	-	1,701,528
Total	**469,277**	**3,212,187**	**399,574**	**2,303,169**

(*) Reserve deposits that are kept as blockage in CBTR for foreign currency liabilities. The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in TL and USD or EUR at the rates of 6% and 11%, respectively as per the Communiqué no.2005/1 "Reserve Deposits" of the Central Bank of Turkey. After the change in communiqué reserve ratio for Turkish Lira liabilities has been changed to between 5% and 13% according to the maturity of the liabilities and it has been taken into consideration as of the report date.

2. Information on Financial Assets at Fair Value through Profit and Loss

The other security line in the amount of TL 198 refers to fair value of spot derivative transactions of the Group, accounted based on the settlement date, between the trade date and the balance sheet date (31 December 2012: TL 183).

2.1. Information on Financial Assets at Fair Value through Profit and Loss, Which are Given as Collateral or Blocked

None (31 December 2012: None).

2.2. Information on Financial Assets at Fair Value through Profit and Loss, Which are Subject to Repurchase Agreements

None (31 December 2012: None).

2.3. Positive Differences Related to Derivative Financial Assets Held-for-Trading

Financial Derivative Assets Held	Current Period		Prior Period	
for Trading	TL	FC	TL	FC
Forward Transactions	33,288	9,512	4,514	6,697
Swap Transactions	505	3,166	1,884	995
Futures Transactions	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-
Total	**33,793**	**12,678**	**6,398**	**7,692**

(Thousands of Turkish Lira (TL) unless otherwise stated)

3. Information on Banks

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	484,411	379,715	106,033	201,277
Foreign	37	90,040	515	189,203
Branches and Head Offices Abroad	-	-	-	-
Total	**484,448**	**469,755**	**106,548**	**390,480**

	Unrestricted Balances		Restricted Balances	
	Current Period	Prior Period	Current Period	Prior Period
EU Countries	34,952	130,991	-	-
USA and Canada	46,472	41,908	-	-
OECD Countries*	5,194	2,470	-	-
Off-Shore Banking Regions	350	-	-	-
Other	3,109	14,349	-	-
Total	**90,077**	**189,718**	**-**	**-**

* OECD countries other than the EU countries, USA and Canada

4. Information on Financial Assets Available for Sale

	Current Period	Prior Period
Debt Securities	1,408,649	664,994
Quoted on a Stock Exchange	-	-
Not Quoted (*)	1,408,649	664,994
Share Certificates	4,376	121
Quoted on a Stock Exchange	-	-
Not Quoted (**)	4,376	121
Impairment Provision(-)	-	-
Other	-	-
Total	**1,413,025**	**665,115**

(*) Although the related debt securities are quoted on a Stock Exchange, they have been presented as not quoted since the market transactions are not deep enough as of balance sheet date.
(**) In the current period, Kredi Garanti Fonu amounting to TL 4,211 is presented in the not quoted line.

As of 31 December 2013, the Group's "financial assets available-for-sale" portfolio includes the rent certificate at a total face value of TL 1,427,083 (31 December 2012: TL 591,642), a total carrying value amounting to TL 1,408,649 (31 December 2012: TL 608,156) which is issued by Republic of Turkey Undersecretariat of Treasury.

4.1. Available-for-Sale Financial Assets Blocked/Given As Collateral or Subject to Repurchase Agreements

As of 31 December 2013, available-for-sale financial assets blocked/given as collateral or subject to repurchase agreements are amounting to TL 415,930 (31 December 2012: None).

4.2. Information on Financial Assets Available for Sale, Which are Subject to Repurchase Agreements

As of 31 December 2013, information on financial assets available for sale, which are subject to repurchase agreements are amounting to TL 724,055 (31 December 2012: None).

(Thousands of Turkish Lira (TL) unless otherwise stated)

5. Information Related to Loans

5.1. Information on All Types of Loans and Advances Given to Shareholders and Employees of the Participation Bank

	Current Period		Prior Period	
	Cash	Non-cash	Cash	Non-cash
Direct Loans Granted to Shareholders	105	33,432	703	74,320
Corporate Shareholders	-	22,534	-	74,317
Real Person Shareholders	105	10,898	703	3
Indirect Loans Granted to Shareholders	-	-	-	-
Loans Granted to Employees	15,367	-	12,720	-
Total	**15,472**	**33,432**	**13,423**	**74,320**

5.2. Information about the First And Second Group Loans and Other Receivables Including Loans That Have Been Restructured or Rescheduled

	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
	Loans and Other Receivables	Amendments on Conditions of Contract		Loans and Other Receivables	Amendments on Conditions of Contract	
		Amendments related to the extension of the payment plan	Other		Amendments related to the extension of the payment plan	Other
Cash Loans	16,656,372	52,914	12,713	674,338	217,484	17,047
Export Loans	765,904	-	-	2,435	-	-
Import Loans	-	-	-	-	-	-
Business Loans	12,583,292	50,376	12,697	592,428	215,836	17,040
Consumer Loans	2,945,865	2,538	16	64,512	1,648	7
Credit Cards	349,118	-	-	10,992	-	-
Loans Given to Financial Sector	10,672	-	-	-	-	-
Other	1,521	-	-	3,971	-	-
Other Receivables	**-**	**-**	**-**	**-**	**-**	**-**
Total	**16,656,372**	**52,914**	**12,713**	**674,338**	**217,484**	**17,047**

The loans for which the amendments related to the extension of the payment plan made according to article 4 of first clause (a) and (b) of "Regulation on Procedures and Principles Determination of Qualifications of Loans and Other Receivables by Banks and Provision" are stated below as of 31 December 2013.

	Number of amendments related to the extension of the payment plan	
	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
Extended for 1 or 2 times	52,914	214,990
Extended for 3,4 or 5 times	-	2,494
Extended for more than 5 times	-	-

(Thousands of Turkish Lira (TL) unless otherwise stated)

The time extended via the amendment on payment plan	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
0-6 Months	19,860	4,731
6-12 Months	13,286	30,551
1-2 Years	8,955	76,371
2-5 Years	10,813	105,634
5 Years and More	-	197

According to article 5 of regulation on procedures and principles for determination of qualifications of loans and other receivables by banks and provision, there is no restructured loan as of 31 December 2013.

According to article 6 of regulation on procedures and principles for determination of qualifications of loans and other receivables by banks and provision, there are thirteen restructured loans as of 31 December 2013. The maturity date of these loans were rolled over 368-1,123 days.

5.3. Maturity Analysis of Cash Loans

	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring	
	Loans and Other Receivables	Restructured or Rescheduled	Loans and Other Receivables	Restructured or Rescheduled
Short-Term Loans and Other Receivables	**4,557,861**	**-**	**104,190**	**-**
Loans	4,557,861	-	104,190	-
Other Receivables	-	-	-	-
	-	-	-	-
Medium and Long-Term Loans and Other Receivables	**12,085,798**	**12,713**	**553,101**	**17,047**
Loans	12,085,798	12,713	553,101	17,047
Other Receivables	-	-	-	-

5.4. Collaterals Received for Loans and Other Receivables under Close Monitoring

	Current Period	**Prior Period**
Cash	23,365	13,656
Mortgages	437,055	222,029
Pledged Assets	35,501	10,631
Cheques and Notes	68,704	35,743
Other Collaterals	2,528	2,126
Unsecured Loans	121,513	42,863
Total	**688,666**	**327,048**

(Thousands of Turkish Lira (TL) unless otherwise stated)

5.5. Information on Consumer Loans, Individual Credit Cards, Personnel Loans and Personnel Credit Cards

	Short Term	Medium and Long Term	Total
Consumer Loans - TL	**33,507**	**2,964,235**	**2,997,742**
Real Estate Loans	9,611	2,625,421	2,635,032
Auto Loans	11,479	232,534	244,013
General Purpose Consumer Loans	1,418	30,459	31,877
Other	10,999	75,821	86,820
Consumer Loans - FC Indexed	**-**	**6,101**	**6,101**
Real Estate Loans	-	6,101	6,101
Auto Loans	-	-	-
General Purpose Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans - FC	**-**	**-**	**-**
Real Estate Loans	-	-	-
Auto Loans	-	-	-
General Purpose Consumer Loans	-	-	-
Other	-	-	-
Individual Credit Cards - TL	**272,616**	**14,395**	**287,011**
With Instalment	119,546	14,395	133,941
Without Instalment	153,070	-	153,070
Individual Credit Cards - FC	**-**	**-**	**-**
With Instalment	-	-	-
Without Instalment	-	-	-
Personnel Loans -TL	**661**	**5,874**	**6,535**
Real Estate Loans	-	397	397
Auto Loans	313	2,804	3,117
General Purpose Consumer Loans	43	564	607
Other	305	2,109	2,414
Personnel Loans - FC Indexed	**-**	**-**	**-**
Real Estate Loans	-	-	-
Auto Loans	-	-	-
General Purpose Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans - FC	**-**	**-**	**-**
Real Estate Loans	-	-	-
Auto Loans	-	-	-
General Purpose Consumer Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	**8,752**	**80**	**8,832**
With Instalment	4,211	80	4,291
Without Instalment	4,541	-	4,541

	Short Term	Medium and Long Term	Total
Personnel Credit Cards - FC	**-**	**-**	**-**
With Instalment	-	-	-
Without Instalment	-	-	-
Overdraft Accounts - TL (real persons)	-	-	-
Overdraft Accounts - FC (real persons)	-	-	-
Total	**315,536**	**2,990,685**	**3,306,221**

(Thousands of Turkish Lira (TL) unless otherwise stated)

5.6. Installment Based Commercial Loans and Corporate Credit Cards

	Short Term	Medium and Long Term	Total
Commercial Loans with Instalment-TL	**83,567**	**747,535**	**831,102**
Business Loans	9,678	607,737	617,415
Auto Loans	3,579	123,870	127,449
General Purpose Consumer Loans	304	15,344	15,648
Other	70,006	584	70,590
Commercial Loans with Instalment - FC Indexed	**-**	**36,184**	**36,184**
Business Loans	-	30,729	30,729
Auto Loans	-	281	281
General Purpose Consumer Loans	-	2,627	2,627
Other	-	2,547	2,547
Commercial Loans with Instalments - FC	**-**	**-**	**-**
Business Loans	-	-	-
Auto Loans	-	-	-
General Purpose Consumer Loans	-	-	-
Other	-	-	-
Corporate Credit Cards-TL	**53,512**	**10,755**	**64,267**
With Instalment	3,688	10,755	14,443
Without Instalment	49,824	-	49,824
Corporate Credit Cards-FC	**-**	**-**	**-**
With Instalment	-	-	-
Without Instalment	-	-	-
Overdraft Accounts - TL (corporate)	-	-	-
Overdraft Accounts - FC (corporate)	-	-	-
Total	**137,079**	**794,474**	**931,553**

5.7. Loan Distribution According to Borrowers

	Current Period	Prior Period
Public Sector	-	-
Private Sector	17,330,710	12,666,689
Total	**17,330,710**	**12,666,689**

5.8. International and Domestic Loans

	Current Period	Prior Period
Domestic Loans	17,166,355	12,600,567
International Loans	164,355	66,122
Total	**17,330,710**	**12,666,689**

5.9. Loans Granted to Subsidiaries and Participations

None (31 December 2012: None).

(Thousands of Turkish Lira (TL) unless otherwise stated)

5.10. Specific Provisions Provided Against Loans

	Current Period	Prior Period
Loans and Receivables with Limited Collectibility	18,759	32,090
Loans and Receivables with Doubtful Collectibility	61,163	51,129
Uncollectible Loans and Receivables	243,899	178,329
Total	**323,821**	**261,548**

5.11. Information on Non-Performing Loans (Net)

5.11.1. Information on Loans and Other Receivables Included in Loans under Follow-Up Account, Which are Restructured or Rescheduled

None (31 December 2012: None).

5.11.2. Information of Movements of Loans

	Group III	Group IV	Group V
	Loans and Receivables with Limited Collectibility	Loans and Receivables with Doubtful Collectibility	Uncollectible Loans and Receivables
Prior Period Ending Balance	58,550	83,736	215,973
Additions (+)	231,980	6,181	15,403
Transfers from Other Categories of Non- performing Loans(+)	-	217,815	173,793
Transfers to Other Categories of Non-performing Loans (-)	(217,815)	(173,793)	-
Collections (-)	(35,768)	(25,788)	(51,241)
Write-offs (-) (*)	-	(4,524)	(53,430)
Corporate and Commercial Loans	-	(4,524)	(52,244)
Retail Loans	-	-	(827)
Credit Cards	-	-	(359)
Other	-	-	-
Current Period Ending Balance	36,947	103,627	300,498
Specific Provisions (-)	(18,759)	(61,163)	(243,899)
Net Balance on Balance Sheet	18,188	42,464	56,599

(*) The Participation Bank has sold its non performing loans portfolio part of TL 4,522 on 25 October 2013 with amount of TL 425 to RTC Yönetim Varlık A.Ş.

(Thousands of Turkish Lira (TL) unless otherwise stated)

5.11.3. Information on Foreign Currency Loans and Other Receivables Included in Loans under Follow-Up Account

	Group III Loans and Receivables with Limited Collectibility	Group IV Loans and Receivables with Doubtful Collectibility	Group V Uncollectible Loans and Receivables
Current Period:			
Period Ending Balance	-	4,114	5,763
Specific Provisions (-)	-	(2,214)	(4,964)
Net Balance on Balance Sheet	-	1,900	799
Prior Period:	**-**	**-**	**-**
Prior Period Ending Balance	-	181	5580
Specific Provisions (-)	-	(45)	(2,523)
Net Balance on Balance Sheet	-	136	3,057

5.11.4. Information on Gross and Net Non-Performing Loans and Receivables as per Customer Categories:

	Group III Loans and Receivables with Limited Collectibility	Group IV Loans and Receivables with Doubtful Collectibility	Group V Uncollectible Loans and Receivables
Current Period (Net)	**18,188**	**42,464**	**56,599**
Loans to Individuals and Corporates (Gross)	36,848	103,464	296,739
Specific Provisions (-)	(18,684)	(61,067)	(240,345)
Loans to Individuals and Corporates (Net)	18,164	42,397	56,394
Banks (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Banks (Net)	-	-	-
Others Loans and Receivables (Gross)	99	163	3,759
Specific Provisions (-)	(75)	(96)	(3,554)
Other Loans and Receivables (Net)	24	67	205
Prior Period (Net)	**26,460**	**32,607**	**37,644**
Loans to Individuals and Corporates (Gross)	58,467	83,665	212,310
Specific Provisions (-)	(32,043)	(51,086)	(174,837)
Loans to Individuals and Corporates (Net)	26,424	32,579	37,473
Banks (Gross)	-	-	-
Specific Provisions (-)	-	-	-
Banks (Net)	-	-	-
Others Loans and Receivables (Gross)	83	71	3,663
Specific Provisions (-)	(47)	(43)	(3,492)
Others Loans and Receivables (Net)	36	28	171

(Thousands of Turkish Lira (TL) unless otherwise stated)

5.11.5. Collaterals Received for Non-Performing Loans

	Current Period	Prior Period
Cash	1,925	1,234
Mortgages	153,917	150,780
Pledged Assets	22,977	16,593
Cheques and Notes	59,650	21,194
Other Collaterals	10,500	8,186
Unsecured Loans	192,103	160,272
Total	**441,072**	**358,259**

5.11.6.Non-Performing Loans and Main Guidelines of Liquidation Process for Loans and Receivables

Related loans are classified as non-performing loans as per “Determining the Nature of Loan and Other Receivable Provisions Allocated by Banks and Procedures and Principles of Allocating Provisions” which was published in the Official Gazette No: 26333 on November 1, 2006.

5.11.7.Explanation on “Write-off” Policies

The loans and receivables whose collections are considered to be definitely uncollectible are collected by legal proceedings and encashing the guarantees or written-off by the decision of the Participation Bank’s management pursuant to the requirements in outstanding Turkish Tax Procedures Code. TL 57,954 (31 December 2012: TL 35,184) deletion from assets on the current period.

5.12 Other Explanation and Disclosures

Aging analysis of past due but not impaired loans per classes of financial statements is stated as below:

Current Period(*)	0-30 Days	31-60 Days	61-90 Days	Total
Loans and Receivables				
Commercial Loans	15,875	12,465	5,965	34,305
SME Loans	11,301	8,875	3,858	24,034
Consumer Loans	1,839	4,618	2,893	9,350
Total	**29,015**	**25,958**	**12,716**	**67,689**

(*)Only past due loans are presented and the principals of unpaid loans.

Prior Period(*)	0-30 Days	31-60 Days	61-90 Days	Total
Loans and Receivables				
Commercial Loans	13,825	2,768	1,672	18,265
SME Loans	15,180	8,124	5,637	28,941
Consumer Loans	17,183	5,581	2,555	25,319
Total	**46,188**	**16,473**	**9,864**	**72,525**

(*) Only past due loans are presented and the principals of unpaid loans.

6. Investments Held-to-Maturity (Net)

None (31 December 2012: None).

7. Information on Associates (Net)

None (31 December 2012: TL 4,211).

(Thousands of Turkish Lira (TL) unless otherwise stated)

8. Information on Subsidiaries (Net)

According to a decision of the Parent Participation Bank's Board of Directors on 22 October 2012, asset rent company was established purposing rent certificate issues with the capital TL 50. Asset rent company named TF Varlık Kiralama A.Ş. was established with the authorizations of Banking Regulation and Supervision Agency dated 20 December 2012, Capital Markets Board dated 8 February 2013 and Ministry of Customs and Trade dated 11 February 2013.

Information on Consolidated Subsidiaries (Net)

	Subsidiaries	Address (City/ Country)	Bank's Share – If Different, Voting Rights (%)	Bank's Risk Group Share (%)
	TF Varlık Kiralama A.Ş.	İstanbul / Türkiye	100.00	-

	Total Assets	Shareholders' Equity	Total Fixed Assets	Interest Income	Income on Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss	Company's Fair Value
1	1,231,979	50	-	-	-	-	-	-

9. Information on Entities under Common Control

None (31 December 2012: None).

10. Information on Finance Lease Receivables

10.1. Presentation of Finance Lease Investments According to Their Remaining Maturities

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Up to 1 year	306,164	266,131	117,864	101,137
1-4 Years	605,449	526,282	221,988	190,483
More Than 4 Years	56,642	49,236	14,858	12,749
Total	**968,255**	**841,649**	**354,710**	**304,369**

10.2. Financial Information on Net Investments Made in Finance Lease

	Current Period	Prior Period
Gross Finance Lease Receivables	968,255	354,710
Income Earned from Other Operations apart from Finance Lease (-)	(126,606)	(50,341)
Written off leasing amounts	-	-
Total	**841,649**	**304,369**

10.3. General Information on Criteria Used in Determination of Contingent Lease Installments, If Any, Updates About Available Situations and Contract Amounts Related to Renewal or Purchase Options and Constraints due to Leasing Contracts, Any Past Due Situations, Renewal of Contracts, If Renewaled, Conditions on It, Any Matter Caused to Constraints and Other Important Issues Related to Finance Lease Contracts

Finance lease contracts are realized in consistent with the Financial Leasing, Factoring And Financing Companies Law Nr. 6361. There is not any constraint due to finance lease contracts or any renewal that affects consolidated financial statements. (31 December 2012: None)

11. Derivative Financial Assets Held for Risk Management

None (31 December 2012: None).

(Thousands of Turkish Lira (TL) unless otherwise stated)

12. Information on Tangible Assets

	Buildings	Leased Tangible Assets	Other Tangible Assets	Total
Cost				
Opening Balance	115,150	6,979	181,848	303,977
Movements in the Current Period	-	(1,197)	35,522	34,325
Additions	-	-	41,010	41,010
Disposals	-	-	(6,685)	(6,685)
Transfers	-	(1,197)	1,197	-
Impairments (Losses) / Reversals	-	-	-	-
Value Increase	-	-	-	-
Ending Balance	**115,150**	**5,782**	**217,370**	**338,302**
	-	-	-	-
Accumulated Depreciation	-	-	-	-
Opening Balance	(1,913)	(6,923)	(98,524)	(107,360)
Accumulated Depreciation Reversals	-	-	-	-
Movements in the Current Period	(375)	1,141	(20,019)	(19,253)
Depreciation Expense	(375)	(56)	(25,228)	(25,659)
Value Increase	-	-	-	-
Transfers	-	1,197	(1,197)	-
Disposals	-	-	6,406	6,406
Ending Balance	**(2,288)**	**(5,782)**	**(118,543)**	**(126,613)**
Prior Period Net Book Value	**113,237**	**56**	**83,324**	**196,617**
Current Period Net Book Value	**112,862**	**-**	**98,827**	**211,689**

13. Information on Intangible Assets

13.1. Useful Life or Depreciation Rates Used

It is explained in the footnote numbered XI in the Section 3.

13.2. Depreciation Methods Used for Intangible Assets

Intangible assets are depreciated by straight-line depreciation method.

(Thousands of Turkish Lira (TL) unless otherwise stated)

13.3. Movement Table Between the Current and Prior Period

	Intangible Assets
Cost	
Opening Balance	47,818
Movements in the Current Period	30,006
- Additions	30,006
- Disposals (-)	-
-Transfers	-
- Impairment	-
- Value Increase	-
Ending Balance	**77,824**
	-
Accumulated Depreciation	-
Opening Balance	(28,937)
Movements in the Current Period	(11,738)
- Depreciation Expense (-)	(11,738)
- Value Increase	-
- Disposals	-
Ending Balance	**(40,675)**
Prior Period Net Book Value	**18,881**
Current Period Net Book Value	**37,149**

14. Information on Investment Property

None (31 December 2012: None).

15. Explanations Related to the Deferred Tax Asset

The Group is calculated deferred tax liability amounting to TL 16,731 (31 December 2012: TL 14,374) from the difference between book values of assets and liabilities, and the tax based amounts which are going to be added to the financial profit or loss in the following periods. The Participation Bank net-off calculated deferred tax asset amounting to TL 39,380 (31 December 2012: TL 25,489) and deferred tax liability, and booked deferred tax asset amounting to TL 22,649 in the current period (31 December 2012: TL 11,115).

	Current Period	
	Deferred Tax Base Amount	**Deferred Tax Asset / (Liability)**
Retirement Pay Provisions	34,060	6,812
Short-Term Employee Benefits	11,597	2,319
Credit Card Promotion Provision	1,880	376
Provision Expense for Law Suits	7,664	1,533
Fair Value Valuation Differences	636	127
Loan Accrual Differences	38	8
Fair Value Differences of Derivative Financial Instruments	(8,165)	(1,633)
Fixed Asset Depreciation Difference	(45,533)	(9,107)
Revaluation Surplus on Tangible Assets	(23,583)	(4,717)
Rediscounts of Commission	104,813	20,963
Other	29,842	5,968
Deferred Tax Asset (net)		**22,649**

(Thousands of Turkish Lira (TL) unless otherwise stated)

	Prior Period	
	Deferred Tax Base Amount	**Deferred Tax Asset / (Liability)**
Retirement Pay Provisions	15,824	3,165
Short-Term Employee Benefits	11,378	2,276
Credit Card Promotion Provision	1,333	267
Provision Expense for Law Suits	4,913	983
Fair Value Valuation Differences	(81)	(16)
Loan Accrual Differences	(167)	(33)
Fair Value Differences of Derivative Financial Instruments	(5,615)	(1,123)
Fixed Asset Depreciation Difference	(26,031)	(5,206)
Revaluation Surplus on Tangible Assets	(23,583)	(4,717)
Rediscounts of Commission	85,588	17,118
Other	(7,993)	(1,599)
Deferred Tax Asset (net)	**-**	**11,115**

Movement of the deferred tax asset is stated as below:

	Current Period	**Prior Period**
As of January 1	11,115	16,661
Current Period Income/(Expense)	(2,516)	507
Effect of the Change in Tax Rate	(214)	-
Deferred Tax Accounted for Under Equity	14,264	(6,053)
Deferred Tax Asset	**22,649**	**11,115**

16. Information on Assets Held for Sale

As of 31 December 2013, information on assets held for sale is amounting to TL 67 (31 December 2012: None).

17. Information on Other Assets

Other assets do not exceed 10% of total assets as of 31 December 2013 and 31 December 2012.

(Thousands of Turkish Lira (TL) unless otherwise stated)

II. Explanations Related to the Liabilities of Consolidated Financial Statements

1. Information on funds collected

1.1. The Maturity Structure of Funds Collected

Current Period	Demand	Up to 1 Month	Up to 3 Month	Up to 6 Month	Up to 9 Months	Up to 1 Year	1 Year and Over	Accumulated Profit Sharing Accounts	Total
I. Real Persons Current Accounts-TL	894,578	-	-	-	-	-	-	-	**894,578**
II. Real Persons Profit Sharing Accounts-TL	-	2,489,240	2,401,698	108,147	-	108,118	610,879	-	**5,718,082**
III. Other Current Accounts-TL	1,229,559	-	-	-	-	-	-	-	**1,229,559**
Public Sector	4,434	-	-	-	-	-	-	-	**4,434**
Commercial Sector	1,193,408	-	-	-	-	-	-	-	**1,193,408**
Other Institiutions	31,212	-	-	-	-	-	-	-	**31,212**
Commercial and Other Institutionals	262	-	-	-	-	-	-	-	**262**
Banks and Finance Houses	243	-	-	-	-	-	-	-	**243**
Central Bank of Turkey	-	-	-	-	-	-	-	-	**-**
Domestic Banks	-	-	-	-	-	-	-	-	**-**
Foreign Banks	221	-	-	-	-	-	-	-	**221**
Bank	22	-	-	-	-	-	-	-	**22**
Other	-	-	-	-	-	-	-	-	**-**
IV. Profit Sharing Accounts-TL	-	415,479	1,212,122	18,973	-	42,125	111,022	-	**1,799,721**
Public Sector	-	89	38	-	-	-	-	-	**127**
Commercial Sector	-	357,893	916,802	10,547	-	39,920	106,203	-	**1,431,365**
Other Institiutions	-	57,497	119,290	8,426	-	2,205	4,819	-	**192,237**
Commercial and Other Institutionals	-	-	1	-	-	-	-	-	**1**
Banks	-	-	175,991	-	-	-	-	-	**175,991**
V. Real Persons Current Accounts-FC	373,888	-	-	-	-	-	-	-	**373,888**
VI. Real Persons Profit Sharing Accounts-FC	-	945,547	902,863	72,182	-	124,642	353,457	-	**2,398,691**
VII. Other Current Accounts-FC	537,777	-	-	-	-	-	-	-	**537,777**
Commercial Residents in Turkey	507,193	-	-	-	-	-	-	-	**507,193**
Commerical Residents in Abroad	18,761	-	-	-	-	-	-	-	**18,761**
Banks	11,823	-	-	-	-	-	-	-	**11,823**
Central Bank of Turkey	-	-	-	-	-	-	-	-	**-**
Domestic Banks	-	-	-	-	-	-	-	-	**-**
Foreign Banks	1,022	-	-	-	-	-	-	-	**1,022**
Banks	10,801	-	-	-	-	-	-	-	**10,801**
Other	-	-	-	-	-	-	-	-	**-**
VIII. Profit Sharing Accounts Other-FC	-	298,526	837,857	203,236	-	71,563	119,196	-	**1,530,378**
Public Sector	-	-	-	-	-	-	-	-	**-**
Commercial Sector	-	157,989	738,973	4,390	-	60,422	56,190	-	**1,017,964**
Other Institiutions	-	6,245	6,811	75,363	-	149	2,065	-	**90,633**
Commercial and Other Institutionals	-	2,594	62,695	121,999	-	10,992	60,941	-	**259,221**
Banks and Participation Banks	-	131,698	29,378	1,484	-	-	-	-	**162,560**
IX.Precious Metal Accounts	404,567	-	7,212	239,325	-	7,902	-	-	**659,006**
X. Profit Sharing Accounts Special Fund Pools-TL	-	-	-	-	-	-	-	-	**-**
Residents in Turkey	-	-	-	-	-	-	-	-	**-**
Residents in Abroad	-	-	-	-	-	-	-	-	**-**
XI. Profit Sharing Accounts Special Fund Pools.-FC	-	-	-	-	-	-	-	-	**-**
Residents in Turkey	-	-	-	-	-	-	-	-	**-**
Residents in Abroad	-	-	-	-	-	-	-	-	**-**
Total (I+II+…..+IX+X+XI)	**3,440,369**	**4,148,792**	**5,361,752**	**641,863**	**-**	**354,350**	**1,194,554**	**-**	**15,141,680**

(Thousands of Turkish Lira (TL) unless otherwise stated)

Prior Period	Demand	Up to 1 Month	Up to 3 Months	Up to 6 Months	Up to 9 Months	Up to 1 Year	1Year and Over	Accumulated Profit Sharing Accounts	**Total**
I. Real Persons Current Accounts-TL	580,048	-	-	-	-	-	-	-	**580,048**
II. Real Persons Profit Sharing Accounts-TL	-	2,001,737	1,188,873	151,363	-	88,314	1,371,042	-	**4,801,329**
III. Other Current Accounts-TL	722,622	-	-	-	-	-	-	-	**722,622**
Public Sector	27,264	-	-	-	-	-	-	-	**27,264**
Commercial Sector	674,869	-	-	-	-	-	-	-	**674,869**
Other Institiutions	20,217	-	-	-	-	-	-	-	**20,217**
Commercial and Other Institutionals	164	-	-	-	-	-	-	-	**164**
Banks and Finance Houses	108	-	-	-	-	-	-	-	**108**
Central Bank of Turkey	-	-	-	-	-	-	-	-	**-**
Domestic Banks	-	-	-	-	-	-	-	-	**-**
Foreign Banks	52	-	-	-	-	-	-	-	**52**
Bank	56	-	-	-	-	-	-	-	**56**
Other	-	-	-	-	-	-	-	-	**-**
IV. Profit Sharing Accounts-TL	-	242,437	624,589	155,468	-	37,278	281,001	-	**1,340,773**
Public Sector	-	151	74	-	-	-	-	-	**225**
Commercial Sector	-	218,777	386,813	30,186	-	37,133	267,783	-	**940,692**
Other Institiutions	-	23,393	55,640	4,170	-	145	13,218	-	**96,566**
Commercial and Other Institutionals	-	61	-	-	-	-	-	-	**61**
Banks	-	55	182,062	121,112	-	-	-	-	**303,229**
V. Real Persons Current Accounts-FC	286,509	-	-	-	-	-	-	-	**286,509**
VI. Real Persons Profit Sharing Accounts-FC	-	789,256	552,410	63,253	-	154,624	450,286	-	**2,009,829**
VII. Other Current Accounts-FC	456,597	-	-	-	-	-	-	-	**456,597**
Commercial Residents in Turkey	430,135	-	-	-	-	-	-	-	**430,135**
Commercial Residents in Abroad	22,592	-	-	-	-	-	-	-	**22,592**
Banks	3,870	-	-	-	-	-	-	-	**3,870**
Central Bank of Turkey	-	-	-	-	-	-	-	-	**-**
Domestic Banks	-	-	-	-	-	-	-	-	**-**
Foreign Banks	534	-	-	-	-	-	-	-	**534**
Banks	3,336	-	-	-	-	-	-	-	**3,336**
Other	-	-	-	-	-	-	-	-	**-**
VIII. Profit Sharing Accounts Other-FC	-	280,645	259,840	17,552	-	21,703	145,829	-	**725,569**
Public Sector	-	11	-	-	-	-	-	-	**11**
Commercial Sector	-	127,884	193,769	5,074	-	172	142,964	-	**469,863**
Other Institutionals	-	2,060	8,346	-	-	6	2,865	-	**13,277**
Commercial and Other Institutionals	-	92,654	57,280	12,478	-	21,525	-	-	**183,937**
Banks and Participation Banks	-	58,036	445	-	-	-	-	-	**58,481**
IX.Precious Metal Accounts	482,033	-	12,322	11,876	-	29	-	-	**506,260**
X. Profit Sharing Accounts Special Fund Pools-TL	-	-	-	-	-	-	-	-	**-**
Residents in Turkey	-	-	-	-	-	-	-	-	**-**
Residents in Abroad	-	-	-	-	-	-	-	-	**-**
XI. Profit Sharing Accounts Special Fund Pools-FC	-	-	-	-	-	-	-	-	**-**
Residents in Turkey	-	-	-	-	-	-	-	-	**-**
Residents in Abroad	-	-	-	-	-	-	-	-	**-**
Total (I+II+…..+IX+X+XI)	**2,527,809**	**3,314,075**	**2,638,034**	**399,512**	**-**	**301,948**	**2,248,158**	**-**	**11,429,536**

(Thousands of Turkish Lira (TL) unless otherwise stated)

1.2 Current and Participation Accounts Attributable to Real Entities/Persons under the Guarantee of Saving Deposit Insurance Fund Exceeding the Limit of the Deposit Insurance Fund

	Under the Guarantee of insurance		Exceeding the Limit of insurance	
	Current Period	Prior Period	Current Period	Prior Period
Real Persons Current and Profit Sharing Accounts that are not Subject to the Commercial Activities	**5,172,050**	**3,399,951**	**4,794,572**	**4,711,264**
TL Accounts	3,829,189	2,510,748	2,740,294	2,827,133
FC Accounts	1,342,861	889,203	2,054,278	1,884,131
Foreign Branches' Deposits Under Foriegn Authorities' Insurance	-	-	-	-
Off-Shore Banking Regions' Deposits Under Foreign Authorities' Insurance	-	-	-	-

Guarantee of Deposit Insurance Fund changed insurance amount from TL 50 to TL 100 on the "Regulation On Deposits and Participation Funds Subject to Insurance and Premiums Collected by Savings Deposit Insurance Fund" dated 15 February 2013.

1.3 Current and Profit Sharing Accounts which are not Under the Guarantee of Deposit Insurance Fund

	Current Period	Prior Period
Foreign Branches' Profit Share Funds and Other Accounts	-	-
Profit Sharing Accounts and Other Accounts held by Shareholders and Their Relatives	-	-
Profit Sharing Accounts and Other Accounts of the Chairman and Board of Directors, Chief Executive Officer, Senior Executive Officers and Their Relatives	45,898	49,969
Profit Sharing Accounts and Other Accounts Held as Assets Subject to the Crime defined in the Article 282 of the Turkish Criminal Code No. 5237 dated 26/9/2004	-	-
Off Shore banking Regions' Profit Sharing Accounts	-	-

1.4. Information on the Current and Profit Sharing Accounts of the Participation Bank with Head Office Abroad, if the Saving Deposits in the Branches of the Parent Participation Bank Located in Turkey are Under the Guarantee of Saving Deposit Insurance in that Country Abroad

The center of the Parent Participation Bank is in Turkey and under the guarantee of Saving Deposits Insurance Fund of Turkey.

1.5. Current and Profit Sharing Accounts which are not Under the Guarantee of Deposit Insurance Fund

Total of current and profit sharing accounts which are not under the guarantee of Deposit Insurance Fund is TL 45,898 (31 December 2012: TL 49,969).

(Thousands of Turkish Lira (TL) unless otherwise stated)

2. Negative Differences on Derivative Financial Liabilities Held for Trading

	Current Period		Prior Period	
Derivative Financial Liabilities Held for Trading	TL	FC	TL	FC
Forward Transaction	21,646	2,679	2,777	2,236
Swap Transaction	-	13,981	3,340	122
Future	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-
Total	**21,646**	**16,660**	**6,117**	**2,358**

3. Information on Borrowings

3.1 Information on Banks and Other Financial Institutions

	Current Period		Prior Period	
	TL	FC	TL	FC
Funds Borrowed from the Central Bank of Turkey	-	-	-	-
Funds Borrowed from Domestic Banks and Institutions	-	65,047	-	7,130
Funds Borrowed from Foreign Banks, Institutions and Funds	161,147	3,865,568	-	2,496,813
Total	**161,147**	**3,930,615**	**-**	**2,503,943**

3.2 Maturity Analysis of Funds Borrowed

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-Term	-	2,163,459	-	1,398,882
Medium and Long-Term	161,147	1,767,156	-	1,105,061
Total	**161,147**	**3,930,615**	**-**	**2,503,943**

4. Information on Securities Issued

	Current Period		Prior Period	
	TL	FC	TL	FC
Rent Certificates	-	1,074,246	-	-
Total	**-**	**1,074,246**	**-**	**-**

5. Other Liabilities Exceeding 10% of the Balance Sheet Total and the Breakdown of Such Liabilities Constituting at Least 20% of the Grand Total

Other liabilities do not exceed 10% of total liabilities as of 31 December 2013 and 31 December 2012.

6. Information on Finance Lease Payables (net)

6.1. The General Explanations on Criteria Used in Determining Installments of Financial Lease Agreements, Renewal and Purchasing Options and Restrictions in the Agreements that Create Significant Obligations to the Participation Bank

None (31 December 2012: None).

6.2. The Explanation on Modifications in Agreements and New Obligations Resulting from such Modifications

None (31 December 2012: None).

7. Information on Derivative Financial Liabilities Held for Risk Management

None (31 December 2012: None).

(Thousands of Turkish Lira (TL) unless otherwise stated)

8. Information on Provisions

8.1. Information on General Provisions

	Current Period	Prior Period
General Provisions	150,439	139,804
Provision for Group 1. Loans and Receivables	114,838	115,487
Profit Sharing Accounts' Share	49,199	50,344
The Bank's Share	65,639	65,143
Other	-	-
Additional provisions for Group 1. loans with extended payment plan	1,888	2,046
Profit Sharing Accounts' Share	404	783
The Bank's Share	1,484	1,263
Other	-	-
Provision for Group 2. Loans and Receivables	20,225	9,211
Profit Sharing Accounts' Share	7,290	3,598
The Bank's Share	12,935	5,613
Other	-	-
Additional provisions for Group 2. loans with extended payment plan	7,476	3,241
Profit Sharing Accounts' Share	2,644	1,402
The Bank's Share	4,832	1,839
Other	-	-
Provision for Non Cash Loans	15,376	15,106
Other	-	-

8.2. Information on Foreign Exchange Losses on the Foreign Currency Indexed Loans and Finance Lease Receivables

Foreign exchange differences on foreign currency indexed loans amounting to TL 764 are netted with loans on the asset side as of balance sheet date (31 December 2012: TL 31,606).

8.3. Information on Employee Termination Benefits

The Participation Bank's provision amount for unused vacation is TL 11,597 (31 December 2012: TL 11,378), provision amount for performance premium is TL 24,454 (31 December 2012: TL 19,443) and provision amount for severance indemnities is TL 34,060 (31 December 2012: TL 15,824) as of 31 December 2013.

Employee Termination Movement Statements

	Current Period	**Prior Period**
As of 1 January 2013	15,824	11,460
Current Service Cost	2,317	1,896
Profit share cost	1,127	971
Actuarial profit/loss (*)	16,702	2,978
Accounted profit/loss	1,297	1,860
Indemnity paid during the period	(3,207)	(3,341)
Total severance obligation	**34,060**	**15,824**

(*) Actuarial losses of employee termination benefits amount to TL 16,702 are accounted under other capital reserves net amount to TL 13,362 which is net off deferred tax amount to TL 3,340.

(Thousands of Turkish Lira (TL) unless otherwise stated)

8.4. Information on Other Provisions

8.4.1 Information on Provisions for possible risks

None (31 December 2012: None).

8.4.2. Other Provisions Exceeding 10% of Total Provisions and Name, Amount and Breakdown of Such Provisions

	Current Period	Prior Period
Specific Provision for Cheques	18,647	24,977
Specific Provision for Non Cash Loans not Indemnified or not Converted into Cash	33,108	26,398
Provision for Lawsuits against Participation Bank	7,664	4,913
Provision for Decrease in Value Spot Derivative Transactions	834	102
Provision for Profits will be Allocated to Partipation Accounts (*)	27,606	10,415
Provision for Credit Cards Promotion Commitments	1,880	1,333
Total	**89,739**	**68,138**

(*) According to article 14 of regulation on procedures and principles for determination of qualifications of loans and other receivables and provision by banks, the amount is reserved to use for general loan loss provision, specific provisions and the Participation Accounts allocated to premium of Guarantee of Deposit Insurance Fund.

9. Information on Tax Liability

9.1. Explanations Related to Current Tax Liability

9.1.1. Information on Tax Provision

The Participation Bank has corporate tax liability amounting to TL 80,719 (31 December 2012: TL 78,760) and prepaid tax amounting to TL 67,679 (31 December 2012: TL 59,391) as of 31 December 2013. The remaining corporate tax liability after the deduction of the prepaid tax amount is reflected to financial statements.

9.1.2. Information on Taxes Payable

	Current Period	Prior Period
Corporate Tax Payables	13,039	19,369
Tax on Securities Income	7,453	6,807
Tax on Real Estate Income	713	562
Banking Insurance Transaction Tax	8,924	6,124
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payables	1,598	1,137
Other	5,312	4,667
Total	**37,039**	**38,666**

(Thousands of Turkish Lira (TL) unless otherwise stated)

9.1.3. Information on Premiums

	Current Period	Prior Period
Social Security Premiums-Employees	2,193	1,900
Social Security Premiums-Employer	2,363	1,922
Bank Pension Fund Premiums- Employees	-	-
Bank Pension Fund Premiums- Employer	-	-
Pension Fund Membership Fees and Provisions- Employees	-	-
Pension Fund Membership Fees and Provisions- Employers	-	-
Unemployement Insurance- Employees	157	136
Unemployement Insurance- Employer	313	271
Other	52	69
Total	**5,078**	**4,298**

9.2. Information on Deferred Tax Liabilities

None (31 December 2012: None).

10. Information on Liabilities Regarding Assets Held for Sale and Discontinued Operations

None (31 December 2012: None).

11. Information on Subordinated Loans

None (31 December 2012: None).

12. Information on Shareholders' Equity

12.1. Presentation of Paid-in Capital

	Current Period	Prior Period
Common Stock	1,775,000	1,650,000
Preferred Stock	-	-

12.2. Paid-in Capital Amount, Explanation as to Whether the Registered Share Capital System is Applicable at Participation Bank if so Amount of Registered Share Capital Ceiling

Registered share capital system is not applied in Participation Bank.

12.2.1. Information on Share Capital Increases and Their Sources; Other Information on Increased Capital Shares in Current Period

During the current period Participation Bank increased its capital total amounting to TL 125.000. (2012: total amounting to TL 850.000 consisting of amounting TL 150,000 paid in cash and amounting to TL 700,000 from general reserve).

12.2.2. Information on Capital Reserves Transferred to the Capital During the Period

During the current period Participation Bank didn't transfer any capital reserves to the capital (31 December 2012: 700,000 TL).

No balance has been added to capital reserves from revaluation fund in the current period (31 December 2012: None).

12.2.3. Capital Commitments in the Last Fiscal Year and at the end of the Following Interim Period, the General Purpose of These Commitments and Projected Resources Required Meeting These Commitments

None (31 December 2012: 125,000 TL).

(Thousands of Turkish Lira (TL) unless otherwise stated)

12.3. Indicators of the Participation Bank's Income, Profitability and Liquidity for the Previous Periods and Possible Effects of These Future Assumptions on the Participation Bank's Equity Due to the Uncertainty of These Indicators

None (31 December 2012: None).

12.4. Information on Preferred Shares

None (31 December 2012: None).

12.5. Information on Securities Value Increase Fund

	Current Period		Prior Period	
	TL	FC	TL	FC
Securities Available for Sale	(20,836)	(15,959)	6,916	(15)
Valuation Differences	(20,836)	(15,959)	6,916	(15)
Exchange Rate Differences	-	-	-	-
Total	**(20,836)**	**(15,959)**	**6,916**	**(15)**

12.6. Other Information on Shareholders' Equity

By a decision taken in the Participation Bank's General Assembly dated 28 March 2013, the profit of the year 2012 that is amounting to TL 283,573 was transferred to statutory reserves and extraordinary reserves amounting to TL 14,153 and TL 269,420 respectively.

III. Explanations Related to the Consolidated Off-Balance Sheet Items

1. Information on Off-Balance Sheet Liabilities

1.1. Types and Amounts of Irrevocable Loan Commitments

	Current Period	Prior Period
Asset purchase-sale commitments	492,668	301,633
Commitments for Subsidiaries and Affiliates	17,018	-
Commitments for Check Payments	1,109,434	1,066,949
Tax and Fund Liabilities from Export Commitments	2,033	2,976
Commitments for Credit Card Expenditure Limits	706,334	461,707
Commitments for Credit Cards and Banking Services Promotions	1,068	1,026
Other	34,205	29,282
Total	**2,362,760**	**1,863,573**

1.2. Nature and Amount of Irrevocable Loan Commitments

As per the BRSA's article, dated 3 June 2013, non-cash loans and cash loans within credit agreements which are not been granted or do not have a guarantee to be granted should be accounted under the other off-balance sheet items. According to that article, the Parent Participation Bank removed the amount TL 23,208,485 from the Statement of Off-Balance Sheet Items, which was previously reported as revocable loan granting commitments under the Statement of Off Balance Sheet Items.

1.2.1. Non-Cash Loans Including Guarantees, Acceptances, Financial Guarantee and Other Letters of Credits

	Current Period	Prior Period
Guarantees	7,726,279	6,197,780
Acceptances	435,940	292,225
Letter of Credits	741,920	618,692
Other guarantees	-	-
Total	**8,904,139**	**7,108,697**

(Thousands of Turkish Lira (TL) unless otherwise stated)

1.2.2. Permanent Guarantees, Temporary Guarantees, Suretyships and Similar Transactions

	Current Period	Prior Period
Temporary Guarantee Letters	1,180,089	821,661
Permanent Guarantee Letters	4,207,154	3,596,243
Advance Guarantee Letters	504,690	283,098
Guarantee Letters Given to Duties	359,995	226,378
Other Guarantee Letters	1,474,351	1,270,400
Total	**7,726,279**	**6,197,780**

1.2.3. Total Non Cash Loans

	Current Period	Prior Period
Non-cash loans given against achieving cash loans	744,686	640,838
With maturity of 1 year or less than 1 year	17,680	10,419
With maturity more than 1 year	727,006	630,419
Other non cash loans	8,159,453	6,467,859
Total	**8,904,139**	**7,108,697**

1.2.4 Information on Sectoral Risk Concentration of Non-Cash Loans

	Current Period				Prior Period			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agriculture	**79,222**	**1.47**	**42,218**	**1.19**	**45,860**	**1.10**	**24,229**	**0.83**
Farming and Stockbreeding	79,115	1.47	42,218	1.19	45,860	1.10	24,229	0.83
Forestry	5	0.00	-	0.00	-	0.00	-	0.00
Fishery	102	0.00	-	0.00	-	0.00	-	0.00
Manufacturing	**1,056,233**	**19.69**	**1,752,349**	**49.54**	**759,360**	**18.16**	**1,279,664**	**43.69**
Mining	64,737	1.21	58,974	1.67	53,924	1.29	58,253	1.99
Production	828,451	15.44	1,527,181	43.17	553,443	13.23	1,033,642	35.29
Electricity, Gas, Water	163,045	3.04	166,194	4.70	151,993	3.64	187,769	6.41
Construction	**2,084,663**	**38.85**	**582,435**	**16.46**	**1,639,783**	**39.23**	**473,798**	**16.18**
Services	**2,101,092**	**39.15**	**1,132,742**	**32.01**	**1,562,770**	**37.39**	**1,028,582**	**35.12**
Wholesale and Retail Trade	1,065,310	19.85	638,821	18.06	825,394	19.74	482,995	16.49
Hotel, Food and Beverage Services	21,738	0.41	94,249	2.66	17,842	0.43	218,232	7.45
Transportation and Telecommunication	161,603	3.01	265,141	7.49	154,979	3.71	88,980	3.04
Financial Institutions	14,849	0.28	36,080	1.02	14,490	0.35	85,493	2.92
Real Estate and Renting Services	705,986	13.15	97,287	2.75	406,093	9.71	144,765	4.94
"Self-Employment" Type Services	-	0.00	-	0.00	-	0.00	-	0.00
Educational Services	27,477	0.51	76	0.00	35,405	0.85	-	0.00
Health and Social Services	104,129	1.94	1,088	0.03	108,567	2.60	8,117	0.28
Other	**44,973**	**0.84**	**28,212**	**0.80**	**172,121**	**4.12**	**122,530**	**4.18**
Total	**5,366,183**	**100.00**	**3,537,956**	**100.00**	**4,179,894**	**100.00**	**2,928,803**	**100.00**

(Thousands of Turkish Lira (TL) unless otherwise stated)

1.2.5. Information on Ist and IInd Group Non-Cash Loans

	Ist Group		IInd Group	
	TL	**FC**	**TL**	**FC**
Non-Cash Loans	**5,257,296**	**3,514,229**	**108,887**	**23,727**
Letters of Guarantee	5,249,244	2,344,421	108,887	23,727
Endorsements and Acceptances	3,911	432,029	-	-
Letters of Credit	4,141	737,779	-	-
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Commitments	-	-	-	-
Other Commitments and Contingencies	-	-	-	-

2. Explanations Related to the Derivative Financial Instruments

	Current Period	**Prior Period**
Type of Trading Transactions		
Foreign Currency Related Derivative Transactions (I):	**6,758,916**	**3,071,277**
Forward Transactions	3,464,413	1,554,162
Swap Transactions	3,294,503	1,517,115
Futures Transactions	-	-
Option Transactions	-	-
Other Trading Derivative Transactions (II)	**375,937**	**66,641**
A. Total Trading Derivative Transactions (I+II)	**7,134,853**	**3,137,918**

3. Explanations Related to the Contingent Liabilities and Assets

None (31 December 2012: None).

4. Services rendered on behalf of third parties

None (31 December 2012: None).

IV. Explanations Related to the Consolidated Income Statement

1. Profit Share Income

1.1. Information on Profit Share on Loans

	Current Period		Prior Period	
	TL	FC	TL	FC
Profit Share on Loans (*)	1,387,011	49,919	1,297,671	52,591
Short Term Loans	350,690	10,228	414,961	14,485
Medium and Long Term Loans	1,027,905	39,691	876,103	38,106
Profit Share on Non Performing Loans	8,416	-	6,607	-
Premiums Received From Resource Utilization Support Fund	-	-	-	-
Total	**1,387,011**	**49,919**	**1,297,671**	**52,591**

(*) Profit Share on Loans includes commission income on cash loans.

(Thousands of Turkish Lira (TL) unless otherwise stated)

1.2. Information on Profit Share on Participation Banks

	Current Period		Prior Period	
	TL	FC	TL	FC
Central Bank of Turkey	-	-	-	-
Domestic Banks	-	-	-	-
Foreign Banks	135	302	530	782
Branches and Head Office Abroad	-	-	-	-
Total	**135**	**302**	**530**	**782**

1.3. Information on Profit Share on Marketable Securities Portfolio

	Current Period		Prior Period	
	TL	FC	TL	FC
Financial Assets Held for Trading	-	-	-	-
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-
Financial Assets Available for Sale	58,108	8,460	24,133	911
Investments Held to Maturity	-	-	-	-
Total	**58,108**	**8,460**	**24,133**	**911**

1.4. Information on Profit Share Income Received from Associates and Subsidiaries

None (31 December 2012: None).

2. Profit Share Expenses

2.1. Information on Profit Share on Funds Borrowed

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	6,455	103,729	805	73,928
Central Bank of Turkey	-	-	-	-
Domestic Banks	-	1,281	767	2
Foreign Banks (*)	6,455	102,448	38	73,926
Branches and Head Office Abroad	-	-	-	-
Other Institutions	-	27,008	-	-
Total	**6,455**	**130,737**	**805**	**73,928**

(*) Profit Share on Funds Borrowed includes commission expense on cash loans.

2.2. Profit Share Expense Given to Associates and Subsidiaries

None (31 December 2012: None).

2.3. Information on Profit Share Expense to Marketable Securities Issued

	Current Period		Prior Period	
	TL	FC	TL	FC
Profit Share Expense Given to Debt Securities Issued	-	26,743	-	-
Toplam	**-**	**26,743**	**-**	**-**

(Thousands of Turkish Lira (TL) unless otherwise stated)

2.4. Distribution of Profit Share Expense on Funds Collected Based on Maturity of Funds Collected

	Profit Sharing Accounts						
Account Name	**Up to 1 Month**	**Up to 3 Months**	**Up to 6 Months**	**Up to 1 Year**	**More than 1 Year**	**Accumulated Profit Sharing Account**	**Total**
Turkish Lira							
Funds Collected from Banks via Current and Profit Sharing Accounts	2	15,982	901	1,815	-	-	18,700
Real Person's Non Commercial Profit Sharing	133,902	113,808	8,593	7,305	68,381	-	331,989
Public Sector Profit Sharing	70	2,332	-	-	-	-	2,402
Commercial Sector Profit Sharing Acc.	17,066	50,380	1,474	2,421	12,387	-	83,728
Other Institutions Profit Sharing Acc.	2,036	8,719	1,074	102	1,028	-	12,959
Total	**153,076**	**191,221**	**12,042**	**11,643**	**81,796**	**-**	**449,778**
Foreign Currency	-	-	-	-	-	-	-
Banks	1,030	939	-	174	-	-	2,143
Real Person's Non Commercial Profit Sharing	19,374	19,623	1,752	4,743	12,391	-	57,883
Public Sector Profit Sharing	-	-	-	-	-	-	-
Commercial Sector Profit Sharing Acc.	5,095	14,587	136	295	3,388	-	23,501
Other Institutions Profit Sharing Acc.	490	2,062	3,105	860	1,530	-	8,047
Precious Metal Accounts	-	82	1,376	30	-	-	1,488
Total	**25,989**	**37,293**	**6,369**	**6,102**	**17,309**	**-**	**93,062**
Grand Total	**179,065**	**228,514**	**18,411**	**17,745**	**99,105**	**-**	**542,840**

3. Information on Dividend Income

None (31 December 2012: None).

4. Information on Trading Income/Losses (net)

	Current Period	Previous Period
Income	**2,451,529**	**1,178,434**
Trading Account Income	1,238	1,171
Derivative Financial Instruments	514,178	436,166
Foreign Exchange Gains	1,936,113	741,097
Losses (-)	**(2,379,852)**	**(1,121,734)**
Trading Account Losses	(37)	-
Derivative Financial Instruments	(477,068)	(297,251)
Foreign Exchange Losses	(1,902,747)	(824,483)

Foreign exchange gains from the exchange rate changes of derivative financial instruments: TL 32,381 (31 December 2012: TL 10,896). TL 29,830 (31 December 2012: TL 8,637) of foreign exchange losses are resulted from the exchange rate changes of derivative financial instruments.

(Thousands of Turkish Lira (TL) unless otherwise stated)

5. Information on Other Operating Income

	Current Period	Previous Period
Communication Expense Charged to Customers	6,520	6,351
Gain on Sale of Assets	8,081	6,383
Checkbook Expenses	5,188	5,886
Reversals Related to Prior Year's Expenses	69,273	58,254
Other	19,172	14,934
Total	**108,234**	**91,808**

6. Provision Expenses Related To Loans and Other Receivables of the Group

	Current Period	Previous Period
Specific Provisions for Loans and Other Receivables	**154,990**	**156,620**
III. Group	19,490	32,401
IV. Group	66,335	50,939
V. Group	65,067	72,022
Doubtful Commission,Fee and Other Receivables	4,098	1,258
General Provision Expenses	**13,349**	**46,856**
Provision Expenses for Possible Losses	**-**	**-**
Marketable Securities Impairment Losses	**-**	**-**
Financial Assets at Fair Value Thruogh Profit and Losses	-	-
Investment Securities Available for Sale	-	-
Impairment Provision Expenses	**-**	**-**
Investment in Associates	-	-
Subsidaries	-	-
Jointly Controlled Entities	-	-
Investments Held to Maturity	-	-
Other(*)	**34,411**	**22,903**
Total	**202,750**	**226,379**

(*) Other provision expenses amounting to TL 34,411 comprised of specific provision expenses for cheques amounting to TL 3,563, specific provision expenses for non cash loans not indemnified or not converted into cash amounting to TL 12,563, specific provision expenses allocated to participation accounts amounting to TL 15,286 and provision expenses for law suits amounting to TL 2,999 (31 December 2012: Other provision expenses amounting to TL 22,903 comprised of specific provision expenses for cheques amounting to TL 5,628, specific provision expenses for non cash loans not indemnified or not converted into cash amounting to TL 13,341 , specific provision expenses allocated to participation accounts amounting to TL 1,513 and provision expense for law suits amounting to TL 2,421).

(Thousands of Turkish Lira (TL) unless otherwise stated)

7. Information on Other Operating Expenses

	Current Period	Previous Period
Personel Expenses	287,003	242,839
Reserve for Employee Termination Benefits	1,534	6,520
Bank Pension Fund Deficit Provisions	-	-
Impairment Losses on Tangible Assets	-	418
Depreciation Expenses of Tangible Assets	25,659	22,334
Impairment Losses on Intangible Assets	-	-
Amortization Expenses of Goodwill	-	-
Depreciation Expenses of Intangible Assets	11,738	7,553
Impairment Provision for Investments Accounted for Under Equity Method	-	-
Impairment Losses on Assets to be Disposed	426	178
Depreciation Expenses of Assets to be Disposed	787	568
Impairment Losses on Assets Held for Sale	-	-
Other Operating Expenses	150,668	110,885
Operating Lease Expenses	53,682	42,336
Repair and Maintenance Expenses	4,407	3,265
Advertisement Expenses	23,826	14,864
Other Expenses	68,753	50,420
Loss on Sales of Assets	212	1,090
Other	88,976	68,260
Total	**567,003**	**460,645**

8. Explanations Related to the Profit/Loss Before Taxes Including Profit/Loss from Discontinued Operations

The Participation Bank's profit before taxes realized at TL 412,512 increasing by 14.01% comparing to the prior year. The profit before taxes includes a net profit share income of TL 874,083 a net fees and commission income of TL 128,272. Operating expenses are amounted to TL 567,004.

9. Information on Provision for Taxes

The Group tax reconciliation is listed below:

	Current Period	Prior Period
Profit Before Tax	412,512	361,826
Corparate Tax Ratio	% 20	% 20
Calculated Tax	82,502	72,365
	-	-
Deductions	(45,205)	(25,497)
Other	45,938	31,385
	-	-
Income Tax Expense	**83,235**	**78,253**

10. Explanations Related to the Net Profit/Loss Including Profit/Loss From Discontinued Operations

Net period profit is TL 329,277 (31 December 2012: TL 283,573).

(Thousands of Turkish Lira (TL) unless otherwise stated)

11. Explanation on Net Period Profit / Loss

11.1 The Nature and Amount of Certain Income and Expense Items from Ordinary Operations is Disclosed If the Disclosure for Nature, Amount and Repetition Rate of Such Items is Required for the Complete Understanding of the Group's Performance for the Period

Profit share income on regular banking operations is TL 1,566,233 and profit share expenses are TL 692,150 (31 December 2012: profit share income; TL 1,410,356 profit share expenses: TL 618,245).

11.2 Effect of Changes in Accounting Estimates on Income Statement for the Current and, If Any, for Subsequent Periods

None (31 December 2012: None).

11.3 Nature and Amount of Changes in Accounting Estimates which Have Material Effects on the Current Period or Expected to Have Material Effects on the Subsequent Periods

None (31 December 2012: None).

12. If the Other Items in the Income Statement Exceed 10% of the Income Statement Total, Accounts Amounting to At Least 20% of These Items are shown below

Other Fees and Commissions Received	Current Period	Prior Period
Commissions of Letters of Credit on Imports	599	511
Commission of Collection Note/Check	2,573	2,628
Commissions on Remmittance	8,015	8,058
Insurance Commissions	11,290	6,315
Credit Letter Commissions	1,973	1,780
Expert Fees	14,635	11,042
Credit Card Fees and Commissions	16,606	16,647
Commissions on Member Firm -POS	13,362	12,301
Cash Import Commissions	3,840	2,836
Other Commissions and Fees	21,691	14,587
Total	**94,584**	**76,705**

Other Fees and Commissions Given	Current Period	Prior Period
POS Transaction Commission Expense	16,282	20,127
7/24 Card Domestic ATM Commission Given	1,047	919
Credit Card Service and Usage Expense	3,546	3,137
Commissions and Fees Given for Remittance	1,705	1,549
Other Commissions and Fees	26,860	18,485
Total	**49,440**	**44,217**

V. Explanations and Disclosures Related to the Statements of Shareholders' Equity Movement

1. Information on Any Increases Arising from Application of Accounting for Financial Instruments in the Current Period

1.1 Increases from Valuation of Financial Assets Available-for-Sale

None (31 December 2012: TL 9,897).

1.2 Increases Due to Cash Flow Hedges

None (31 December 2012: None).

1.3 Increases Due to the Revaluation of Tangible Fixed Assets

None (31 December 2012: TL 68,033).

2. Information on Any Decreases Arising from Application of Accounting for Financial Instruments in the Current Period

2.1. Decreases from Valuation of Financial Assets Available-for-Sale

As of 31 December 2013, the revaluation of financial assets available-for-sale at fair value netted with the related deferred tax liability effect has resulted in an increase by TL 43,696 that is presented as the current period movement in "securities value increase fund" in the statement of changes in shareholders' equity. (31 December 2012: None).

2.2. Decreases Due to Cash Flow Hedges

None (31 December 2012: None).

3. Information on Dividend

3.1. Dividends Declared Subsequent to the Balance Sheet Date, but Before the Announcement of the Financial Statements

None.

3.2. Dividends per Share Proposed Subsequent to the Balance Sheet Date

None.

4. Amounts Transferred to Legal Reserves

In 2013, the amount transferred to legal reserves is TL 14,153 and amount transferred to extraordinary reserves TL 269,420 (31 December 2012: to the legal reserves is TL 11,335 to the extraordinary reserves is TL 220,252).

5. Information on Shares Issued

5.1. For All Capital Share Classes of the Participation Bank; Rights, Priorities and Restrictions about This Item Including Distribution of Dividend and Restrictions related to Repayment of Capital

None (31 December 2012: None).

5.2. Explanations Related to Other Capital Increase Items in the Statements of Shareholders' Equity Movement

None.

(Thousands of Turkish Lira (TL) unless otherwise stated)

VI. Explanations Related to Statement of Consolidated Cash Flows

1. Disclosures for "other" items and "effect of change in foreign currency rates cash and cash equivalents" in statement of cash flows

The "other" item amounting to a loss of TL 526,679 under operating profit before changes in operating assets and liabilities composes of fees and commissions paid, other operating expenses excluding employee costs and depreciation expense, provision expense (31 December 2012: TL 192,298 loss).

The "net increase in other liabilities" amounting to TL 626,486 under the changes in operating assets and liabilities is resulted from the changes in the miscellaneous payables and other external funding payables (31 December 2012: TL 608,674).

As of 31 December 2013, the effect of change in the exchange rate on cash and cash equivalents calculated an increase of TL 477,828 (31 December 2012: TL 78,768 loss).

2. Cash outflows from Acquisition of Associates, Subsidiaries and Joint-ventures

TF Varlık Kiralama AŞ which is wholly owned by the Participation Bank has been established with TL 50 capital at 11 February 2013 (31 December 2012: Participation Bank paid their TL 1,000 capital commitment to Kredi Garanti Fonu AŞ at 20 September 2012. It has been decided to purchase shares of Kredi Garanti Fonu AŞ with amounting TL 211 at meeting of board of directors on 13 December 2013 and the price paid on 28 December 2012).

3. Cash Inflows from Acquisition of Associates, Subsidiaries and Joint-ventures

None (31 December 2012: None).

4. Information on Cash and Cash Equivalents at Beginning and End of Periods

	Current Period	Prior Period
Cash	924,398	1,102,936
Cash in TL and Foreign Currency	149,645	101,591
Central Bank of Turkey	774,741	1,001,215
Other	12	130
Cash Equivalents	954,203	497,028
Receivables from Interbank Money Markets	-	-
Banks and Other Financial Institutions	954,203	497,028
Total Cash and Cash Equivalents	**1,878,601**	**1,599,964**

5. Restricted Cash and Cash Equivalents of the Participation Bank Due to Legal Requirements or Other Reasons

The placements at Central Bank of Turkey include blocked accounts with a total principal balance of TL 2,906,724 (31 December 2012: TL 1,701,528) which is kept as reserve deposits for foreign currency liabilities.

6. Additional Information on Financial Position and Liquidity

6.1. Restrictions on the Participation Bank's potential borrowings

None (31 December 2012: None).

6.2. Cash inflows presenting increase in operating capacity of the Participation Bank

The Participation Bank daily follows the cash transactions for banking activities continuance and the cash flow represents the increase in the banking activities is analyzed under this conditions.

(Thousands of Turkish Lira (TL) unless otherwise stated)

VII. Explanations on the Risk Group of the Parent Participation Bank

1. Information on the volume of transactions relating to the Parent Participation Bank's risk group, incomplete loan and funds collected transactions and period's profit and loss

1.1. Information on loans and other receivables of the Parent Participation Bank's risk group

Current Period

Bank's Risk Group	Associates,Subsidaries and Jointly Controlled Entities		Direct and Indirect Shareholders of the Bank		Other items that have been included in the Risk Group	
	Cash	Non Cash	Cash	Non Cash	Cash	Non Cash
Loans and Others Receivables						
Balance at the beginning of the period	-	-	116	74,318	85,459	89,573
Balance at the end of the period (*)	-	-	106	33,432	202,554	100,277
Profit Share and Commission Income	**-**	**-**	**422**	**7**	**49,747**	**579**

(*) Lease receivables from the Parent Participation Bank's risk group are included in cash balances amounting to TL 19,289.

Prior Period

Bank's Risk Group	Associates,Subsidaries and Jointly Controlled Entities		Direct and Indirect Shareholders of the Bank		Other items that have been included in the Risk Group	
	Cash	Non Cash	Cash	Non Cash	Cash	Non Cash
Loans and Others Receivables						
Balance at the beginning of the period	-	-	147	59,337	133,063	74,466
Balance at the end of the period (*)	-	-	116	74,318	85,459	89,573
Profit Share and Commission Income (**)	**-**	**-**	**318**	**-**	**15,768**	**1,042**

(*) Lease receivables from theParent Participation Bank's risk group are included in cash balances amounting to TL 8,057.

1.2 Information on Current and Profit Sharing Accounts Related to Risk Group of the Parent Participation Bank

Bank's Risk Group	Associates,Subsidaries and Jointly Controlled Entities		Direct and Indirect Shareholders of the Bank		Other items that have been included in the Risk Group	
Current and Profit Sharing Accounts	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Balance at the beginning of the period	-	-	197,213	203,337	126,926	80,972
Balance at the end of the period	-	-	220,461	197,213	97,125	126,926
Profit Share Expenses (*)	**-**	**-**	**12,397**	**18,068**	**5,296**	**9,984**

(Thousands of Turkish Lira (TL) unless otherwise stated)

1.3. Forward Transactions, Option Contracts and Other Similar Contracts Made With the Parent Participation Bank's Risk Group

Bank's Risk Group	Associates,Subsidaries and Jointly Controlled		Direct and Indirect Shareholders of the		Other items that have been included in the	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Financial Transactions at fair value through profit/loss						
Balance at the beginning of the period	-	-	-	-	9,032	8,732
Balance at the end of the period	-	-	-	-	-	9,032
Total Profit / Loss (*)	-	-	-	-	3	40
Derivative Instruments Held for Risk Management	-	-	-	-	-	-
Balance at the beginning of the period	-	-	-	-	-	-
Balance at the end of the period	-	-	-	-	-	-
Total Profit / Loss	-	-	-	-	-	-

1.4. Funds Borrowed from the Parent Participation Bank's Risk Group

Bank's Risk Group	Associates,Subsidaries and Jointly Controlled Entities		Direct and Indirect Shareholders of the Bank		Other items that have been included in the Risk Group	
Loans Received	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Balance at the Beginning of the period	-	-	935,865	376,757	-	-
Balance at the End of the period	-	-	1,114,834	935,865	-	-
Profit Share and Commission Expense	**-**	**-**	**37,320**	**25,887**	**-**	**-**

VIII. Explanations on the Participation Bank's Domestic Branches, Branches Abroad and Off-shore Branches or Associates and Agencies

1. Explanations on the Participation Bank's Domestic Branches, Agencies and Branches Abroad and Off-shore Branches

	Number	Employees*		
Domestic Branches	250	2,554		
		Country		
Rep-Offices Abroad		1-		
		2-		
			Total Assets	Capital
Branches Abroad		1-		
		2-		
Off-Shore Branches		1-		
		2-		

(*) Employees number consists of branch employees. As of 31 December 2013, 1,436 employees work at the head office.

2. Explanations on Branch and Agency Openings or Closings of the Participation Bank

In 2013, Participation Bank opened 30 new domestic branches.

(Thousands of Turkish Lira (TL) unless otherwise stated)

IX. Explanations Related to Subsequent Events

1. Transactions Not Finalized Yet Related to Subsequent Events and Their Impact on Consolidated Financial Statements

Rent certificates that are offered to public by TF Varlık Kiralama A.Ş. on 15-16 January 2014 with nominal value at TL 100,000,000 with 179 days maturity and redemption date of 18 July 2014, are started to be traded at 21 January 2014 as listed at Debt Securities Outright Purchases and Sales Market within the scope of resolution of the stock exchange board of directors at 21 February 2013.

2. Information about effects of significant changes in foreign exchange rates after balance sheet date that would affect decision making process of users

None.

SECTION SIX
OTHER EXPLANATIONS

I. Other Explanations Related to Participation Bank's Operations

Summary information of the Participation Bank related to rating given by international rating agencies:

Foreign Currency	
Long Term	BBB
Short Term	F3
View	Stable
Turkish Lira	
Long Term	BBB+
Short Term	F2
View	Stable
National	
Long Term	AAA(tur)
Financial Capacity Note	bb-
Stand By Note	2
View	Stable

Information obtained from Fitch Ratings Report published at 9 December 2013.

SECTION SEVEN

INDEPENDENT AUDITOR'S REPORT

I. Explanations on the Independent Auditor's Report

The consolidated financial statements of the Participation Bank as of and for the year ended 31 December 2013 were audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (the Turkish member firm of KPMG International Cooperative, a Swiss entity) and Independent Auditors' Report dated 14 February 2014 is presented in the introduction of this report. It was noted in their report that the accompanying financial statements present fairly, in all material respects, the financial position of Türkiye Finans Katılım Bankası AŞ as of 31 December 2013 and the result of its operations.

II. Other Footnotes and Explanations Prepared by the Independent Auditors

None.

Türkiye Finans Katılım Bankası Anonim Şirketi

Financial Statements As At and For The Year Ended 31 December 2013

With Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

14 February 2014

This report contains the "Independent Auditors' Report on Financial Statements" comprising 1 page and; the "Financial statements and their explanatory notes" comprising 53 pages.

Türkiye Finans Katılım Bankası Anonim Şirketi

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Independent Auditors' Report

To the Board of Directors of Türkiye Finans Katılım Bankası Anonim Şirketi

Introduction

We have audited the accompanying consolidated financial statements of Türkiye Finans Katılım Bankası Anonim Şirketi ("the Bank"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

14 February 2014
Istanbul, Turkey

KPMG Akis Bağımsız Denetim ve SMMM AŞ

Notes to the consolidated financial statements

Türkiye Finans Katılım Bankası Anonim Şirketi

Consolidated Statement of Financial Position
As at 31 December 2013

(Currency: Thousands of Turkish Lira (TL))

	Notes	31 December 2013	31 December 2012
Assets			
Cash and balances with Central Bank	*13*	924,398	1,102,936
Loans and advances to banks	*14*	954,203	497,028
Loans, lease receivables and advances to customers	*15*	18,200,352	12,983,947
Derivative assets held for trading	*16*	46,669	14,273
Available-for-sale investment securities	*17*	1,413,025	669,326
Property and equipment	*18*	211,689	196,617
Intangible assets	*18*	37,149	18,881
Deferred tax assets	*12*	32,412	18,975
Other assets	*19*	3,227,187	2,038,559
Total assets		**25,047,084**	**17,540,542**
Liabilities			
Deposits from banks	*20*	350,617	365,688
Deposits from customers	*21*	14,818,621	11,070,057
Funds borrowed	*22*	4,813,322	2,503,943
Debt securities issued	*22*	1,074,246	--
Derivative liabilities held for trading	*16*	39,140	8,577
Provisions	*23*	147,503	117,889
Current tax liabilities	*12*	13,043	19,369
Other liabilities	*24*	1,213,312	1,275,432
Total liabilities		**22,469,804**	**15,360,955**
Equity			
Share capital	*25*	1,775,000	1,650,000
Reserves	*25*	125,056	154,599
Retained earnings		677,224	374,988
Total shareholders' equity		**2,577,280**	**2,179,587**
Total liabilities and shareholders' equity		**25,047,084**	**17,540,542**

The notes on pages 5 to 53 are an integral part of these financial statements.

Türkiye Finans Katılım Bankası Anonim Şirketi

Consolidated Statement of Profit or Loss and Other Comprehensive Income For The Year Ended 31 December 2013

(Currency: Thousands of Turkish Lira (TL))

	Notes	31 December 2013	31 December 2012
Profit share income:			
Income on loans		1,458,616	1,369,043
Income on investment securities		66,568	25,044
Income on deposits at banks		437	1,312
Income on financial leases		40,612	14,957
		1,566,233	**1,410,356**
Profit share expense:			
Expense on deposits		(561,085)	(520,279)
Expense on borrowings		(149,311)	(74,733)
		(710,396)	**(595,012)**
Net profit share income		**855,837**	**815,344**
Fee and commission income	7	177,712	152,448
Fee and commission expense	7	(49,440)	(44,217)
Net fee and commission income		**128,272**	**108,231**
Net trading income	8	38,311	140,086
Other operating income	9	42,278	40,047
Foreign exchange gain, net		33,366	-
Other operating income		**113,955**	**180,133**
Total operating income		**1,098,064**	**1,103,708**
Personnel expenses	10	(315,631)	(270,492)
Administrative expenses		(150,668)	(110,885)
Net impairment loss on financial assets	15,23	(116,979)	(175,268)
Depreciation and amortisation	18	(38,184)	(30,455)
Taxes and duties other than on income		(22,325)	(18,543)
Foreign exchange loss,net		-	(83,386)
Other operating expenses	11	(43,194)	(32,691)
Total operating expenses		**(686,981)**	**(721,720)**
Profit before tax		**411,083**	**381,988**
Income tax expense	12	(81,332)	(76,373)
Profit		**329,751**	**305,615**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Net change in remeasurements of defined benefit liability		(16,702)	--
Net change in revaluation of tangible assets		--	71,615
Related tax		3,340	(3,582)
		(13,362)	**68,033**
Items that are or may be reclassified to profit or loss			
Net change in fair values of available-for-sale financial assets	25	(54,487)	14,081
Net amount transferred to profit or loss	25	(133)	(1,713)
Related tax	25	10,924	(2,471)
Other comprehensive income for the period, net of tax		**(43,696)**	**9,897**
Total comprehensive income		**272,693**	**383,545**

The notes on pages 5 to 53 are an integral part of these financial statements.

Türkiye Finans Katılım Bankası Anonim Şirketi
Consolidated Statement of Changes in Equity
For The Year Ended 31 December 2013
(Currency: Thousands of Turkish Lira (TL))

	Notes	Share capital	Fair value reserve	Revaluation reserve	Other reserves	Retained earnings	Total
Balances at 1 January 2012		**800,000**	**(2,996)**	**21,582**	**46,748**	**780,708**	**1,646,042**
Total comprehensive income for the period							
Net profit of the period		--	--	--	--	**305,615**	**305,615**
Other comprehensive income							
Net change in fair value of available-for-sale financial assets, net of tax	*25*	--	11,610	--	--	--	11,610
Net amount transferred to profit or loss	*25*	--	(1,713)	--	--	--	(1,713)
Net change in revaluation of tangible assets, net of tax	*25*	--	--	68,033	--	--	68,033
Total other comprehensive income		**--**	**9,897 -**	**68,033**	**--**	**--**	**77,930**
Total comprehensive income for the period		**--**	**9,897**	**68,033**	**--**	**305,615**	**383,545**
Transfers to other reserves		--	--	--	11,335	**(11,335)**	--
Transactions with the owners, recorded directly in equity							
Transfers to share capital	*25*	700,000	--	--	--	**(700,000)**	--
Share capital increase by cash	*25*	150,000	--	--	--	--	**150,000**
Balances at 31 December 2012		**1,650,000**	**6,901**	**89,615**	**58,083**	**374,988**	**2,179,587**
Balances at 1 January 2013		**1,650,000**	**6,901**	**89,615**	**58,083**	**374,988**	**2,179,587**
Total comprehensive income for the period							
Net profit of the period		--	--	--	--	**329,751**	**329,751**
Other comprehensive income							
Net change in fair value of available-for-sale financial assets, net of tax	*25*	--	(43,563)	--	--	--	(43,563)
Net change in actuarial gain/(loss) related to employee benefits, net of tax	*23*	--	--	--	--	(13,362)	(13,362)
Net amount transferred to profit or loss	*25*	--	(133)	--	--	--	(133)
Net change in revaluation of tangible assets, net of tax	*25*	--	--	--	--	--	--
Total other comprehensive income		**--**	**(43,696) -**	**--**	**--**	**316,389**	**272,693**
Total comprehensive income for the period		**1,650,000**	**(36,795)**	**89,615**	**58,083**	**691,377**	**2,452,280**
Transfers to other reserves		--	--	--	14,153	**(14,153)**	--
Transactions with the owners, recorded directly in equity							
Share capital increase by cash	*25*	125,000	--	--	--	--	**125,000**
Balances at 31 December 2013		**1,775,000**	**(36,795)**	**89,615**	**72,236**	**677,224**	**2,577,280**

The notes on pages 5 to 53 are an integral part of these financial statements.

Türkiye Finans Katılım Bankası Anonim Şirketi

Consolidated Statement of Cash Flows
For The Year Ended 31 December 2013

(Currency: Thousands of Turkish Lira (TL))

	Notes	31 December 2013	31 December 2012
Cash flows from operating activities:			
Profit for the period		329,751	305,615
Adjustments for:			
Depreciation and amortisation	*18*	38,184	30,455
Net impairment loss on financial assets	*15,23*	195,011	208,286
Net (gain)/loss on derivative instruments held for trading	*16*	1,833	1,558
Provision for employee benefits	*23*	29,132	11,775
Provision for litigation and claims	*23*	2,999	2,422
Other provision expenses	*23*	547	805
Net profit share income		(855,837)	(815,344)
Income tax expense	*12*	81,332	76,373
		(177,048)	**(178,055)**
Change in loans, leasing receivables and advances to customers		(5,261,777)	(2,753,571)
Proceeds from funds borrowed		4,362,615	2,561,744
Repayment of funds borrowed		(2,969,847)	(1,582,751)
Change in other assets		(1,635,759)	(1,208,847)
Change in deposits from banks		(11,225)	346,918
Change in deposits from customers		3,716,760	1,571,622
Change in other liabilities		626,486	608,674
		(1,349,795)	**(634,266)**
Profit share income received		1,517,647	1,409,540
Profit share expense paid		(675,852)	(603,420)
Income tax paid	*12*	(86,908)	(81,347)
Net cash used in operating activities		**(594,908)**	**90,507**
Cash flows from investing activities:			
Acquisition of available-for-sale investment securities	*17*	(786,782)	(595,696)
Proceeds from sale of available-for-sale investment securities	*17*	61,086	553,453
Acquisition of property and equipment	*18*	(41,010)	(36,611)
Proceeds from the sale of property and equipment		279	1,555
Acquisition of intangible assets	*18*	(30,006)	(14,633)
Net cash used in investing activities		**(796,433)**	**(91,932)**
Cash flows from financing activities:			
Proceeds from issue of ordinary shares	*25*	125,000	150,000
Proceeds from issue of debt securities		1,067,150	-
Net cash provided from financing activities		**1,192,150**	**150,000**
Net increase / (decrease) in cash and cash equivalents		**(199,191)**	**148,575**
Cash and cash equivalents at 1 January	*13*	1,599,964	1,530,157
Effect of exchange rate fluctuations on cash held		477,828	(78,768)
Cash and cash equivalents at 31 December	*13*	**1,878,601**	**1,599,964**

The notes on pages 5 to 53 are an integral part of these financial statements.

1. Overview of the Participation Bank

1.1. Brief History

Türkiye Finans Katılım Bankası A.Ş. (the "Participation Bank") was established in accordance with the Provision on Establishment of Participation Banks of Decree No. 83/7506 dated 16 December 1983. The Participation Bank (formerly; Anadolu Finans Kurumu A.Ş.) obtained permission from the Central Bank of Turkey on 24 October 1991 and commenced operations on 4 November 1991.

In accordance with the resolution in the board meeting of Anadolu Finans Kurumu A.Ş. numbered 1047, on 31 May 2005 a merger between the Participation Bank and Family Finans Kurumu A.Ş was decided.

All the assets, liabilities and also off-balance sheet liabilities of Family Finans Kurumu A.Ş. were transferred to Anadolu Finans Kurumu A.Ş. during the merger. With the resolution dated 20 October 2005 and numbered 1726 by Banking Regulation and Supervision Agency ("BRSA"), the transfer agreement, signed by the boards of directors' of Anadolu Finans Kurumu A.Ş and Family Finans Kurumu A.Ş. and modified draft of main contract of Anadolu Finans Kurumu A.Ş were approved. The registry on the decision regarding the merger which was concluded in the general assemblies of both participation banks on 23 December 2005 was approved by BRSA's resolution dated 28 December 2005, and numbered 1764.

In accordance with BRSA's resolution dated 30 November 2005, and numbered 1747 related to the merger of both participation banks, the title was changed into Türkiye Finans Katılım Bankası A.Ş. providing that required permission be given by the Council of Ministers within the framework of the 48th article of the Turkish Commercial Law. The new title was registered by the Turkish Trade Registry of Istanbul on 30 December 2005 in compliance with the Turkish Commercial Law numbered 6762.

The Participation Bank operates in accordance with the principles of interest-free banking and Islamic rules as a participation bank, by collecting funds through current accounts and profit sharing accounts and lending such funds through 250 branches with 3,990 employees as at 31 December 2013.

The Participation Bank's head office is located at Adnan Kahveci Caddesi No: 139 34876 Yakacık – Kartal/ Istanbul.

1.2. Ownership

With the authorization of BRSA, numbered 2489 and dated 28 February 2008, 60% of the Participation Bank was acquired by the National Commercial Bank. The Participation Bank increased its capital from TL 292,047 to TL 800,000 with the share capital increase in 2008.

As per the decision taken by the extraordinary General Assembly on 6 June 2012, the Bank's share capital was increased by TL 975,000 from TL 800,000 to TL 1,775,000. The part of this increase amounting to TL 700,000 was transferred from retained earnings and the part amounting to TL 150,000 was paid in cash by shareholders on 2 October 2012. The remaining part of the cash commitment amounting to TL 125,000 was paid by shareholders and approved by the Banking Regulation and Supervision Agency on 6 February 2013.

As at 31 December 2013, the shareholders are as follows; the National Commercial Bank holds 66.27%, Boydak Group holds 22.09%, Ülker Group holds 11.57%.

The Participation Bank is controlled by the National Commercial Bank.

The National Commercial Bank (NCB) established as the first and the biggest bank of Saudi Arabia. The Bank is performing its banking operations through cross-border in Bahrain and Lebanon. The head quarter of the NCB is located in Jeddah.

(Currency - In thousands of Turkish Lira unless otherwise stated)

1. Overview of the Participation Bank (continued)

1.2. Ownership (continued)

As at 31 December 2013, the Participation Bank's paid-in-capital consists of 1,775,000 shares of TL 1 nominal each.

As at 31 December 2013 and 2012, the composition of shareholders and their respective percentage of ownership can be summarized as follows:

	31 December 2013		31 December 2012	
	Amount	**%**	**Amount**	**%**
The National Commercial Bank JSC	1,176,369	66.27	1,082,633	65.61
Boydak Group	392,123	22.09	360,878	22.09
Gözde Girişim Sermayesi Yatırım Ortaklığı AŞ (Ülker Group)	205,405	11.57	205,405	11.57
Other shareholders	1,103	0.07	1,084	0.07
Total	**1,775,000**	**100.00**	**1,650,000**	**100.00**

2. Basis of preparation

2.1. Statement of compliance

The Participation Bank located in Turkey maintains its books of account and prepare its statutory financial statements in Turkish Lira ("TL"), the functional currency of the Participation Bank, in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA").

The accompanying financial statements of the Participation Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The Participation Bank adopted all IFRSs, which were mandatory as at 31 December 2013.

The accompanying financial statements are authorized for issue by the Bank's Management on 14 February 2014.

2.2. Basis of measurement

The accompanying financial statements are prepared in accordance with the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the items presented on a fair value basis that are financial assets at fair value through profit or loss, derivative financial assets and liabilities held for trading purpose, available-for-sale investment securities and buildings whose fair value can reliably be measured.

2. Basis of preparation (continued)

2.3. Functional and presentation currency

These financial statements are presented in TL, which is the Participation Bank's functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

2.4. Accounting in hyperinflationary countries

Financial statements of the entities located in Turkey have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 – Financial Reporting in Hyperinflationary Economies as at 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute. This, together with the sustained positive trend in quantitative factors, such as the stabilization in capital and money markets, decrease in profit share rates and the appreciation of TL against the US Dollar and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006.

2.5. Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(a) Assumptions and estimation uncertainties

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is set out below.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2013 is set out below in relation to the impairment of financial instruments and in the following notes:

- Note 5– determining fair values of financial instruments;
- Note 23 – measurement of defined benefit obligations: key actuarial assumptions;
- Note 12– recognition of deferred tax assets
- Notes 13– recognition and measurement of provisions

Impairment of financial instruments

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

2. Basis of preparation (continued)

2.5. Use of estimates and judgments (continued)

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired (loss 'incurred but not reported' or IBNR).

The collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates are regularly benchmarked against actual loss experience.

The IBNR allowance covers credit losses inherent in portfolios of loans and advances, and held to- maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot yet be identified.

In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

2.6. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements.

- The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.
- IFRS 10 Consolidated Financial Statements (2011).
- IFRS 12 Disclosure of Interests in Other Entities.
- IFRS 13 Fair Value Measurement.
- Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7).
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).
- IAS 19 Employee Benefits (2011).

2.6 Changes in accounting policies (continued)

(a) Subsidiaries, including structured entities

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed its control conclusions as of 1 January 2013. The change did not have a material impact on the Group's financial statements.

(b) Interests in other entities

As a result of IFRS 12, the Group has expanded disclosures about its interests in subsidiaries. The disclosure requirements related to its involvement in unconsolidated structured entities are not included in the comparative information.

(c) Fair value measurement

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, , prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the group has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Group has provided the relevant comparative disclosures under those standards.

(d) Offsetting financial assets and financial liabilities. As a result of the amendments to IFRS 7, the Group has expanded disclosures about offsetting financial assets and financial liabilities.

(e) Presentation of items of OCI. As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

(f) Post-employment defined benefit plans As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its defined benefit plans. Under IAS 19 (2011), the Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect on the asset ceiling.

The change did not have a material impact on the Group's financial statements.

(Currency - In thousands of Turkish Lira unless otherwise stated)

3. Significant accounting policies

Except the changes disclosed in Note 2.6, the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Comparative amounts in the consolidated statement of cash flows "proceeds from funds borrowed" amount to TL 2,561,744 and "repayment of funds borrowed" amount to TL 1,582,751 have been re-presented under cash flows from operating activities from cash flows from financing activities.

3.1. Basis of consolidation

(i) Non-controlling interests

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. The subsidiary is presented in Note 28.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.1. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency, TL, of the Participation Bank at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognized in profit or loss and other comprehensive income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The official TL exchange rates used by the Participation Bank for foreign currency translation are as follows:

	EUR / TL	USD / TL
31 December 2013	2.9365	2.1343
31 December 2012	2.3517	1.7826

3.2. Profit share

Profit share income and expense are recognized in profit or loss and other comprehensive income statement using the effective rate method, except for the profit share income on overdue loans. The effective rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective rate, the Participation Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

Profit share income and expense presented in the profit or loss and other comprehensive income statement include:

- profit share on financial assets and liabilities at amortized cost on an effective rate basis,
- profit share on available-for-sale investment securities on an effective rate basis,

3.3. Fees and commission

Fees and commission income and expenses that are integral to the effective rate on a financial asset or liability are included in the measurement of the effective rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognized as the related services are provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3. Significant accounting policies (continued)

3.4. Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealized fair value changes, except for the unrealized gains of available for sale securities.

3.5. Dividends

Dividend income is recognized when the right to receive the income is established.

3.6. Lease payments made

Payments made under operating leases are recognized in profit or loss and other comprehensive income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of profit share on the remaining balance of the liability.

3.7. Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in profit or loss and other comprehensive income statement.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted on the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued)

3.8. Financial assets and liabilities

Recognition

The Participation Bank initially recognises loans, lease receivables and advances, deposits and funds borrowed on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which the Participation Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value profit or loss) are initially recognised on the trade date at which the Participation Bank becomes a party to the contractual provisions of the instrument.

Classification

See accounting policies 3.9, 3.10, 3.11, 3.12 and 3.18.

Derecognition

The Participation Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Participation Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any profit share in transferred financial assets that is created or retained by the Participation Bank is recognised as a separate asset or liability. On derecognition of a financial asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including the new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Participation Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Available-for-sale assets and financial assets at fair value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as at the date the Participation Bank commits to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Participation Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Participation Bank's trading activity.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3. Significant accounting policies (continued)

3.8. Financial assets and liabilities (continued)

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Participation Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Participation Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same and discounted cash flow analyses. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Participation Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Participation Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Identification and measurement of impairment

At each reporting date, the Participation Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the reporting date. In order to determine allowance rate for portfolio basis, the Participation Bank uses historical allowance rates based on its own statistical data.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Participation Bank about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in profit share, penalty or principal payments;
- the Participation Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or

3. Significant accounting policies (continued)

3.8. Financial assets and liabilities (continued)

Identification and measurement of impairment (continued)

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Participation Bank, including:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the Participation Bank.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Profit share on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of profit share income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income.

The Participation Bank writes off certain loans and advances when they are determined to be uncollectible.

Designation at fair value through profit or loss

Financial assets at fair value through profit or loss are trading financial assets, such as equity participations, acquired principally with the intention of disposal within a short period for the purpose of short-term profit making. These assets or liabilities are managed, evaluated and reported internally on a fair value basis.

3. Significant accounting policies (continued)

3.9. Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Bank, cash on transit and loans and advances to banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.10. Fair value through profit or loss

The Participation Bank designates some financial assets at fair value, with fair value changes recognised immediately in profit or loss and other comprehensive income statement as described in accounting policy 3.8.

3.11. Loans, lease receivables and advances

Loans, lease receivables and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Participation Bank does not intend to sell immediately or in the near term.

When the Participation Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans, lease receivables and advances.

Loans, lease receivables and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective rate method.

3.12. Available-for-sale investment securities

Available-for-sale investments, which are initially measured at fair value plus incremental direct transaction costs, are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. All available-for-sale investments are carried at fair value.

Profit share income is recognised in profit or loss using the effective rate method. Dividend income is recognised in profit or loss when the Participation Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Fair value changes are recognised in profit or loss and other comprehensive income statement until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in profit or loss and other comprehensive income statement are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Participation Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

3. Significant accounting policies (continued)

3.13. Trading assets and liabilities

'Trading assets and liabilities' are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss – i.e. trading – category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met.

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

3.14. Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses except for buildings owned which are measured at fair value. Change in fair value is reflected into "revaluation reserve" account in other comprehensive income.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within the other operating income or other operating expense in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Participation Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3. Significant accounting policies (continued)

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

▪ Buildings	50 years
▪ Office equipment, furniture and fixtures	2-15 years
▪ Motor vehicles	5 years

Leasehold improvements are amortized over the shorter of periods of the respective leases and their useful lives, also on a straight-line basis.

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

3.15. Intangible assets

Software acquired by the Participation Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three to five years. Amortisation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

3. Significant accounting policies (continued)

3.16. Leased assets – lessee

Leases in terms of which the Participation Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and, the leased assets are not recognised on the Participation Bank's statement of financial position.

3.17. Impairment of non-financial assets

The carrying amounts of the Participation Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of other assets, impairment losses recognised in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.18. Deposits, debt securities issued, funds borrowed

Deposits are the Participation Bank's main source of debt funding. Deposits of the Participation Bank comprised of the customers' current and profit sharing accounts.

Costumers' current and profit sharing accounts are initially recognized at cost. Subsequent to the initial recognition, all profit share accounts are recognized considering the attribute profits or any losses incurred on the respective loan balances. In all cases, profit/loss sharing accounts receive a proportion of the profit or bear a share of loss based on the results of the respective loan balances.

Debt securities issued and funds borrowed are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

3.19. Provisions

A provision is recognised if, as a result of a past event, the Participation Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. Significant accounting policies (continued)

3.19. Provisions (continued)

A provision for restructuring is recognised when the Participation Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Participation Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Participation Bank recognises any impairment loss on the assets associated with that contract.

3.20. Employee benefits

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Participation Bank arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. Employment termination benefit is not a funded liability and there is no requirement to fund it. Employment termination benefit is calculated based on the estimation of the present value of the employee's probable future liability arising from the retirement. IAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the bank's obligation under defined employee plans. IAS 19 ("Employee Benefits") has been revised effective from the annual period beginning after 1 January 2013. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognized in other comprehensive income.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Participation Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Participation Bank does not have any internally set defined contribution plan.

3.21. Segment reporting

An operating segment is a component of the Participation Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Participation Bank's other components, whose operating results are reviewed regularly by the Participation Bank's Management Committee (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Board of Directors include items directly attributable to that segment as well as those that can be allocated on a reasonable basis.

3.22. Events after the reporting period

Events after the reporting period that provide additional information about the Participation Bank's position at the reporting dates (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

3. Significant accounting policies (continued)

3.23. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these consolidated interim financial statements. Those which may be relevant to the Participation Bank are set out below. The Participation Bank does not plan to adopt these standards early.

IFRS 9 Financial Instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI. No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI would be measured at fair value with changes in fair value recognised in profit or loss. The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value. IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.
The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is permitted.

The Group has started the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have an impact on the Group's financial statements. The Group is still evaluating the potential effect of the adoption of the amendments to IFRS 9.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted.
The Group is still evaluating the potential effect of the adoption of the amendments to IAS 32.

4. Financial risk management

Introduction and overview

The Participation Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Participation Bank's exposure to each of the above risks, the Participation Bank's objectives, policies and processes for measuring and managing risk, and the Participation Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Participation Bank's risk management framework. The Board has established the Participation Bank's Asset and Liability (ALCO) committee, Credit committee and Risk Management Department, which are responsible for monitoring the Participation Bank risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Participation Bank's risk management policies are established to identify and analyze the risks faced by the Participation Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Participation Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Participation Bank's Audit Committee is responsible for monitoring compliance with the Participation Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Participation Bank's. The Participation Bank's Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Participation Bank's Audit Committee.

4. Financial risk management (continued)

Credit risk

Credit risk is defined as the current or prospective threat to the Participation Bank's earnings and capital as a result of counterparty's failure to comply with a financial or other contractual obligation in respect of the institution, including the possibility of restrictions on or impediments to the transfer of payments from abroad and arises principally from the Participation Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Participation Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

For credit risk management purposes the Risk Management Department is involved in

- the determination of credit risk policies in coordination with the Participation Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- contribution to the formation of rating and scoring systems,
- submitting to the Board of Directors and the senior management not only credit risk management reports about the credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration, but also scenario analysis reports, stress tests and other analyses, and
- studies regarding the formation of advanced credit risk measurement approaches.

Regular audits of business units and Participation Bank's credit processes are undertaken by internal audit.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Credit risk (continued)

Exposure to credit risk

		31 December 2013	**31 December 2012**
	Note	**Loans, lease receivables and advances to customers**	**Loans, lease receivables and advances to customers**
Carrying amount	*15*	18,200,352	12,983,947
Assets at amortised cost			
Individually impaired			
Grade 3: Impaired		36,947	58,550
Grade 4: Impaired		103,627	83,736
Grade 5: Impaired		300,498	215,973
Gross amount	*15*	**441,072**	**358,259**
Allowance for impairment	*15*	(312,789)	(258,994)
Carrying amount		**128,283**	**99,265**
Neither past due nor individually impaired			
Grade 1: Low-fair risk		**17,328,224**	**12,433,050**
Past due but not individually impaired			
Grade 2: Watch List		**844,135**	**538,008**
Past due comprises:			
1-30 days		417,072	354,568
31-60 days		234,780	88,499
61-90 days		192,283	94,941
Gross amount for collective impairment		**18,172,359**	**12,971,058**
Allowance for collective impairment	*15*	(100,290)	(86,376)
Carrying amount		**18,072,069**	**12,884,682**
Total carrying amount-amortised cost		**18,200,352**	**12,983,947**
Includes accounts with renegotiated terms		29,761	54,302

As at 31 December 2013 and 2012, the Participation Bank has no allowance for loans and advances to banks and available-for-sale investment securities.

Impaired loans, lease receivables and advances

Impaired loans, lease receivables and advances are loans, lease receivables and advances for which the Participation Bank determines that it is probable that it will be unable to collect all principal and profit share due according to the contractual terms of the loan or leasing agreement. These loans, lease receivables and advances are graded 3 to 5 in the Participation Bank's internal credit risk grading system which is also in line with the regulations of BRSA.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Credit risk (continued)

Past due but not impaired loans, lease receivables and advances

Past due but not impaired loans are those for which contractual profit share or principal payments are past due but the Participation Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Participation Bank.

Loans and lease receivables with renegotiated terms

Loans and lease receivables with renegotiated terms are loans and lease receivables that have been restructured due to temporary deterioration in the borrower's financial position and where the Participation Bank has made concessions that it would not otherwise consider.

Allowances for impairment

The Participation Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Participation Bank writes off a loan balance (and any related allowances for impairment losses) when it is concluded that the loans are uncollectible after all the necessary legal procedures have been completed, and the final loss has been determined. This conclusion is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

Loans, lease receivables and advances to customers	**31 December 2013**		**31 December 2012**	
	Gross	**Net**	**Gross**	**Net**
Grade 3	36,947	18,827	58,550	26,773
Grade 4	103,627	44,548	83,736	33,106
Grade 5	300,498	64,908	215,973	39,386
Total	**441,072**	**128,283**	**358,259**	**99,265**

Collateral policy

The Participation Bank holds collateral against loans, lease receivables and advances to customers in the form of mortgage profit shares over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks and available-for-sale investment securities, and no such collateral was held at 31 December 2013 and 2012.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Credit risk (continued)

Collateral policy (continued)

The breakdown of performing loans, lease receivables and advances to customers by type of collateral are as follows:

Loans, lease receivables and advances to customers	31 December 2013	31 December 2012
Secured loans:		
Secured by mortgages	9,012,717	6,015,008
Secured by promissory notes	4,115,253	2,252,346
Secured by pledge on assets	1,012,014	688,998
Secured by cash collateral	693,741	315,919
Other collateral	11,253	12,376
Unsecured loans	3,327,381	3,686,411
Total performing loans, lease receivables and advances to customers	**18,172,359**	**12,971,058**

Sectoral analysis

The Participation Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	31 December 2013		31 December 2012	
Sector	**Carrying amount**	**%**	**Carrying amount**	**%**
Trade and commerce	5,077,358	28	3,831,191	30
Manufacturing	4,612,302	25	3,125,709	24
Retail	3,373,252	19	2,355,357	18
Construction	2,141,549	12	1,388,312	11
Services	865,028	5	581,729	4
Electricity, water, gas and health services	562,586	3	277,908	2
Transportation and communication	406,483	2	374,466	3
Agriculture and fishing	324,797	2	261,737	2
Financial institutions	41,932	--	2,174	--
Other	795,065	4	785,364	6
Total	**18,200,352**	**100**	**12,983,947**	**100**

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Credit risk (continued)

Sectoral analysis (continued)

Geographical concentration	*Note*	31 December 2013	31 December 2012
Turkey		18,872,131	13,212,241
European Union countries		62,802	132,897
USA, Canada		46,472	41,908
OECD countries		6,304	3,557
Off-shore banking regions		5,058	5,351
Other countries		133,795	72,132
Total performing loans, lease receivables and advances to banks and customers	***14,15***	**19,126,562**	**13,468,086**

Credit Rating System

The credit risk is assessed through the internal rating system of the Participation Bank. Credits listed from the best ratings (high) to the lowest degrees (below standard) presented below; also in the bottom of the table, non-performing loans (impaired loans) is presented.

Current period	Historical Default Rates %**	Total*
High	0.14%	15,637,688
Standard	0.53%	7,123,347
Below Standard	--	7,904
Non-performing Loans	--	441,072
Not Graded	0.42%	4,307,559
Total		**27,517,570**

(*)The amounts comprise of loans, leasing receivables and commitments and contingencies.
(**)Default ratios are the rate of non-performing loans (impaired loans) in 2013 to loans given in 2013.

The category "High" means that the borrower has a strong financial structure; the category "Standard" means that the borrower has a good and sufficient financial structure, and the category "Below Standard" means that the borrower's financial structure is under risk in the medium and short term.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements. Similar financial instruments include derivatives. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

Such collateral is subject to each agreement terms. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The Group receives and gives collateral in the form of cash in respect of the derivative transactions.

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

					Related amounts not offset in the statement of financial position		
	Types of financial assets	**Gross amounts of recognised financial assets**	**Gross amounts of recognised financial liabilities offset in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**Financial instruments (including non-cash collateral)**	**Cash collateral received**	**Net amount**
31 December 2013	Derivatives - trading assets	42,998	-	42,998	-	42,998	-
31 December 2012	Derivatives - trading assets	11,395	-	11,395	-	11,395	-

					Related amounts not offset in the statement of financial position		
	Types of financial liabilities	**Gross amounts of recognised financial assets**	**Gross amounts of recognised financial liabilities offset in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**Financial instruments (including non-cash collateral)**	**Cash collateral received**	**Net amount**
31 December 2013	Derivatives - trading liabilities	25,158	-	25,158	-	25,128	-
31 December 2012	Derivatives - trading liabilities	5,115	-	5,115	-	5,115	-

4. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Participation Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Participation Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Participation Bank's reputation.

The Treasury Department of the Participation Bank receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Participation Bank as a whole. The liquidity requirements of business departments are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Participation Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Participation Bank heavily relies on deposits from customers and banks as its primary sources of funding. Deposits from customers and banks generally have shorter maturities and a significant proportion of them are repayable on demand. The short-term nature of these deposits increases the Participation Bank's liquidity risk and the Participation Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Liquidity risk (continued)

Exposure to liquidity risk

The calculation method used to measure the Participation Bank's compliance with the liquidity limit is set by BRSA. As per the BRSA Communiqué, "Measurement and Assessment of the Adequacy of Banks' Liquidity", the weekly and monthly liquidity ratios on a bank-only basis for foreign currency assets/liabilities and total assets/liabilities should be minimum 80% and 100%, respectively. The liquidity ratios of the year 2013 are as follows:

2013	First Maturity Bracket (Weekly)		Second Maturity Bracket (Monthly)	
	FC	FC+TL	FC	FC+TL
Average (%)	184.49	152.35	137.84	117.70
Maximum (%)	266.48	190.69	158.22	135.70
Minimum (%)	110.83	104.75	110.52	103.51

Maturity analysis of monetary assets and liabilities according to their remaining maturities:

31 December 2013	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unallocated	Total
Cash and balances with Central Bank	924,398	--	--	--	--	--	--	**924,398**
Loans and advances to banks	954,203	--	--	--	--	--	--	**954,203**
Loans, lease receivables and advances to customers	--	2,213,647	2,848,798	6,726,222	5,855,131	528,561	27,993	**18,200,352**
Available-for-sale investment securities	4,376	--	--	395,745	1,012,904	--	--	**1,413,025**
Other assets(*)	3,222,054	--	--	--	--	--	5,133	**3,227,187**
Total assets	**5,105,031**	**2,213,647**	**2,848,798**	**7,121,967**	**6,868,035**	**528,561**	**33,126**	**24,719,165**
Deposits from banks	12,066	337,053	1,498	--	--	--	--	**350,617**
Deposits from customers	3,428,303	8,212,957	1,871,688	1,214,126	91,547	--	--	**14,818,621**
Funds borrowed	--	942,205	544,607	1,398,207	1,928,303	--	--	**4,813,322**
Debt securities issued	--	--	--	7,096	1,067,150	--	--	**1,074,246**
Current tax liabilities	--	--	13,043	--	--	--	--	**13,043**
Other liabilities	1,093,134	98,627	18,077	3,474	--	--	--	**1,213,312**
Total liabilities	**4,533,503**	**9,590,842**	**2,448,913**	**2,622,903**	**3,087,000**	**--**	**--**	**22,283,161**
Net	**571,528**	**(7,377,195)**	**399,885**	**4,499,064**	**3,781,035**	**528,561**	**33,126**	**2,436,004**

31 December 2012	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unallocated	Total
Cash and balances with Central Bank	1,102,936	--	--	--	--	--	--	**1,102,936**
Loans and advances to banks	497,028	--	--	--	--	--	--	**497,028**
Loans, lease receivables and advances to customers	--	1,793,019	2,237,377	4,809,093	3,853,609	277,960	12,889	**12,983,947**
Available-for-sale investment securities	121	--	56,838	--	409,947	198,209	4,211	**669,326**
Other assets(*)	2,026,742	--	--	--	--	--	11,817	**2,038,559**
Total assets	**3,626,827**	**1,793,019**	**2,294,215**	**4,809,093**	**4,263,556**	**476,169**	**28,917**	**17,291,796**
Deposits from banks	3,978	58,091	182,507	121,112	--	--	--	**365,688**
Deposits from customers	2,523,831	4,917,246	1,512,399	2,017,996	98,585	--	--	**11,070,057**
Funds borrowed	--	67,769	267,456	1,063,657	1,105,061	--	--	**2,503,943**
Current tax liabilities	--	--	19,369	--	--	--	--	**19,369**
Other liabilities	1,165,950	104,070	4,457	955	--	--	--	**1,275,432**
Total liabilities	**3,693,759**	**5,147,176**	**1,986,188**	**3,203,720**	**1,203,646**	--	--	**15,234,489**
Net	**(66,932)**	**(3,354,157)**	**308,027**	**1,605,373**	**3,059,910**	**476,169**	**28,917**	**2,057,307**

(*)Reserve deposits at Central Bank of Turkey amounting to TL 2,906,724 (31 December 2012: TL 1,701,528) are presented under "Demand" column.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Liquidity risk (continued)

Residual contractual maturities of the financial liabilities

31 December 2013	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years
Deposits from banks	350,617	350,617	12,066	337,053	1,498	--	--	--
Deposits from customers	14,818,621	14,818,621	3,428,341	8,212,919	1,871,688	1,214,126	91,547	--
Funds borrowed and debt securities issued	5,887,568	6,056,501	--	943,148	564,962	1,465,900	3,082,491	--
Total	**21,056,806**	**21,225,739**	**3,440,407**	**9,493,120**	**2,438,148**	**2,680,026**	**3,174,038**	**--**
Non-Cash Loans	**8,904,139**	**8,904,139**	**2,706,414**	**1,190,773**	**788,461**	**1,345,119**	**2,654,675**	**218,697**

31 December 2012	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years
Deposits from banks	365,688	365,688	3,978	58,091	182,507	121,112	--	--
Deposits from customers	11,070,057	11,070,057	2,523,831	4,917,246	1,512,399	2,017,996	98,585	--
Funds borrowed and debt securities issued	2,503,943	2,633,377	--	67,805	284,200	1,092,091	1,189,281	--
Total	**13,939,688**	**14,069,122**	**2,527,809**	**5,043,142**	**1,979,106**	**3,231,199**	**1,284,866**	**--**
Non-Cash Loans	**7,108,697**	**7,108,697**	**2,273,619**	**1,049,468**	**705,206**	**1,878,163**	**1,082,494**	**119,747**

The above table shows the undiscounted cash flows of the Participation Bank’s financial liabilities on the basis of their earliest possible contractual maturity.

Profit Rate Risk

Profit rate risk arises from the possibility that changes in the conventional profit share rate will affect the future profitability or the fair value of financial instruments. The Participation Bank 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 in measured and the profit rate gaps are reviewed to initiate corrective action in the Participation Bank’s funding profile to ensure that the overall profit rate risk remains within acceptable tolerances.

The principal objective of the Participation Bank’s management activities for profit share rate risk is to enhance profitability by limiting the effect of adverse profit share rate movements in the sector and increasing profit share income by managing profit share rate exposure. The Participation Bank’s monitors profit share sensitivity by analyzing the composition of its assets and liabilities and off-balance sheet financial instruments.

The major portion of the costumers’ current and profit sharing accounts are short term. Accordingly, profit share rates are in line with the prevailing profit share rates in the market. Therefore, the management believes that the fair value of such financing activities do not materially differ from their respective book values.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Market risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and credit spreads will affect the Participation Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Participation Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Treasury Department, and include positions arising from proprietary position taking, together with financial assets and liabilities that is managed on a fair value basis.

Overall authority for market risk is vested in Risk Management Department and ALCO.

Exposure to market risk

The market risk arising from the trading portfolio is monitored, measured and reported using Standardized Approach according to the legal legislation. The monthly market risk report prepared using Standardized Approach are reported to BRSA.

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Participation Bank's trading and available-for-sale portfolios. The VaR of these portfolios is the estimated loss that will arise on the portfolios over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

Average, highest and lowest values of market risks for the year ended 31 December 2013 and 2012, calculated and reported with using the Standardized Approach as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012 which is complaint to Basel II. Average, highest and lowest values of market risks for the years ended 31 December 2013 and 2012 are as follows:

	31 December 2013			**31 December 2012**		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk*	796	1,394	263	512	840	249
Common share risk	--	--	--	2	18	--
Currency risk	2,897	4,348	1,722	4,956	17,246	1,124
Commodity risk	2,120	2,406	1,646	1,513	1,999	1,084
Counterparty credit risk	1,552	3,664	496	1,319	2,492	665
Total value at risk	**92,068**	**135,966**	**59,427**	**95,525**	**249,570**	**43,763**

*Includes the market effect of forward transactions and income indexed bonds.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Market risk (continued)

Currency risk

The Participation Bank is exposed to currency risk through transactions in foreign currencies.

Management of currency risk

Risk policy of the Participation Bank is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Participation Bank has established a foreign currency risk management policy that enables the Participation Bank to take a position between lower and upper limits which are determined.

	Euro	USD	Other	Total
31 December 2013				
Cash and balances with Central Bank	26,039	337,431	7,754	**371,224**
Loans and advances to banks	163,956	281,116	24,683	**469,755**
Loans, lease receivables and advances to customers	2,085,529	4,493,926	--	**6,579,455**
Available-for-sale investment securities	151	345,567	--	**345,718**
Other assets	479,608	1,806,989	626,187	**2,912,784**
Deposits from banks	(116,991)	(57,010)	(382)	**(174,383)**
Deposits from customers	(1,616,526)	(3,023,737)	(685,094)	**(5,325,357)**
Funds borrowed	(242,241)	(4,762,621)	--	**(5,004,862)**
Other liabilities	(48,827)	(116,219)	(603)	**(165,649)**
Net on balance sheet position	**730,698**	**(694,558)**	**(27,455)**	**8,685**
Net off balance sheet position (derivatives)	**(732,883)**	**666,557**	**42,098**	**(24,228)**
Net position	**(2,185)**	**(28,001)**	**14,643**	**(15,543)**

	Euro	USD	Other	Total
31 December 2012				
Cash and balances with Central Bank	20,895	607,590	785	**629,270**
Loans and advances to banks	89,056	210,387	91,037	**390,480**
Loans, lease receivables and advances to customers	1,154,931	2,948,681	--	**4,103,612**
Available-for-sale investment securities	121	198,209	--	**198,330**
Other assets	400,570	950,094	379,339	**1,730,003**
Deposits from banks	(5,163)	(57,047)	(141)	**(62,351)**
Deposits from customers	(1,095,662)	(2,320,568)	(516,082)	**(3,932,312)**
Funds borrowed	(242,075)	(2,261,868)	--	**(2,503,943)**
Other liabilities	(25,674)	(71,311)	(104)	**(97,089)**
Net on balance sheet position	**296,999**	**204,167**	**(45,166)**	**456,000**
Net off balance sheet position (derivatives)	**(299,330)**	**(226,196)**	**63,065**	**(462,461)**
Net position	**(2,331)**	**(22,029)**	**17,899**	**(6,461)**

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Market risk (continued)

Exposure to currency risk

A 10 percent devaluation of the TL against the following currencies as at and for the years ended 31 December 2013 and 2012 would change the profit or loss and other comprehensive income (without tax effects) by the amounts shown below.

	31 December 2013		**31 December 2012**	
	Profit or (loss)	**Total comprehensive income**	**Profit or (loss)**	**Total comprehensive income**
USD	(2,800)	(2,800)	(2,203)	(2,203)
Euro	(219)	(219)	(233)	(233)
Other currencies	1,464	1,464	1,790	1,790
Total, net	**(1,555)**	**(1,555)**	**(646)**	**(646)**

This analysis assumes that all other variables remain constant.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Participation Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Participation Bank's operations and are faced by all business entities.

The data of operational losses may be exposed to during the Participation Bank's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

4. Financial risk management (continued)

Operational risk (continued)

The Participation Bank adopts a risk terminology which is in accordance with Basel II in order to create an international approach on Operational Risk Management. This common risk language provides a consistent view and communication about operational risk throughout the Participation Bank. Software is used in order to support the standard framework for the management of operational risk by creating the data house for risk losses and reporting of the mentioned data.

The Risk Control Evaluation (RCE) is performed periodically in the Participation Bank as a basic principle of the Basel II Operational Risk implementations. It is aimed with RCE to restrict the operational risk effects by investigating the business processes subject to operational risk and performing controls by the process owners. In the departments where RCC study is implemented, 'Key Risk Indicators' and the threshold value for the mentioned risk points are determined.

Besides, within the Capital Adequacy Measurement and Reporting Project, the software solutions are started to be used since June 2012 in order to build a flexible parametric model to create a reporting system that is complaint with Basel II, to apply stress tests to the capital adequacy related risks and to be in compliance with the legal framework changes.

The Participation Bank calculated the value of operational risk in accordance with "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012 which is complaint to Basel II, using the basic indicator approach with the data of last three years 2012, 2011 and 2010. The amount, calculated as TL 118,776 (31 December 2012: TL 103,234) represents the operational risk that the Participation Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk.

Capital management – regulatory capital

BRSA, the regulatory body of the banking industry sets and monitors capital requirements for the Participation Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets.

The Participation Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, and retained earnings after deduction of leasehold improvements, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, fair value reserves of available-for-sale financial assets and buildings set aside for contingencies.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirements and market risk capital requirements as at 31 December 2013 and 2012 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

The Participation Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Participation Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year and the previous year.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Capital management – regulatory capital (continued)

The Participation Bank's regulatory capital position at 31 December 2013 and 2012 was as follows:

	31 December 2013	31 December 2012
Tier 1 capital	2,402,528	1,979,761
Tier 2 capital	97,482	129,294
Deductions from capital	(1,806)	(1,456)
Total regulatory capital	**2,498,204**	**2,107,599**
Risk-weighted assets	17,898,940	12,738,763
Value at market risk	114,925	249,570
Operational risk	1,484,700	1,290,422
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	12.81%	14.76%
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	12.32%	13.87%

5. Use of estimates and judgements

Determining fair values

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

Management has estimated that the fair value of certain financial assets and liabilities recorded at amortised cost are not materially different than their recorded values except for those of loans, leasing receivables and advances to customers, funds borrowed and debt securities issued. These financial assets and liabilities include loans and advances to banks, deposits and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values.

For the financial assets and liabilities such as loans and advances, deposits and debt securities issued; valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include benchmark market rates used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(Currency - In thousands of Turkish Lira unless otherwise stated)

5. Use of estimates and judgements (continued)

The estimated fair values of financial assets and financial liabilities are as follows:

	Carrying Amount		Fair Value	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Financial Assets				
Performing loans, leasing receivables and advances to customers	18,172,359	12,971,058	18,068,493	13,243,627
Available-for-sale investment securities	1,413,025	669,326	1,413,025	669,326
Loans and advances to banks	954,203	497,028	954,203	497,028
Derivative assets held for trading	46,669	14,273	46,669	14,273
Total	**20,586,256**	**14,151,685**	**20,482,390**	**14,424,254**
Financial Liabilities				
Deposits from customers	14,818,621	11,070,057	14,818,621	11,070,057
Funds borrowed	4,813,322	2,503,943	4,797,204	2,492,479
Debt securities issued	1,074,246	--	1,076,436	--
Deposits from banks	350,617	365,688	350,617	365,688
Derivative liabilities held for trading	39,140	8,577	39,140	8,577
Total	**21,095,946**	**13,948,265**	**21,082,018**	**13,936,801**

Classification of fair value measurement

IFRS 7 – *Financial Instruments: Disclosures* requires the measurements of fair value of financial instruments to be classified in a hierarchy that reflects the significance of the valuation inputs used. This classification prioritizes observable data, using market data obtained from independent sources, in preference to unobservable data that relies, for example on the use of predictions and assumptions about market prices by the Participation Bank. This sort of categorization generally results in the classifications below:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (i.e. unobservable inputs).

(Currency - In thousands of Turkish Lira unless otherwise stated)

5. Use of estimates and judgements (continued)

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

31 December 2013	Level 1	Level 2	Level 3	Total
Derivative assets held for trading	--	46,669	--	46,669
Available-for-sale investment securities	--	1,413,025	--	1,413,025
Financial assets at fair value	--	**1,459,694**	**--**	**1,459,694**
Derivative liabilities held for trading	--	39,140	--	39,140
Financial liabilities at fair value	**--**	**39,140**	--	**39,140**

31 December 2012	Level 1	Level 2	Level 3	Total
Derivative assets held for trading	--	14,273	--	14,273
Available-for-sale investment securities	--	664,994	--	664,994
Financial assets at fair value	**--**	**679,267**	**--**	**679,267**
Derivative liabilities held for trading	--	8,577	--	8,577
Financial liabilities at fair value	**--**	**8,577**	**--**	**8,577**

Observable market prices such as the marketable security prices which are announced by CBRT and the prices obtained from foreign capital markets are used for fair value determination of financial assets and liabilities measured at fair value except derivative assets and derivative liabilities held for trading. The similar ratios announced in the capital markets are used for discounting the contractual prices of derivative financial assets and derivative financial liabilities for fair value determination.

6. Operating segments

The Participation Bank has three reportable segments, as described below, which are the Participation Bank's strategic business units. These strategic business units offer different products and services, and are managed separately based on the Participation Bank's management and internal reporting structure. For each of the strategic business units, the Board of Directors, as the chief operating decision maker reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Participation Bank's reportable segments:

Consumer banking

This segment includes consumer lending, current accounts and consumer products which are in accordance with Islamic rules for individuals and small sized businesses.

Corporate banking

This segment provides banking services including all conventional credit-related products and financing products in compliance with Islamic rules for medium and large establishments and companies. It also includes international banking services.

Treasury

This segment provides a different range of treasury products and services, including money market and foreign exchange, to the Participation Bank's customers, in addition to carrying out investment and trading activities (local and international) and managing liquidity and market risk.

Others

Others are comprised of head office accounts, particularly management of a portfolio of equity holdings, other real estate and the bank premises.

(Currency - In thousands of Turkish Lira unless otherwise stated)

6. Operating segments (continued)

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes.

Since a segment can use the deposits of the other segment, there is a fund transfer between the segments. Those kinds of income and expenses generated from fund transfers are recalculated based on the average rates and average amounts.

31 December 2013	**Consumer banking**	**Corporate banking**	**Treasury**	**Others**	**Total**
Operating income(*)	345,249	615,197	137,618	--	1,098,064
Net profit of segment(**)	**134,412**	**249,401**	**27,270**	**--**	**411,083**
Profit before tax	**134,412**	**249,401**	**27,270**	**--**	**411,083**
Tax provision	**--**	**--**	**--**	(81,332)	**(81,332)**
Net period profit after tax	**134,412**	**249,401**	**27,270**	**(81,332)**	**329,751**
Assets of the segment	4,306,601	14,661,306	5,296,392	782,785	25,047,084
Total Assets	**4,306,601**	**14,661,306**	**5,296,392**	**782,785**	**25,047,084**
Liabilities of segment	9,983,968	6,492,723	5,465,287	527,826	22,469,804
Shareholders' equity	**--**	**--**	**--**	2,577,280	2,577,280
Total liabilities and equity	**9,983,968**	**6,492,723**	**5,465,287**	**3,105,106**	**25,047,084**
Other Segment Information					
Depreciation	**--**	**--**	**--**	38,184	**38,184**
Impairment	**--**	**--**	**--**	426	**426**

(*)Operating income includes net profit share income, net fee and commission income.

(**)Personnel and operational expenses are allocated based on the asset amount of the each segment.

31 December 2012	**Consumer Banking**	**Corporate banking**	**Treasury**	**Others**	**Total**
Operating income(*)	234,698	476,968	211,909	--	923,575
Net profit of segment(**)	**120,501**	**252,328**	**9,159**	**--**	**381,988**
Profit before tax	120,501	252,328	9,159	--	381,988
Tax provision	--	--	--	(76,373)	**(76,373)**
Net period profit after tax	**120,501**	**252,328**	**9,159**	**(76,373)**	**305,615**
Assets of the segment	3,090,147	10,230,164	3,750,299	469,932	17,540,542
Total Assets	**3,090,147**	**10,230,164**	**3,750,299**	**469,932**	**17,540,542**
Liabilities of segment	8,069,343	4,312,964	2,574,752	403,896	15,360,955
Shareholders' equity	--	--	--	2,179,587	2,179,587
Total liabilities and equity	**8,069,343**	**4,312,964**	**2,574,752**	**2,583,483**	**17,540,542**
Other Segment Information					
Depreciation(***)	--	--	--	30,455	**30,455**
Impairment	--	--	--	596	**596**

(*)Operating income includes net profit share income, net fee and commission income.

(**)Personnel and operational expenses are allocated based on the asset amount of the each segment.

(Currency - In thousands of Turkish Lira unless otherwise stated)

7. Net fee and commission income

	2013	2012
Fee and commission income		
Commissions from non-cash loans	83,128	75,743
Credit card fees and commissions	16,606	16,647
POS commissions from members	13,362	12,301
Others	64,616	47,757
Total fee and commission income	**177,712**	**152,448**
Fee and commission expense		
POS transactions commission expenses	16,282	20,127
Credit card service and usage expenses	3,546	3,137
Others	29,612	20,953
Total fee and commission expense	**49,440**	**44,217**
Net fee and commission income	**128,272**	**108,231**

Net fee and commission income above excludes amounts included in determining the profit share rate on financial assets and liabilities that are not at fair value through profit or loss.

8. Net trading income

	2013	2012
Income from derivative financial instruments	37,110	138,915
Others	1,201	1,171
Total	**38,311**	**140,086**

9. Other operating income

	2013	2012
Gain on sale of assets held for resale and property and equipment	8,081	6,383
Communication expenses charged to customers	6,520	6,351
Income from cheque book	5,188	5,886
Others	22,489	21,427
Total	**42,278**	**40,047**

(Currency - In thousands of Turkish Lira unless otherwise stated)

10. Personnel expenses

	2013	2012
Wages and salaries	220,309	186,324
Short-term employee benefits	27,095	21,134
Compulsory social security obligations	26,566	21,957
Health expenses of personnel	7,882	7,219
Termination payments	7,199	6,613
Provision expense for employee severance indemnity	1,533	6,520
Social assistance payments	3,858	3,221
Others	21,189	17,504
Total	**315,631**	**270,492**

11. Other operating expenses

	2013	2012
Premium expenses paid for saving deposit insurance fund	25,251	17,191
Audit and advisory expenses	9,468	8,278
Impairment loss on asset held for resale	426	596
Provision expense for ongoing suits	2,999	2,422
Others	5,050	4,204
Total	**43,194**	**32,691**

12. Income taxes

Components of income tax expense in the statement of profit or loss and other comprehensive income are as follows:

	31 December 2013	31 December 2012
Income tax recognized in profit for the year		
Current income tax related to income from operations	(80,719)	(78,760)
Deferred income tax related to income from operations	(613)	2,387
	(81,332)	**(76,373)**
Income tax recognized in other comprehensive income		
Deferred income tax recognised in other comprehensive income	10,924	(6,053)
Income tax expense recognized in the statement of total comprehensive income	**(70,408)**	**(82,426)**

The movement of current tax liabilities is as follows:

	2013	2012
At the beginning of the year	19,369	21,956
Current income tax charge	80,719	78,760
Taxes paid during the year	(87,045)	(81,347)
Current tax liabilities	**13,043**	**19,369**

(Currency - In thousands of Turkish Lira unless otherwise stated)

12. Income taxes (continued)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Participation Bank's effective income tax rate for the years ended 31 December 2013 and 2012 is as follows:

	31 December 2013	Tax rate (%)	31 December 2012	Tax rate (%)
Profit from ordinary activities before income tax	**411,083**		**381,988**	
Taxes on income per statutory tax rate	82,217	20.00	76,398	20.00
Disallowable expenses	45,938	11.17	31,385	8.22
Tax exempt income	(46,823)	(11.39)	(31,410)	(8.22)
Income tax expense	**81,332**	**19.78**	**76,373**	**20.00**

Deferred tax assets and liabilities at 31 December 2013 and 2012 are attributable to the items below:

	31 December 2013	31 December 2012
Commission accruals	20,963	17,118
Portfolio basis allowance for loans leasing receivables and advances	13,657	11,208
Short-term employee benefits	2,319	2,276
Reserve for employee severance indemnity	6,812	3,165
Provision expense for law suits	1,533	983
Credit card promotion provision	376	267
Loan accrual differences	8	(33)
Fair value differences of derivative financial instruments	(1,506)	(1,139)
Revaluation surplus on tangible assets	(4,717)	(4,717)
Specific provision of loans, leasing receivables and advances	(3,894)	(3,348)
Fixed asset depreciation difference	(9,107)	(5,206)
Other	5,968	(1,599)
Net deferred tax assets	**32,412**	**18,975**

13. Cash and cash equivalents

As at 31 December 2013 and 2012, cash and cash equivalents as presented in the statement of financial position and cash flows are as follows:

	31 December 2013	31 December 2012
Cash on hand	149,645	101,591
Balances with the Central Bank excluding reserve deposits	774,741	1,001,215
Others	12	130
Cash and balances with Central Bank	**924,398**	**1,102,936**
Loans and advances to banks *(Note 14)*	954,203	497,028
Total cash and cash equivalents in the statement of cash flows	**1,878,601**	**1,599,964**

(Currency - In thousands of Turkish Lira unless otherwise stated)

14. Loans and advances to banks

As at 31 December 2013 and 2012, loans and advances to banks comprise the followings:

	31 December 2013			31 December 2012		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Loans and advances to banks – demand:						
Domestic banks	484,411	379,715	**864,126**	106,033	201,277	**307,310**
Foreign banks	37	90,040	**90,077**	515	189,203	**189,718**
Total loans and advances to banks	**484,448**	**469,755**	**954,203**	**106,548**	**390,480**	**497,028**

15. Loans, lease receivables and advances to customers

As at 31 December 2013 and 2012, all the loans, lease receivables and advances to customers are at amortised cost.

	31 December 2013	**31 December 2012**
Performing loans	17,330,710	12,666,689
Performing lease receivables	841,649	304,369
Non-performing loans and lease receivables	441,072	358,259
Gross amount	**18,613,431**	**13,329,317**
Allowance for individually impaired loans and lease receivables	(312,789)	(258,994)
Allowance for collectively impaired loans and lease receivables	(100,290)	(86,376)
Carrying amount	**18,200,352**	**12,983,947**

Details on performing loans in terms of types are as follows;

	31 December 2013	**31 December 2012**
Corporate loans	13,175,720	9,592,183
Consumer loans and credit cards	3,370,487	2,399,102
Export loans	768,339	654,851
Loans granted to foreign institutions	10,672	10,008
Other	5,492	10,545
Total	**17,330,710**	**12,666,689**

(Currency - In thousands of Turkish Lira unless otherwise stated)

15. Loans, lease receivables and advances to customers (continued)

Allowance for impairment including the portfolio basis allowances

	31 December 2013	31 December 2012
Balance on 1 January	345,370	230,474
Impairment loss for the year:		
-Charge for the year	178,885	181,297
-Recoveries and reversals	(64,757)	(29,515)
-Write-offs and loans sold	(57,954)	(35,184)
-Foreign exchange differences	11,535	(1,702)
Balance at end of the year	**413,079**	**345,370**

(*) In the current period The Participation Bank sold its loans amount to TL 4,522 and write off loans amount to TL 53,432. (31 December 2012: None).

The provision for possible losses is comprised of amounts for specifically identified as being impaired and non-performing loans, leasing receivables and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers. The amount of the portfolio basis allowance is TL 100,290 (31 December 2012: TL 86,376).

Loans, lease receivables and advances to customers include the following finance lease receivables for leases of certain property and equipment where the Participation Bank is the lessor:

	31 December 2013	31 December 2012
Gross investment in finance leases, receivable:		
Less than one year	306,164	117,864
Between one and four years	605,449	221,988
More than four years	56,642	14,858
Total	**968,255**	**354,710**
Unearned finance income	(126,606)	(50,341)
Net investment in finance leases	**841,649**	**304,369**

The net investment in finance leases comprises:

	31 December 2013	31 December 2012
Less than one year	266,131	101,137
Between one and four years	526,282	190,483
More than four years	49,236	12,749
Net investment in finance leases	**841,649**	**304,369**

(Currency - In thousands of Turkish Lira unless otherwise stated)

16. Derivative financial instruments held for trading

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying, such as financial instrument prices, reference rates, commodity prices or indices. In the ordinary course of business, the Participation Bank enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments used include currency forwards and cross currency swaps.

The tables below show the contractual amounts of derivative instruments analyzed by the term to maturity. The contractual amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The contractual amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

	31 December 2013			31 December 2012		
	Fair value Assets	**Fair value Liabilities**	**Notional Amount**	**Fair value Assets**	**Fair value Liabilities**	**Notional Amount**
Forward contracts	42,998	25,159	3,957,109	11,394	5,115	1,855,800
Currency swap contracts	3,671	13,981	3,670,412	2,879	3,462	1,583,751
Total	**46,669**	**39,140**	**7,627,521**	**14,273**	**8,577**	**3,439,551**

	31 December 2013					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Forward contracts	2,858,544	847,099	251,466	--	--	**3,957,109**
Currency swap contracts	3,356,363	204,338	109,711	--	--	**3,670,412**
Total of transactions	**6,214,907**	**1,051,437**	**361,177**	**--**	**--**	**7,627,521**

	31 December 2012					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Forward contracts	1,430,213	204,341	221,246	--	--	**1,855,800**
Currency swap contracts	1,522,160	61,591	--	--	--	**1,583,751**
Total of transactions	**2,952,373**	**265,932**	**221,246**	**--**	**--**	**3,439,551**

(Currency - In thousands of Turkish Lira unless otherwise stated)

17. Available-for-sale investment securities

	31 December 2013	31 December 2012
Government bonds and sukuks	1,408,649	664,994
Unquoted equity securities at cost	4,376	121
Other	--	4,211
Total	**1,413,025**	**669,326**

As at 31 December 2013, the Participation Bank's investment securities comprised of sukuks (rent certificates) at a total face value of TL 1,427,083 (31 December 2012: TL 591,642) and a total carrying value amounting to TL 1,408,646 (31 December 2012: TL 608,156). The coupon payments of these sukuks are semi-annually with annual coupon rates 2.80% and 4.56% for USD and 7.40%, 5.70% and 9% for TRY denominated sukuks and their maturities are 26 March 2018 and 10 October 2018 for USD Sukuks and 1 October 2014, 18 February 2015, 1 October 2014 for TRY Sukuks.

Unquoted equity securities at cost is mainly comprised of the equity participation to Kredi Garanti Fonu AŞ amounting to TL 4,211 (2012: TL 4,211).

18. Property and equipment and intangible assets

Movements in property and equipment and intangible assets from 1 January to 31 December 2013 and 2012 are as follows:

Property and equipment	**1 January 2013**	**Additions**	**Disposals**	**Value Increase**	**Transfers**	**31 December 2013**
Cost:						
Buildings	115,150	--	--	--	--	**115,150**
Leased tangible assets	6,979	--	--	--	(1,197)	**5,782**
Other tangible assets(*)	181,848	41,010	(6,685)	--	1,197	**217,370**
	303,977	**41,010**	**(6,685)**	**--**	--	**338,302**
Accumulated depreciation:						
Buildings	(1,193)	(375)	--	--	--	**(2,288)**
Leased tangible assets	(6,923)	(56)	--	--	1,197	**(5,782)**
Other tangible assets(*)	(98,524)	(25,228)	6,406	--	(1,197)	**(118,543)**
	(107,360)	**(25,659)**	**6,406**	--	--	**(126,613)**
Net book value	**196,617**					**211,689**

(*): Other tangible assets are mainly comprised of leasehold improvements and fixtures and furniture.

(Currency - In thousands of Turkish Lira unless otherwise stated)

18. Property and equipment and intangible assets (continued)

Property and equipment	1 January 2012	Additions	Disposals	Value Increase	Transfers	31 December 2012
Cost:						
Buildings	43,915	--	--	71,235	--	**115,150**
Leased tangible assets	6,979	--	--	--	--	**6,979**
Other tangible assets(*)	160,929	36,611	(15,692)	--	--	**181,848**
	211,823	**36,611**	**(15,692)**	**71,235**	--	**303,977**
Accumulated depreciation:						
Buildings	(1,560)	(353)	--	--	--	**(1,913)**
Leased tangible assets	(6,608)	(315)	--	--	--	**(6,923)**
Other tangible assets(*)	(90,995)	(21,666)	14,137	--	--	**(98,524)**
	(99,163)	**(22,334)**	**14,137**	**--**	--	**(107,360)**
Net book value	**112,660**					**196,617**

(*)Other tangible assets are mainly comprised of leasehold improvements and fixtures and furniture.

Intangible assets	1 January 2013	Additions	Disposals	31 December 2013
Cost:				
Software programmes	47,818	30,006	--	**77,824**
Accumulated amortization:				
Software programmes	(28,937)	(11,738)	--	**(40,645)**
Net book value	**18,881**			**37,149**

Intangible assets	1 January 2012	Additions	Disposals	31 December 2012
Cost:				
Software programmes	33,185	14,633	--	**47,818**
Accumulated amortization:				
Software programmes	(21,384)	(7,553)	--	**(28,937)**
Net book value	**11,801**			**18,881**

There were no capitalized borrowing costs related to the acquisition of plant and equipment and to the internal development of software during the year (2012: None).

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

During 2013 and 2012, the Participation Bank identified no events or circumstances that would indicate that the Participation Bank’s intangible assets may be impaired.

(Currency - In thousands of Turkish Lira unless otherwise stated)

19. Other assets

	31 December 2013	31 December 2012
Reserve deposits at Central Bank of Turkey	2,906,724	1,701,528
Receivables from cheque clearing and credit card POS machines	205,282	244,513
Assets held for resale (net)	41,381	31,758
Others	73,801	60,760
Total other assets	**3,227,188**	**2,038,559**

At 31 December 2013, reserve deposits at the Central Bank of Turkey ("CBT") were kept under the minimum reserve requirement. These funds are not available for the daily operations of the Participation Bank. As required by the regulation, these reserve deposits are calculated on the basis of liabilities of the Participation Bank after some deductions, at the rates determined by the CBT.

In accordance with the current legislation, the reserve deposit rates for TL and foreign currency deposits vary between 5% and 13% according to the maturities (2012: between 5% and 11% for TL and foreign currency). These reserve deposit rates are applicable to deposits from banks and customers.

As at 31 December 2013, TL 41,381 (31 December 2012: TL 31,758) of the other assets is comprised of foreclosed real estate acquired by the Participation Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

The impairment losses of foreclosed real estate acquired for the year ended 31 December 2013 is TL 426 (2012: TL 178).

20. Deposit from banks

As at 31 December 2013 and 2012, deposits from banks comprise of current accounts amounting to TL 350,617 (TL 174,383 denominated in foreign currency) and TL 365,688 (TL 62,351 denominated in foreign currency), respectively.

21. Deposit from customers

As at 31 December 2013 and 2012, deposits from customers comprise the following:

	31 December 2013		31 December 2012	
	Current account	Profit sharing deposits	Current account	Profit sharing deposits
Saving deposits-TL	894,578	5,723,278	580,048	4,797,639
Saving deposits-FC	752,337	2,670,201	745,823	2,043,887
Public, commercial and other enterprises-TL	1,229,316	1,623,730	722,514	1,037,544
Public, commercial and other enterprises-FC	552,071	1,373,110	475,446	667,156
Total deposits from customers	**3,428,302**	**11,390,319**	**2,523,831**	**8,546,226**

(Currency - In thousands of Turkish Lira unless otherwise stated)

22. Funds borrowed and debt securities issued

As at 31 December 2013 and 2012, funds borrowed are all in foreign currency denominated and detailed as follows:

	31 December 2013	31 December 2012
Short-term	1,662,878	900,026
Long-term	3,150,444	1,603,917
Total	**4,813,322**	**2,503,943**

In the current year, the Participation Bank borrowed two syndication loans amounting to USD 251,500 thousand and EUR 76,500 thousand which will mature in 2014 and 2015.

On 2 May 2013, the Bank issued the rent certificates amounting to USD 500,000 thousand (TRY 1.067.150 thousand) through its subsidiary with 5 years maturity and with a semi-annually coupon payment at a profit rate of 3.95%. These certificates are backed by lease receivable.

23. Provisions

	31 December 2013	31 December 2012
Provision for non-cash loans and cheques	67,849	64,998
Short-term employee benefits	36,051	30,821
Reserve for employee severance indemnity	34,060	15,824
Provision for law suits against the Participation Bank	7,663	4,913
Provision for credit card promotions	1,880	1,333
Total	**147,503**	**117,889**

Under the Turkish Labour Law, the Group entities are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires.

Reserve for retirement pay is computed and reflected in the financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Participation Bank arising from the retirement of the employees. IAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the bank’s obligation under defined employee plans. IAS 19 (“Employee Benefits”) has been revised effective from the annual period beginning after 1 January 2013. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognized in other comprehensive income. The average discount rate is 6,20% and share rate is 9,50% at the respective balance sheet date (31 December 2012: 5,10% and 8%).

The calculation was based upon the retirement pay ceiling announced by the Government. Movement in the reserve for employee severance indemnity is as follows:

	2013	2012
Balance on 1 January	15,824	11,460
Current service cost	2,317	1,896
Profit share cost	1,127	971
Actuarial profit/loss (*)	16,702	2,978
Accounted profit/loss	1,297	1,860
Indemnity paid during the period	(3,207)	(3,341)
Balance on 31 December	**34,060**	**15,824**

(*) Actuarial gains/losses, calculated as TL 16,702 in relation to the reserve for employee termination benefits, are shown as TL 13,362 under shareholders’ equity offsetting deferred tax of TL 3,340.

(Currency - In thousands of Turkish Lira unless otherwise stated)

23. Provisions (continued)

The movements of the provisions including provision for non-cash loans and cheques, short-term employee benefits, law suits against the Participation Bank and credit card promotions during the years ended 31 December are as follows:

	Provision for non-cash loans and cheques	Short-term employee benefits	Provision for law suits	Provision for credit card promotions	Total
Balance as at 1 January 2012	**41,512**	**28,200**	**3,792**	**1,124**	**74,628**
Provision for the year	26,989	5,255	2,422	209	**34,875**
Recoveries and reversals	(3,503)	(2,634)	(1,301)	--	**(7,438)**
Balance as at 31 December 2012	**64,998**	**30,821**	**4,913**	**1,333**	**102,065**

	Provision for non-cash loans and cheques	Short-term employee benefits	Provision for law suits	Provision for credit card promotions	Total
Balance as at 1 January 2013	**64,998**	**30,821**	**4,913**	**1,333**	**102,065**
Provision for the year	16,126	7,689	2,999	547	27,361
Recoveries and reversals	(13,275)	(2,459)	(249)	--	(15,983)
Balance as at 31 December 2013	**67,849**	**36,051**	**7,663**	**1,880**	**113,443**

24. Other liabilities

	31 December 2013	31 December 2012
Payable to cheque clearing account	429,988	546,608
Cash guarantees received	315,207	215,143
Blocked accounts	167,435	120,293
Unearned income	105,487	86,206
Blocked accounts against expenditures of credit card holders	87,454	84,110
Taxes payable other than income tax	29,078	23,596
Share capital commitment (*)	--	125,000
Others	78,663	74,476
Total	**1,213,312**	**1,275,432**

[*] Share capital commitment that was paid in cash and recorded into capital accounts on with the approval of Banking Regulation and Supervision Agency on increase dated 6 February 2013.

(Currency - In thousands of Turkish Lira unless otherwise stated)

25. Capital and reserves

Share capital

	31 December 2013	31 December 2012
Number of common shares, TL 1 (in full TL), par value Authorized, issued and outstanding as thousands	1,775,000,000	1,650,000,000

The authorized nominal share capital of the Participation Bank is TL 1,775,000 as at 31 December 2013 (31 December 2012: TL 1,650,000). As of 31 December 2012 cash commitment amounting to TL 125,000 was paid by shareholders and recorded into capital accounts on with the approval of Banking Regulation and Supervision Agency on increase dated 6 February 2013.

Fair value reserve – available for sale financial assets

Revaluation of available-for-sale financial assets is detailed as follows:

	31 December 2013	31 December 2012
Balance at the beginning of the year	**6,901**	**(2,996)**
Net change in fair value of available-for-sale financial assets	(54,487)	14,081
Related deferred income taxes	10,924	(2,471)
Net amount transferred to profit or loss	133	(1,713)
Balance at the end of the year	**(36,795)**	**6,901**

Revaluation reserve – buildings

Revaluation of buildings is detailed as follows:

	31 December 2013	31 December 2012
Balance at the beginning of the year	**89,615**	**21,582**
Net change in revaluation of tangible assets	--	71,615
Related deferred income taxes	--	(3,582)
Balance at the end of the year	**89,615**	**89,615**

Other reserves

Other reserves consist of legal reserves kept within the Participation Bank. The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5%, until the total reserve reaches 20% of the Bank's paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

(Currency - In thousands of Turkish Lira unless otherwise stated)

26. Related party transactions

Balances with related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The shareholders of the Participation Bank namely the National Commercial Bank, Boydak Group and Ülker Group and all their subsidiaries, and their ultimate owners, directors and executive officers are referred to as related parties. During the course of the business, the Participation Bank has granted loans, advances and lease receivables to related parties and also received deposits from these related parties at various terms. These are all commercial transactions and realised on an arms-length basis. The Participation Bank had the following balances outstanding from and transactions with related parties as at and for the year ended on 31 December 2013 and 2012:

	31 December 2013	31 December 2012
Balances with the related parties:		
Loans and advances to customers	183,371	77,518
Lease receivables	19,289	8,057
Funds borrowed	1,114,834	935,865
Deposits	317,586	324,139
Non-cash loans	133,709	163,891

	31 December 2013	31 December 2012
Transactions with the related parties:		
Profit share income	50,755	17,128
Profit share expense on deposits	(17,693)	(28,052)
Profit share expense on borrowings	(37,320)	(25,887)

In addition to the transactions and balances explained in the note above, the total remuneration of directors and other key members of key management during the year are as follows:

	31 December 2013	31 December 2012
Short-term compensation of key management personnel	11,965	9,560
Other benefits	954	1,134
Total	**12,919**	**10,694**

No impairment losses have been recorded against balances outstanding during the year with related parties and no specific allowance has been made for impairment losses on balances with the related parties as at 31 December 2013 and 2012.

(Currency - In thousands of Turkish Lira unless otherwise stated)

27. Commitments and contingencies

	31 December 2013	31 December 2012
Letters of guarantee	7,726,279	6,197,780
Commitments	1,870,092	1,561,940
Letters of credit	741,920	618,692
Acceptances	435,940	292,225
Total	**10,774,231**	**8,670,637**

Litigations

There are 910 ongoing law suits filed against the Participation Bank as at reporting date. Total amount of these suits are TL 168,231 (31 December 2012: 319 suits, TL 162,888). TL 7,664 of provision for ongoing law suits for which cash outflow is probable and measurable reliably is set by the Participation Bank in the financial statements (31 December 2012: TL 4,913).

28. Group Subsidiaries

The table below provides details of the significant subsidiaries of the Group.

		Ownership Interest	
	Principal place of business	**31 December 2013**	**31 December 2012**
TF Varlık Kiralama AŞ	Istanbul/Turkey	100%	-

TF Varlık Kiralama AŞ, which was established on 11 February 2013 and the subsidiary of the Parent Participation Bank with 100% ownership is fully consolidated in the consolidated financial statements of the Participation Bank from 30 June 2013.

TF Varlık Kiralama AŞ which is wholly owned by the Parent Participation Bank has been established to generate (leasing/rental) income by leasing assets back to the originating company which were taken over from the originating company; by issuing leasing certificate related to aforementioned leasing (rental) income and then transferring the related assets back to the originating company.

29. Operating leases

At 31 December, the future minimum lease payments under cancellable operating leases were payable as follows:

	31 December 2013
Less than one year	2,119
Between one and five years	90,954
More than five years	157,566
Total	**250,139**

30. Events after the reporting period

Rent certificates (debt securities) that are offered to public by TF Varlık Kiralama A.Ş. with nominal value at TL 100,000,000 , 179 days maturity and redemption date of 18 July 2014, are start to be traded from 21 January 2014 as listed at Debt Securities Outright Purchases and Sales Market within the scope of resolution of the Stock Exchange Board of Directors at 21 February 2013.

Türkiye Finans Katılım Bankası
Anonim Şirketi

Financial Statements As At and

For The Year Ended

31 December 2012

With Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

15 February 2013

This report contains the "Independent Auditors' Report on Financial Statements" comprising 1 page and; the "Financial statements and their explanatory notes" comprising 47 pages.

Türkiye Finans Katılım Bankası Anonim Şirketi

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Independent Auditors' Report

To the Board of Directors of Türkiye Finans Katılım Bankası Anonim Şirketi:

Introduction

We have audited the accompanying financial statements of Türkiye Finans Katılım Bankası Anonim Şirketi ("the Bank"), which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

15 February 2013
Istanbul, Turkey

KPMG Akis Bağımsız Denetim ve SMMM AŞ

Türkiye Finans Katılım Bankası Anonim Şirketi

Statement of Financial Position
As at 31 December 2012

(Currency: Thousands of Turkish Lira (TL))

	Notes	31 December 2012	31 December 2011
Assets			
Cash and balances with Central Bank	*13*	1,102,936	882,815
Loans and advances to banks	*14*	497,028	647,342
Loans, lease receivables and advances to customers	*15*	12,983,947	10,342,255
Derivative assets held for trading	*16*	14,273	23,667
Available-for-sale investment securities	*17*	669,326	623,827
Property and equipment	*18*	196,617	112,660
Intangible assets	*18*	18,881	11,801
Deferred tax assets	*12*	18,975	22,641
Other assets	*19*	2,038,559	806,705
Total assets		**17,540,542**	**13,473,713**
Liabilities			
Deposits from banks	*20*	365,688	13,704
Deposits from customers	*21*	11,070,057	9,525,939
Funds borrowed	*22*	2,503,943	1,511,956
Derivative liabilities held for trading	*16*	8,577	19,529
Provisions	*23*	117,889	86,088
Current tax liabilities	*12*	19,369	21,956
Other liabilities	*24*	1,275,432	648,499
Total liabilities		**15,360,955**	**11,827,671**
Equity			
Share capital	*25*	1,650,000	800,000
Reserves	*25*	154,599	65,334
Retained earnings		374,988	780,708
Total shareholders' equity		**2,179,587**	**1,646,042**
Total liabilities and shareholders' equity		**17,540,542**	**13,473,713**

The notes on pages 5 to 47 are an integral part of these financial statements.

Türkiye Finans Katılım Bankası Anonim Şirketi

Statement of Comprehensive Income
For The Year Ended 31 December 2012

(Currency: Thousands of Turkish Lira (TL))

	Notes	31 December 2012	31 December 2011
Profit share income:			
Income on loans		1,369,043	977,295
Income on investment securities		25,044	68,625
Income on deposits at banks		1,312	812
Income on financial leases		14,957	2,469
		1,410,356	1,049,201
Profit share expense:			
Expense on deposits		(520,279)	(464,464)
Expense on borrowings		(74,733)	(27,933)
Others		--	(7)
		(595,012)	(492,404)
Net profit share income		**815,344**	**556,797**
Fee and commission income	*7*	152,448	132,814
Fee and commission expense	*7*	(44,217)	(36,875)
Net fee and commission income		**108,231**	**95,939**
Net trading income	*8*	140,086	72,652
Other operating income	*9*	40,047	34,510
Other operating income		**180,133**	**107,162**
Total operating income		**1,103,708**	**759,898**
Personnel expenses	*10*	(270,492)	(233,225)
Administrative expenses		(110,885)	(86,387)
Net impairment loss on financial assets	*15,23*	(175,268)	(73,973)
Depreciation and amortisation	*18*	(30,455)	(30,016)
Foreign exchange loss, net		(83,386)	(6,303)
Taxes and duties other than on income		(18,543)	(13,874)
Other operating expenses	*11*	(32,691)	(30,750)
Total operating expenses		**(721,720)**	**(474,528)**
Profit before tax		**381,988**	**285,370**
Income tax expense	*12*	(76,373)	(55,783)
Profit for the period		**305,615**	**229,587**
Other comprehensive income:			
Net change in fair values of available-for-sale financial assets	*25*	14,081	(30,029)
Net change in revaluation of tangible assets	*25*	71,615	--
Net change in deferred income tax on other comprehensive income	*25*	(6,053)	6,005
Net amount transferred to profit or loss	*25*	(1,713)	--
Other comprehensive income for the period, net of tax		**77,930**	**(24,024)**
Total comprehensive income for the period		**383,545**	**205,563**

The notes on pages 5 to 47 are an integral part of these financial statements.

Türkiye Finans Katılım Bankası Anonim Şirketi

Statement of Changes in Equity
For The Year Ended 31 December 2012

(Currency: Thousands of Turkish Lira (TL))

	Notes	Share capital	Fair value reserve	Revaluation reserve	Other reserves	Retained earnings	Total
Balances at 1 January 2011		**800,000**	**21,028**	**21,582**	**36,772**	**561,097**	**1,440,479**
Total comprehensive income for the period							
Net profit of the period		--	--	--	--	**229,587**	**229,587**
Other comprehensive income							
Net change in fair value of available-for-sale financial assets, net of tax	*25*	--	(24,024)	--	--	--	(24,024)
Net amount transferred to profit or loss	*25*	--	--	--	--	--	--
Net change in revaluation of tangible assets	*25*	--	--	--	--	--	--
Total other comprehensive income		**--**	**(24,024)**	--	**--**	**--**	**(24,024)**
Total comprehensive income for the period		**--**	**(24,024)**	--	**--**	**229,587**	**205,563**
Transfers to other reserves		--	--	--	**9,976**	**(9,976)**	--
Transactions with the owners, recorded directly in equity		--	--	--	--	--	--
Balances at 31 December 2011		**800,000**	**(2,996)**	**21,582**	**46,748**	**780,708**	**1,646,042**
Balances at 1 January 2012		**800,000**	**(2,996)**	**21,582**	**46,748**	**780,708**	**1,646,042**
Total comprehensive income for the period							
Net profit of the period		--	--	--	--	**305,615**	**305,615**
Other comprehensive income							
Net change in fair value of available-for-sale financial assets, net of tax	*25*	--	11,610	--	--	--	11,610
Net amount transferred to profit or loss	*25*	--	(1,713)	--	--	--	(1,713)
Net change in revaluation of tangible assets, net of tax	*25*	--	--	68,033	--	--	68,033
Total other comprehensive income		**--**	**9,897 -**	**68,033**	**--**	**--**	**77,930**
Total comprehensive income for the period		**--**	**9,897**	**68,033**	**--**	**305,615**	**383,545**
Transfers to other reserves		--	--	--	11,335	**(11,335)**	--
Transactions with the owners, recorded directly in equity							
Transfers to share capital	*25*	700,000				**(700,000)**	--
Share capital increase by cash	*25*	150,000	--	--	--	--	**150,000**
Balances at 31 December 2012		**1,650,000**	**6,901**	**89,615**	**58,083**	**374,988**	**2,179,587**

The notes on pages 5 to 47 are an integral part of these financial statements.

Türkiye Finans Katılım Bankası Anonim Şirketi

Statement of Cash Flows
For The Year Ended 31 December 2012

(Currency: Thousands of Turkish Lira (TL))

	Notes	31 December 2012	31 December 2011
Cash flows from operating activities:			
Profit for the period		305,615	229,587
Adjustments for:			
Depreciation and amortisation	*18*	30,455	30,016
Net impairment loss on financial assets	*15,23*	208,286	61,451
Net (gain)/loss on derivative instruments held for trading	*16*	1,558	(6,768)
Provision for employee benefits	*23*	11,775	8,388
Provision for litigation and claims	*23*	2,422	1,546
Other provision expenses	*23*	805	(3,947)
Net profit share income		(815,344)	(556,797)
Income tax expense	*12*	76,373	55,783
		(178,055)	**(180,741)**
Change in loans, leasing receivables and advances to customers		(2,753,571)	(2,389,006)
Change in other assets		(1,208,847)	(648,442)
Change in deposits from banks		346,918	(27,315)
Change in deposits from customers		1,571,622	1,150,764
Change in other liabilities		608,674	51,608
		(1,613,259)	**(2,043,132)**
Profit share income		1,409,540	1,032,593
Profit share expense paid		(603,420)	(470,552)
Income tax paid	*12*	(81,347)	(61,691)
Net cash used in operating activities		**(888,486)**	**(1,542,782)**
Cash flows from investing activities:			
Acquisition of available-for-sale investment securities	*17*	(595,696)	(56,000)
Proceeds from sale of available-for-sale investment securities	*17*	553,453	--
Acquisition of property and equipment	*18*	(36,611)	(15,073)
Proceeds from the sale of property and equipment		1,555	1,160
Acquisition of intangible assets	*18*	(14,633)	(7,566)
Net cash used in investing activities		**(91,932)**	**(77,479)**
Cash flows from financing activities:			
Proceeds from issue of ordinary shares	*25*	150,000	--
Proceeds from funds borrowed		2,561,744	1,808,857
Repayment of funds borrowed		(1,582,751)	(436,164)
Net cash provided from financing activities		**1,128,993**	**1,372,693**
Net increase / (decrease) in cash and cash equivalents		**148,575**	**(247,568)**
Cash and cash equivalents at 1 January	*13*	1,530,157	1,557,276
Effect of exchange rate fluctuations on cash held		(78,768)	220,449
Cash and cash equivalents at 31 December	*13*	**1,599,964**	**1,530,157**

The notes on pages 5 to 47 are an integral part of these financial statements.

Notes to the financial statements

1. Overview of the Participation Bank

1.1. Brief History

Türkiye Finans Katılım Bankası A.Ş. (the "Participation Bank") was established in accordance with the Provision on Establishment of Participation Banks of Decree No. 83/7506 dated 16 December 1983. The Participation Bank (formerly; Anadolu Finans Kurumu A.Ş.) obtained permission from the Central Bank of Turkey on 24 October 1991 and commenced operations on 4 November 1991.

In accordance with the resolution in the board meeting of Anadolu Finans Kurumu A.Ş. numbered 1047, on 31 May 2005 a merger between the Participation Bank and Family Finans Kurumu A.Ş was decided.

All the assets, liabilities and also off-balance sheet liabilities of Family Finans Kurumu A.Ş. were transferred to Anadolu Finans Kurumu A.Ş. during the merger. With the resolution dated 20 October 2005 and numbered 1726 by Banking Regulation and Supervision Agency ("BRSA"), the transfer agreement, signed by the boards of directors' of Anadolu Finans Kurumu A.Ş and Family Finans Kurumu A.Ş. and modified draft of main contract of Anadolu Finans Kurumu A.Ş were approved. The registry on the decision regarding the merger which was concluded in the general assemblies of both participation banks on 23 December 2005 was approved by BRSA's resolution dated 28 December 2005, and numbered 1764.

In accordance with BRSA's resolution dated 30 November 2005, and numbered 1747 related to the merger of both participation banks, the title was changed into Türkiye Finans Katılım Bankası A.Ş. providing that required permission be given by the Council of Ministers within the framework of the 48th article of the Turkish Commercial Law. The new title was registered by the Turkish Trade Registry of Istanbul on 30 December 2005 in compliance with the Turkish Commercial Law numbered 6762.

The Participation Bank operates in accordance with the principles of interest-free banking and Islamic rules as a participation bank, by collecting funds through current accounts and profit sharing accounts and lending such funds through 220 branches with 3,595 employees as at 31 December 2012.

The Participation Bank's head office is located at Adnan Kahveci Caddesi No: 139 34876 Yakacık – Kartal/ Istanbul.

1.2. Ownership

With the authorization of BRSA, numbered 2489 and dated 28 February 2008, 60% of the Participation Bank was acquired by the National Commercial Bank. The Participation Bank increased its capital from TL 292,047 to TL 800,000 with the share capital increase in 2008.

As per the decision taken by the extraordinary General Assembly on 6 June 2012, the Bank's share capital will be increased by TL 975,000 from TL 800,000 to TL 1,775,000. The part of this increase amounting to TL 700,000 was transferred from retained earnings and the part amounting to TL 150,000 was paid in cash by shareholders on 2 October 2012. The remaining part of the cash commitment amounting to TL 125,000 was paid by shareholders and approved by the Banking Regulation and Supervision Agency on 6 February 2013.

As at 31 December 2012, the shareholders are as follows; the National Commercial Bank holds 65.61%, Boydak group holds 21.86%, Ülker group holds 12.45%.

The Participation Bank is controlled by the National Commercial Bank.

The National Commercial Bank (NCB) established as the first and the biggest bank of Saudi Arabia. The Bank is performing its banking operations through cross-border in Bahrain and Lebanon. The head quarter of the NCB is located in Jeddah.

(Currency - In thousands of Turkish Lira unless otherwise stated)

1. Overview of the Participation Bank (continued)

1.2. Ownership (continued)

As at 31 December 2012, the Participation Bank's paid-in-capital consists of 1.650.000.000 shares of TL 1 nominal each.

As at 31 December 2012 and 2011, the composition of shareholders and their respective percentage of ownership can be summarized as follows:

	31 December 2012		31 December 2011	
	Amount	**%**	**Amount**	**%**
The National Commercial Bank JSC	1,082,633	65.61	517,413	64.68
Gözde Girişim Sermayesi Yatırım Ortaklığı AŞ	205,405	12.45	109,550	13.69
(Hacı) Mustafa Boydak	37,892	2.30	18,109	2.26
Boydak Holding AŞ	36,088	2.19	17,247	2.16
Bekir Boydak	30,618	1.86	14,633	1.83
Memduh Boydak	30,618	1.86	14,633	1.83
Mustafa Boydak (Sami)	30,600	1.85	14,624	1.83
Yusuf Boydak	28,814	1.75	13,771	1.72
Şükrü Boydak	25,521	1.55	12,197	1.52
Hacı Boydak	24,552	1.49	11,734	1.47
Other shareholders	117,259	7.09	56,089	7.01
Total	**1,650,000**	**100.00**	**800,000**	**100.00**

2. Basis of preparation

2.1. Statement of compliance

The Participation Bank located in Turkey maintains its books of account and prepare its statutory financial statements in Turkish Lira ("TL"), the functional currency of the Participation Bank, in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA").

The accompanying financial statements of the Participation Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The Participation Bank adopted all IFRSs, which were mandatory as at 31 December 2012.

The accompanying financial statements are authorized for issue by the Bank's Management on 15 February 2013.

2.2. Basis of measurement

The accompanying financial statements are prepared in accordance with the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the items presented on a fair value basis that are financial assets at fair value through profit or loss, derivative financial assets and liabilities held for trading purpose, available-for-sale investment securities and buildings whose fair value can reliably be measured.

2. Basis of preparation (continued)

2.3. Functional and presentation currency

These financial statements are presented in TL, which is the Participation Bank's functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

2.4. Accounting in hyperinflationary countries

Financial statements of the entities located in Turkey have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 – Financial Reporting in Hyperinflationary Economies as at 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute. This, together with the sustained positive trend in quantitative factors, such as the stabilization in capital and money markets, decrease in profit share rates and the appreciation of TL against the US Dollar and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006.

2.5. Use of estimates and judgments

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows;

Key sources of estimation uncertainty

Allowances for credit losses

The Participation Bank reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the comprehensive income statement, the Participation Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. Evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Participation Bank. Impairment and uncollectibility are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

2. Basis of preparation (continued)

2.5. Use of estimates and judgments (continued)

Portfolio-basis assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on sector experience and current economic conditions. The accuracy of the allowances depends on how well these estimate, future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Determining fair values

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Participation Bank uses that technique. To the extent practical, models use only observable data; however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(Currency - In thousands of Turkish Lira unless otherwise stated)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Where necessary, comparative figures have been adjusted to conform with the changes in presentation in the current year. In order to make comparative presentation of the current and prior periods' statement of financial position, unallocated gold account amounting to TL 378,942 is reclassified from the account "Cash and Balances with Central Bank" to the account "Loans and advances to banks" as at 31 December 2011.

3.1. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency, TL, of the Participation Bank at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The official TL exchange rates used by the Participation Bank for foreign currency translation are as follows:

	EUR / TL	**USD / TL**
31 December 2012	2.3517	1.7826
31 December 2011	2.4592	1.9065

3.2. Profit share

Profit share income and expense are recognized in the statement of comprehensive income using the effective rate method, except for the profit share income on overdue loans. The effective rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective rate, the Participation Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

Profit share income and expense presented in the statement of comprehensive income include:

- profit share on financial assets and liabilities at amortized cost on an effective rate basis,
- profit share on available-for-sale investment securities on an effective rate basis,

3.3. Fees and commission

Fees and commission income and expenses that are integral to the effective rate on a financial asset or liability are included in the measurement of the effective rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognized as the related services are provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3. Significant accounting policies (continued)

3.4. Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealized fair value changes, except for the unrealized gains of available for sale securities.

3.5. Dividends

Dividend income is recognized when the right to receive the income is established.

3.6. Lease payments made

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of profit share on the remaining balance of the liability.

3.7. Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted on the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued)

3.8. Financial assets and liabilities

Recognition

The Participation Bank initially recognises loans, lease receivables and advances, deposits and funds borrowed on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which the Participation Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value profit or loss) are initially recognised on the trade date at which the Participation Bank becomes a party to the contractual provisions of the instrument.

Classification

See accounting policies 3.9, 3.10., 3.11. and 3.12.

Derecognition

The Participation Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Participation Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any profit share in transferred financial assets that is created or retained by the Participation Bank is recognised as a separate asset or liability. On derecognition of a financial asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including the new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Participation Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Available-for-sale assets and financial assets at fair value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as at the date the Participation Bank commits to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Participation Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Participation Bank's trading activity.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3. Significant accounting policies (continued)

3.8. Financial assets and liabilities (continued)

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Participation Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Participation Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same and discounted cash flow analyses. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Participation Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Participation Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Identification and measurement of impairment

At each reporting date, the Participation Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the reporting date. In order to determine allowance rate for portfolio basis, the Participation Bank uses historical allowance rates based on its own statistical data.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Participation Bank about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in profit share, penalty or principal payments;
- the Participation Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or

3. Significant accounting policies (continued)

3.8. Financial assets and liabilities (continued)

Identification and measurement of impairment (continued)

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Participation Bank, including:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the Participation Bank.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Profit share on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of profit share income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income.

The Participation Bank writes off certain loans and advances when they are determined to be uncollectible.

Designation at fair value through profit or loss

Financial assets at fair value through profit or loss are trading financial assets, such as equity participations, acquired principally with the intention of disposal within a short period for the purpose of short-term profit making. These assets or liabilities are managed, evaluated and reported internally on a fair value basis.

3. Significant accounting policies (continued)

3.9. Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Bank, cash on transit and loans and advances to banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.10. Fair value through profit or loss

The Participation Bank designates some financial assets at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy 3.8.

3.11. Loans, lease receivables and advances

Loans, lease receivables and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Participation Bank does not intend to sell immediately or in the near term.

When the Participation Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans, lease receivables and advances.

Loans, lease receivables and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective rate method.

3.12. Available-for-sale investment securities

Available-for-sale investments, which are initially measured at fair value plus incremental direct transaction costs, are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. All available-for-sale investments are carried at fair value.

Profit share income is recognised in profit or loss using the effective rate method. Dividend income is recognised in profit or loss when the Participation Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Participation Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

3. Significant accounting policies (continued)

3.13. Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses except for buildings owned which are measured at fair value. Change in fair value is reflected into "revaluation reserve" account in other comprehensive income.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within the other operating income or other operating expense in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Participation Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

▪ Buildings	50 years
▪ Office equipment, furniture and fixtures	2-15 years
▪ Motor vehicles	5 years

Leasehold improvements are amortized over the shorter of periods of the respective leases and their useful lives, also on a straight-line basis.

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

3.14. Intangible assets

Software acquired by the Participation Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three to five years. Amortisation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

3. Significant accounting policies (continued)

3.15. Leased assets – lessee

Leases in terms of which the Participation Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, the leased assets are not recognised on the Participation Bank's statement of financial position.

3.16. Impairment of non-financial assets

The carrying amounts of the Participation Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of other assets, impairment losses recognised in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.17. Deposits

Deposits are the Participation Bank's main source of debt funding. Deposits of the Participation Bank comprised of the customers' current and profit sharing accounts.

Costumers' current and profit sharing accounts are initially recognized at cost. Subsequent to the initial recognition, all profit share accounts are recognized considering the attribute profits or any losses incurred on the respective loan balances. In all cases, profit/loss sharing accounts receive a proportion of the profit or bear a share of loss based on the results of the respective loan balances.

3.18. Provisions

A provision is recognised if, as a result of a past event, the Participation Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. Significant accounting policies (continued)

3.18. Provisions (continued)

A provision for restructuring is recognised when the Participation Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Participation Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Participation Bank recognises any impairment loss on the assets associated with that contract.

3.19. Employee benefits

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Participation Bank arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. IFRSs require actuarial valuation methods to be developed to estimate the Participation Bank's obligation under reserve for employee severance indemnity.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Participation Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Participation Bank does not have any internally set defined contribution plan.

3.20. Segment reporting

An operating segment is a component of the Participation Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Participation Bank's other components, whose operating results are reviewed regularly by the Participation Bank's Management Committee (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Board of Directors include items directly attributable to that segment as well as those that can be allocated on a reasonable basis.

3.21. Events after the reporting period

Events after the reporting period that provide additional information about the Participation Bank's position at the reporting dates (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

3. Significant accounting policies (continued)

3.22. New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Participation Bank, with the exception of:

- IFRS 9 Financial Instruments could change the classification and measurement of financial assets and becomes effective for annual periods beginning on or after 1 January 2015.
- IFRS 13 Fair Value Measurement replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance and becomes effective for annual periods beginning on or after 1 January 2013.
- Revised IAS 19 Employee Benefits requires that all actuarial gains and losses recognised immediately in other comprehensive income and becomes effective for annual periods beginning on or after 1 January 2013.

The Participation Bank does not plan to adopt these standards early and the extent of the impact has not been determined yet.

4. Financial risk management

Introduction and overview

The Participation Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Participation Bank's exposure to each of the above risks, the Participation Bank's objectives, policies and processes for measuring and managing risk, and the Participation Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Participation Bank's risk management framework. The Board has established the Participation Bank's Asset and Liability (ALCO) committee, Credit committee and Risk Management Department, which are responsible for monitoring the Participation Bank risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Participation Bank's risk management policies are established to identify and analyze the risks faced by the Participation Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Participation Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

4. Financial risk management (continued)

Introduction and overview (continued)

The Participation Bank's Audit Committee is responsible for monitoring compliance with the Participation Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Participation Bank's. The Participation Bank's Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Participation Bank's Audit Committee.

Credit risk

Credit risk is defined as the current or prospective threat to the Participation Bank's earnings and capital as a result of counterparty's failure to comply with a financial or other contractual obligation in respect of the institution, including the possibility of restrictions on or impediments to the transfer of payments from abroad and arises principally from the Participation Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Participation Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

For credit risk management purposes the Risk Management Department is involved in

- the determination of credit risk policies in coordination with the Participation Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- contribution to the formation of rating and scoring systems,
- submitting to the Board of Directors and the senior management not only credit risk management reports about the credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration, but also scenario analysis reports, stress tests and other analyses, and
- studies regarding the formation of advanced credit risk measurement approaches.

Regular audits of business units and Participation Bank's credit processes are undertaken by internal audit.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Credit risk (continued)

Exposure to credit risk

	Note	**31 December 2012** **Loans, lease receivables and advances to customers**	**31 December 2011** **Loans, lease receivables and advances to customers**
Carrying amount	*15*	12,983,947	10,342,255
Assets at amortised cost			
Individually impaired			
Grade 3: Impaired		58,550	39,929
Grade 4: Impaired		83,736	23,879
Grade 5: Impaired		215,973	193,446
Gross amount	*15*	**358,259**	**257,254**
Allowance for impairment	*15*	(258,994)	(162,542)
Carrying amount		**99,265**	**94,712**
Neither past due nor individually impaired			
Grade 1: Low-fair risk		**12,433,050**	**9,960,953**
Past due but not individually impaired			
Grade 2: Watch List		**538,008**	**354,522**
Past due comprises:			
1-30 days		354,568	209,201
31-60 days		88,499	96,377
61-90 days		94,941	48,944
Gross amount for collective impairment		**12,971,058**	**10,315,475**
Allowance for collective impairment	*15*	(86,376)	(67,932)
Carrying amount		**12,884,682**	**10,247,543**
Total carrying amount-amortised cost		**12,983,947**	**10,342,255**
Includes accounts with renegotiated terms		54,302	115,530

As at 31 December 2012 and 2011, the Participation Bank has no allowance for loans and advances to banks and available-for-sale investment securities.

Impaired loans, lease receivables and advances

Impaired loans, lease receivables and advances are loans, lease receivables and advances for which the Participation Bank determines that it is probable that it will be unable to collect all principal and profit share due according to the contractual terms of the loan or leasing agreement. These loans, lease receivables and advances are graded 3 to 5 in the Participation Bank's internal credit risk grading system which is also in line with the regulations of BRSA.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Credit risk (continued)

Past due but not impaired loans, lease receivables and advances

Past due but not impaired loans are those for which contractual profit share or principal payments are past due but the Participation Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Participation Bank.

Loans and lease receivables with renegotiated terms

Loans and lease receivables with renegotiated terms are loans and lease receivables that have been restructured due to temporary deterioration in the borrower's financial position and where the Participation Bank has made concessions that it would not otherwise consider.

Allowances for impairment

The Participation Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Participation Bank writes off a loan balance (and any related allowances for impairment losses) when it is concluded that the loans are uncollectible after all the necessary legal procedures have been completed, and the final loss has been determined. This conclusion is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

Loans, lease receivables and advances to customers	**31 December 2012**		**31 December 2011**	
	Gross	**Net**	**Gross**	**Net**
Grade 3	58,550	26,773	39,929	26,101
Grade 4	83,736	33,106	23,879	12,011
Grade 5	215,973	39,386	193,446	56,600
Total	**358,259**	**99,265**	**257,254**	**94,712**

Collateral policy

The Participation Bank holds collateral against loans, lease receivables and advances to customers in the form of mortgage profit shares over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks and available-for-sale investment securities, and no such collateral was held at 31 December 2012 and 2011.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Credit risk (continued)

Collateral policy (continued)

The breakdown of performing loans, lease receivables and advances to customers by type of collateral are as follows:

Loans, lease receivables and advances to customers	**31 December 2012**	**31 December 2011**
Secured loans:		
Secured by mortgages	6,015,008	4,820,121
Secured by promissory notes	2,252,346	1,782,007
Secured by pledge on assets	688,998	522,294
Secured by cash collateral	315,919	351,389
Other collateral	12,376	12,771
Unsecured loans	3,686,411	2,826,893
Total performing loans, lease receivables and advances to customers	**12,971,058**	**10,315,475**

Sectoral analysis

The Participation Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	31 December 2012		**31 December 2011**	
Sector	**Carrying amount**	**%**	**Carrying amount**	**%**
Trade and commerce	3,831,191	30	3,092,123	30
Manufacturing	3,125,709	24	2,742,410	26
Retail	2,355,357	18	1,503,936	14
Construction	1,388,312	11	1,086,558	11
Services	581,729	4	467,717	5
Transportation and communication	374,466	3	313,632	3
Electricity, water, gas and health services	277,908	2	190,111	2
Agriculture and fishing	261,737	2	165,372	2
Financial institutions	2,174	--	10,346	--
Other	785,364	6	770,050	7
Total	**12,983,947**	**100**	**10,342,255**	**100**

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Credit risk (continued)

Sectoral analysis (continued)

Geographical concentration	*Note*	**31 December 2012**	**31 December 2011**
Turkey		13,212,241	10,408,879
European Union countries		132,897	407,531
USA, Canada		41,908	31,155
Off-shore banking regions		5,351	5,842
OECD countries		3,557	4,436
Other countries		72,132	104,974
Total performing loans, lease receivables and advances to banks and customers	*14,15*	**13,468,086**	**10,962,817**

Liquidity risk

Liquidity risk is the risk that the Participation Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Participation Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Participation Bank's reputation.

The Treasury Department of the Participation Bank receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Participation Bank as a whole. The liquidity requirements of business departments are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Participation Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Participation Bank heavily relies on deposits from customers and banks as its primary sources of funding. Deposits from customers and banks generally have shorter maturities and a significant proportion of them are repayable on demand. The short-term nature of these deposits increases the Participation Bank's liquidity risk and the Participation Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Liquidity risk (continued)

Exposure to liquidity risk

The calculation method used to measure the Participation Bank's compliance with the liquidity limit is set by BRSA. As per the BRSA Communiqué, "Measurement and Assessment of the Adequacy of Banks' Liquidity", the weekly and monthly liquidity ratios on a bank-only basis for foreign currency assets/liabilities and total assets/liabilities should be minimum 80% and 100%, respectively. The liquidity ratios of the year 2012 are as follows:

2012	**First Maturity Bracket (Weekly)**		**Second Maturity Bracket (Monthly)**	
	FC	**FC+TL**	**FC**	**FC+TL**
Average (%)	196.26	163.13	147.49	127.90
Maximum (%)	256.65	192.22	188.22	153.96
Minimum (%)	134.69	124.31	100.13	103.45

Maturity analysis of monetary assets and liabilities according to their remaining maturities:

31 December 2012	**Demand**	**Less than one month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Unallocated**	**Total**
Cash and balances with Central Bank	1,102,936	--	--	--	--	--	--	**1,102,936**
Loans and advances to banks	497,028	--	--	--	--	--	--	**497,028**
Loans, lease receivables and advances to customers	--	1,793,019	2,237,377	4,809,093	3,853,609	277,960	12,889	**12,983,947**
Available-for-sale investment securities	121	--	56,838	--	409,947	198,209	4,211	**669,326**
Other assets(*)	2,026,742	--	--	--	--	--	11,817	**2,038,559**
Total assets	**3,626,827**	**1,793,019**	**2,294,215**	**4,809,093**	**4,263,556**	**476,169**	**28,917**	**17,291,796**
Deposits from banks	3,978	58,091	182,507	121,112	--	--	--	**365,688**
Deposits from customers	2,523,831	4,917,246	1,512,399	2,017,996	98,585	--	--	**11,070,057**
Funds borrowed	--	67,769	267,456	1,063,657	1,105,061	--	--	**2,503,943**
Current tax liabilities	--	--	19,369	--	--	--	--	**19,369**
Other liabilities	1,165,950	104,070	4,457	955	--	--	--	**1,275,432**
Total liabilities	**3,693,759**	**5,147,176**	**1,986,188**	**3,203,720**	**1,203,646**	--	--	**15,234,489**
Net	**(66,932)**	**(3,354,157)**	**308,027**	**1,605,373**	**3,059,910**	**476,169**	**28,917**	**2,057,307**

31 December 2011	**Demand**	**Less than one month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Unallocated**	**Total**
Cash and balances with Central Bank	882,815	--	--	--	--	--	--	**882,815**
Loans and advances to banks	647,342	--	--	--	--	--	--	**647,342**
Loans, lease receivables and advances to customers	--	1,223,892	1,866,590	4,135,654	2,978,906	110,433	26,780	**10,342,255**
Available-for-sale investment securities	85	--	462,973	101,775	55,041	953	3,000	**623,827**
Other assets(*)	797,469	--	--	--	--	--	9,236	**806,705**
Total assets	**2,327,711**	**1,223,892**	**2,329,563**	**4,237,429**	**3,033,947**	**111,386**	**39,016**	**13,302,944**
Deposits from banks	8,885	4,806	13	--	--	--	--	**13,704**
Deposits from customers	2,329,671	4,804,562	830,339	1,561,367	--	--	--	**9,525,939**
Funds borrowed	--	58,680	640,114	479,237	291,029	42,896	--	**1,511,956**
Current tax liabilities	--	--	21,956	--	--	--	--	**21,956**
Other liabilities	540,537	94,750	6,589	6,623	--	--	--	**648,499**
Total liabilities	**2,879,093**	**4,962,798**	**1,499,011**	**2,047,227**	**291,029**	**42,896**	**--**	**11,722,054**
Net	**(551,382)**	**(3,738,906)**	**830,552**	**2,190,202**	**2,742,918**	**68,490**	**39,016**	**1,580,890**

(*)Reserve deposits at Central Bank of Turkey amounting to TL 1,701,528 (31 December 2011: TL 656,080) are presented under "Demand" column.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Liquidity risk (continued)

Residual contractual maturities of the financial liabilities

31 December 2012	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years
Deposits from banks	365,688	365,688	3,978	58,091	182,507	121,112	--	--
Deposits from customers	11,070,057	11,070,057	2,523,831	4,917,246	1,512,399	2,017,996	95,585	--
Funds borrowed	2,503,943	2,633,377	--	67,805	284,200	1,092,091	1,189,281	
Total	**13,939,688**	**14,069,122**	**2,527,809**	**5,043,142**	**1,979,106**	**3,231,199**	**1,284,866**	**--**
Non-Cash Loans	**7,108,697**	**7,108,697**	**2,273,619**	**1,049,468**	**705,206**	**1,878,163**	**1,082,494**	**119,747**

31 December 2011	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years
Deposits from banks	13,704	13,704	8,885	4,806	13	--	--	--
Deposits from customers	9,525,939	9,525,939	2,329,671	4,804,562	830,339	1,561,367	--	--
Funds borrowed	1,511,956	1,563,886	--	58,762	643,000	496,278	321,716	44,130
Total	**11,051,599**	**11,103,529**	**2,338,556**	**4,863,130**	**1,473,352**	**2,057,645**	**321,716**	**44,130**
Non-Cash Loans	**6,538,539**	**6,538,539**	**2,575,581**	**558,739**	**659,580**	**1,671,784**	**960,234**	**112,621**

The above table shows the undiscounted cash flows of the Participation Bank’s financial liabilities on the basis of their earliest possible contractual maturity.

Profit Rate Risk

Profit rate risk arises from the possibility that changes in the conventional profit share rate will affect the future profitability or the fair value of financial instruments. The Participation Bank 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 in measured and the profit rate gaps are reviewed to initiate corrective action in the Participation Bank’s funding profile to ensure that the overall profit rate risk remains within acceptable tolerances.

The principal objective of the Participation Bank’s management activities for profit share rate risk is to enhance profitability by limiting the effect of adverse profit share rate movements in the sector and increasing profit share income by managing profit share rate exposure. The Participation Bank’s monitors profit share sensitivity by analyzing the composition of its assets and liabilities and off-balance sheet financial instruments.

The major portion of the costumers’ current and profit sharing accounts are short term. Accordingly, profit share rates are in line with the prevailing profit share rates in the market. Therefore, the management believes that the fair value of such financing activities do not materially differ from their respective book values.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Market risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and credit spreads will affect the Participation Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Participation Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Treasury Department, and include positions arising from proprietary position taking, together with financial assets and liabilities that is managed on a fair value basis.

Overall authority for market risk is vested in Risk Management Department and ALCO.

Exposure to market risk

The market risk arising from the trading portfolio is monitored, measured and reported using Standardized Approach according to the legal legislation. The monthly market risk report prepared using Standardized Approach are reported to BRSA.

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Participation Bank's trading and available-for-sale portfolios. The VaR of these portfolios is the estimated loss that will arise on the portfolios over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

Average, highest and lowest values of market risks for the year ended 31 December 2011, calculated as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 26333 dated 1 November 2006. However, average, highest and lowest values of market risks for the year ended 31 December 2012, calculated and reported with using the Standardized Approach as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012 which is complaint to Basel II. Average, highest and lowest values of market risks for the years ended 31 December 2012 and 2011 are as follows:

	31 December 2012			31 December 2011		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk*	512	840	249	1,810	2,565	485
Common share risk	2	18	--	--	--	--
Currency risk	4,956	17,246	1,124	2,419	3,225	1,322
Commodity risk	1,513	1,999	1,084	--	--	--
Counterparty credit risk	1,319	2,492	665	--	--	--
Total value at risk	**95,525**	**249,570**	**43,763**	**52,865**	**66,050**	**34,750**

*Includes the market effect of forward transactions and income indexed bonds.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Market risk (continued)

Currency risk

The Participation Bank is exposed to currency risk through transactions in foreign currencies.

Management of currency risk

Risk policy of the Participation Bank is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Participation Bank has established a foreign currency risk management policy that enables the Participation Bank to take a position between lower and upper limits which are determined.

	Euro	USD	Other	Total
31 December 2012				
Cash and balances with Central Bank	20,895	607,590	785	**629,270**
Loans and advances to banks	89,056	210,387	91,037	**390,480**
Loans, lease receivables and advances to customers	1,154,931	2,948,681	--	**4,103,612**
Available-for-sale investment securities	121	198,209	--	**198,330**
Other assets	400,570	950,094	379,339	**1,730,003**
Deposits from banks	(5,163)	(57,047)	(141)	**(62,351)**
Deposits from customers	(1,095,662)	(2,320,568)	(516,082)	**(3,932,312)**
Funds borrowed	(242,075)	(2,261,868)	--	**(2,503,943)**
Other liabilities	(25,674)	(71,311)	(104)	**(97,089)**
Net on statement of financial position	**296,999**	**204,167**	**(45,166)**	**456,000**
Net off balance sheet position	**(299,330)**	**(226,196)**	**63,065**	**(462,461)**
Net position	**(2,331)**	**(22,029)**	**17,899**	**(6,461)**

	Euro	USD	Other	Total
31 December 2011				
Cash and balances with Central Bank	21,890	545,328	522,710	**1,089,928**
Loans and advances to banks	66,171	109,585	18,757	**194,513**
Loans, lease receivables and advances to customers	1,057,293	2,349,007	--	**3,406,300**
Available-for-sale investment securities	85	953	--	**1,038**
Other assets	102,101	420,794	--	**522,895**
Deposits from banks	(4,914)	(6,701)	(292)	**(11,907)**
Deposits from customers	(1,002,178)	(1,732,881)	(528,845)	**(3,263,904)**
Funds borrowed	(298,811)	(1,213,145)	--	**(1,511,956)**
Other liabilities	(30,760)	(96,897)	(156)	**(127,813)**
Net on statement of financial position	**(89,123)**	**376,043**	**12,174**	**299,094**
Net off balance sheet position	**88,214**	**(388,551)**	**(2,109)**	**(302,446)**
Net position	**(909)**	**(12,508)**	**10,065**	**(3,352)**

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Market risk (continued)

Exposure to currency risk

A 10 percent devaluation of the TL against the following currencies as at and for the years ended 31 December 2012 and 2011 would change the total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	31 December 2012		31 December 2011	
	Profit or (loss)	Total comprehensive income	Profit or (loss)	Total comprehensive income
USD	(2,203)	(2,203)	(1,251)	(1,251)
Euro	(233)	(233)	(91)	(91)
Other currencies	1,790	1,790	1,007	1,007
Total, net	**(646)**	**(646)**	**(335)**	**(335)**

This analysis assumes that all other variables remain constant.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Participation Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Participation Bank's operations and are faced by all business entities.

The data of operational losses may be exposed to during the Participation Bank's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

4. Financial risk management (continued)

Operational risk (continued)

The Participation Bank adopts a risk terminology which is in accordance with Basel II in order to create an international approach on Operational Risk Management. This common risk language provides a consistent view and communication about operational risk throughout the Participation Bank. Software is used in order to support the standard framework for the management of operational risk by creating the data house for risk losses and reporting of the mentioned data.

The Risk Control Evaluation (RCE) is performed periodically in the Participation Bank as a basic principle of the Basel II Operational Risk implementations. It is aimed with RCE to restrict the operational risk effects by investigating the business processes subject to operational risk and performing controls by the process owners. In the departments where RCC study is implemented, 'Key Risk Indicators' and the threshold value for the mentioned risk points are determined.

Besides, within the Capital Adequacy Measurement and Reporting Project, the software solutions are started to be used since June 2012 in order to build a flexible parametric model to create a reporting system that is complaint with Basel II, to apply stress tests to the capital adequacy related risks and to be in compliance with the legal framework changes.

The Participation Bank calculated the value of operational risk in accordance with "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012 which is complaint to Basel II, using the basic indicator approach with the data of last three years 2011, 2010 and 2009. The amount, calculated as TL 103,234 (31 December 2011: TL 92,282) represents the operational risk that the Participation Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk.

Capital management – regulatory capital

BRSA, the regulatory body of the banking industry sets and monitors capital requirements for the Participation Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets.

The Participation Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, and retained earnings after deduction of leasehold improvements, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, fair value reserves of available-for-sale financial assets and buildings set aside for contingencies.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirements and market risk capital requirements as at 31 December 2012 and 2011 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

The Participation Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Participation Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year and the previous year.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Capital management – regulatory capital (continued)

The Participation Bank's regulatory capital position at 31 December 2012 and 2011 was as follows:

	31 December 2012**	31 December 2011*
Tier 1 capital	1,979,761	1,555,410
Tier 2 capital	129,294	63,021
Deductions from capital	(1,456)	(1,057)
Total regulatory capital	**2,107,599**	**1,617,374**
Risk-weighted assets	12,738,763	10,153,815
Value at market risk	249,570	50,525
Operational risk	1,290,422	1,153,525
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	14.76%	14.24%
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13.87%	13.69%

*Related figures as at 31 December 2011 are calculated before the calculation base has changed to Basel II starting from 1 July 2012.

**Related figures as at 31 December 2012 are calculated in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012 which is complaint to Basel II.

5. Use of estimates and judgements

Determining fair values

The estimated fair values of financial instruments have been determined using available market information by the Participation Bank, and where it exists, appropriate valuation methodologies. However, judgment is necessary to interpret market data to determine the estimated fair value. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities recorded at amortised cost are not materially different than their recorded values except for those of loans, leasing receivables and advances to customers and funds borrowed. These financial assets and liabilities include loans and advances to banks, deposits and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values. The estimated fair values of financial assets and financial liabilities are as follows:

	Carrying Amount		Fair Value	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Financial Assets				
Performing loans, leasing receivables and advances to customers	12,971,058	10,315,475	13,243,627	10,131,739
Available-for-sale investment securities	669,326	623,827	669,326	623,827
Loans and advances to banks	497,028	647,342	497,028	647,342
Derivative assets held for trading	14,273	23,667	14,273	23,667
Total	**14,151,685**	**11,610,311**	**14,424,254**	**11,426,575**
Financial Liabilities				
Deposits from customers	11,070,057	9,525,939	11,070,057	9,525,939
Funds borrowed	2,503,943	1,511,956	2,492,479	1,508,576
Deposits from banks	365,688	13,704	365,688	13,704
Derivative liabilities held for trading	8,577	19,529	8,577	19,529
Total	**13,948,265**	**11,071,128**	**13,936,801**	**11,067,748**

(Currency - In thousands of Turkish Lira unless otherwise stated)

5. Use of estimates and judgements (continued)

Classification of fair value measurement

IFRS 7 – *Financial Instruments: Disclosures* requires the measurements of fair value of financial instruments to be classified in a hierarchy that reflects the significance of the valuation inputs used. This classification prioritizes observable data, using market data obtained from independent sources, in preference to unobservable data that relies, for example on the use of predictions and assumptions about market prices by the Participation Bank. This sort of categorization generally results in the classifications below:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (i.e. unobservable inputs).

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative assets held for trading	--	14,273	--	14,273
Available-for-sale investment securities	--	664,994	--	664,994
Financial assets at fair value	**--**	**679,267**	**--**	**679,267**
Derivative liabilities held for trading	--	8,577	--	8,577
Financial liabilities at fair value	**--**	**8,577**	**--**	**8,577**

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative assets held for trading	--	23,667	--	23,667
Available-for-sale investment securities	953	619,789	--	620,742
Financial assets at fair value	**953**	**643,456**	**--**	**644,409**
Derivative liabilities held for trading	--	19,529	--	19,529
Financial liabilities at fair value	**--**	**19,529**	**--**	**19,529**

6. Operating segments

The Participation Bank has three reportable segments, as described below, which are the Participation Bank's strategic business units. These strategic business units offer different products and services, and are managed separately based on the Participation Bank's management and internal reporting structure. For each of the strategic business units, the Board of Directors, as the chief operating decision maker reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Participation Bank's reportable segments:

Consumer banking

This segment includes consumer lending, current accounts and consumer products which are in accordance with Islamic rules for individuals and small sized businesses.

Corporate banking

This segment provides banking services including all conventional credit-related products and financing products in compliance with Islamic rules for medium and large establishments and companies. It also includes international banking services.

Treasury

This segment provides a different range of treasury products and services, including money market and foreign exchange, to the Participation Bank's customers, in addition to carrying out investment and trading activities (local and international) and managing liquidity and market risk.

Others

Others are comprised of head office accounts, particularly management of a portfolio of equity holdings, other real estate and the bank premises.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes.

(Currency - In thousands of Turkish Lira unless otherwise stated)

6. Operating segments (continued)

Since a segment can use the deposits of the other segment, there is a fund transfer between the segments. Those kinds of income and expenses generated from fund transfers are recalculated based on the average rates and average amounts.

31 December 2012	**Consumer banking**	**Corporate banking**	**Treasury**	**Others**	**Total**
Operating income(*)	234,698	476,968	211,909	--	923,575
Net profit of segment(**)	**120,501**	**252,328**	**9,159**	**--**	**381,988**
Profit before tax	120,501	252,328	9,159	--	381,988
Tax provision	--	--	--	(76,373)	**(76,373)**
Net period profit after tax	**120,501**	**252,328**	**9,159**	**(76,373)**	**305,615**
Assets of the segment	3,090,147	10,230,164	3,750,299	469,932	17,540,542
Total Assets	**3,090,147**	**10,230,164**	**3,750,299**	**469,932**	**17,540,542**
Liabilities of segment	8,069,343	4,312,964	2,574,752	403,896	15,360,955
Shareholders' equity	--	--	--	2,179,587	2,179,587
Total liabilities and equity	**8,069,343**	**4,312,964**	**2,574,752**	**2,583,483**	**17,540,542**
Other Segment Information					
Depreciation	--	--	--	30,455	**30,455**
Impairment	--	--	--	596	**596**

(*)Operating income includes net profit share income, net fee and commission income.

(**)Personnel and operational expenses are allocated based on the asset amount of the each segment.

31 December 2011	**Consumer Banking**	**Corporate banking**	**Treasury**	**Others**	**Total**
Operating income(*)	177,036	426,235	49,465	--	652,736
Net profit of segment(**)	**23,812**	**172,896**	**88,662**	**--**	**285,370**
Profit before tax	23,812	172,896	88,662	--	285,370
Tax provision	--	--	--	(55,783)	**(55,783)**
Net period profit after tax	**23,812**	**172,896**	**88,662**	**(55,783)**	**229,587**
Assets of the segment	3,396,551	8,426,686	1,366,738	283,738	13,473,713
Total Assets	**3,396,551**	**8,426,686**	**1,366,738**	**283,738**	**13,473,713**
Liabilities of segment	7,236,536	2,584,707	1,544,536	461,892	11,827,671
Shareholders' equity	--	--	--	1,646,042	1,646,042
Total liabilities and equity	**7,236,536**	**2,584,707**	**1,544,536**	**2,107,934**	**13,473,713**
Other Segment Information					
Depreciation(***)	--	--	--	30,016	**30,016**
Impairment	--	--	--	358	**358**

(*)Operating income includes net profit share income, net fee and commission income.

(**)Personnel and operational expenses are allocated based on the asset amount of the each segment.

(Currency - In thousands of Turkish Lira unless otherwise stated)

7. Net fee and commission income

	2012	2011
Fee and commission income		
Commissions from non-cash loans	75,743	71,272
Credit card fees and commissions	16,647	11,900
POS commissions from members	12,301	10,269
Others	47,757	39,373
Total fee and commission income	**152,448**	**132,814**
Fee and commission expense		
POS transactions commission expenses	20,127	17,503
Credit card service and usage expenses	3,137	2,750
Others	20,953	16,622
Total fee and commission expense	**44,217**	**36,875**
Net fee and commission income	**108,231**	**95,939**

Net fee and commission income above excludes amounts included in determining the profit share rate on financial assets and liabilities that are not at fair value through profit or loss.

8. Net trading income

	2012	2011
Income from derivative financial instruments	138,915	70,614
Others	1,171	2,038
Total	**140,086**	**72,652**

9. Other operating income

	2012	2011
Gain on sale of assets held for resale and property and equipment	6,383	9,524
Communication expenses charged to customers	6,351	6,658
Income from cheque book	5,886	5,387
Others	21,427	12,941
Total	**40,047**	**34,510**

(Currency - In thousands of Turkish Lira unless otherwise stated)

10. Personnel expenses

	2012	2011
Wages and salaries	186,324	161,539
Compulsory social security obligations	21,957	19,540
Short-term employee benefits	21,134	19,990
Health expenses of personnel	7,219	4,696
Termination payments	6,613	4,981
Provision expense for employee severance indemnity	6,520	3,966
Social assistance payments	3,221	4,963
Others	17,504	13,550
Total	**270,492**	**233,225**

11. Other operating expenses

	2012	2011
Premium expenses paid for saving deposit insurance fund	17,191	18,096
Audit and advisory expenses	8,278	7,473
Impairment loss on asset held for resale	596	358
Provision expense for ongoing suits	2,422	1,848
Others	4,204	2,975
Total	**32,691**	**30,750**

12. Income taxes

Components of income tax expense in the statement of comprehensive income are as follows:

	31 December 2012	31 December 2011
Income tax recognized in profit for the year		
Current income tax related to income from operations	(78,760)	(66,718)
Deferred income tax related to income from operations	2,387	10,935
	(76,373)	**(55,783)**
Income tax recognized in other comprehensive income		
Deferred income tax recognised in other comprehensive income	(6,053)	6,005
Income tax expense recognized in the statement of comprehensive income	**(82,426)**	**(49,778)**

The movement of current tax liabilities is as follows:

	2012	2011
At the beginning of the year	21,956	16,929
Current income tax charge	78,760	66,718
Taxes paid during the year	(81,347)	(61,691)
Current tax liabilities	**19,369**	**21,956**

(Currency - In thousands of Turkish Lira unless otherwise stated)

12. Income taxes (continued)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Participation Bank's effective income tax rate for the years ended 31 December 2012 and 2011 is as follows:

	31 December 2012	Tax rate (%)	31 December 2011	Tax rate (%)
Profit from ordinary activities before income tax	**381,988**		**285,370**	
Taxes on income per statutory tax rate	76,398	20.00	57,074	20.00
Disallowable expenses	31,385	8.22	25,857	9.06
Tax exempt income	(31,410)	(8.22)	(27,148)	(9.51)
Income tax expense	**76,373**	**20.00**	**55,783**	**19.55**

Deferred tax assets and liabilities at 31 December 2012 and 2011 are attributable to the items below:

	31 December 2012	31 December 2011
Commission accruals	17,118	12,016
Portfolio basis allowance for loans leasing receivables and advances	11,208	8,483
Short-term employee benefits	2,276	5,640
Reserve for employee severance indemnity	3,165	2,292
Provision expense for law suits	983	758
Credit card promotion provision	267	225
Loan accrual differences	(33)	24
Fair value differences of derivative financial instruments	(1,139)	(828)
Revaluation surplus on tangible assets	(4,717)	(1,136)
Specific provision of loans, leasing receivables and advances	(3,348)	(2,503)
Fixed asset depreciation difference	(5,206)	(3,467)
Other	(1,599)	1,137
Net deferred tax assets	**18,975**	**22,641**

13. Cash and cash equivalents

As at 31 December 2012 and 2011, cash and cash equivalents as presented in the statement of financial position and cash flows are as follows:

	31 December 2012	31 December 2011*
Cash on hand	101,591	76,631
Balances with the Central Bank excluding reserve deposits	1,001,215	805,919
Others	130	265
Cash and balances with Central Bank	**1,102,936**	**882,815**
Loans and advances to banks *(Note 14)*	497,028	647,342
Total cash and cash equivalents in the statement of cash flows	**1,599,964**	**1,530,157**

*In order to make comparative presentation of the current and prior periods' statement of financial position, unallocated gold account amounting to TL 378,942 is reclassified from the account "Cash and Balances with Central Bank" to the account "Loans and advances to banks" as at 31 December 2011.

(Currency - In thousands of Turkish Lira unless otherwise stated)

14. Loans and advances to banks

As at 31 December 2012 and 2011, loans and advances to banks comprise the followings:

	31 December 2012			31 December 2011*		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Loans and advances to banks – demand:						
Domestic banks	106,033	201,277	**307,310**	73,879	130,496	**204,375**
Foreign banks	515	189,203	**189,718**	8	442,959	**442,967**
Total loans and advances to banks	**106,548**	**390,480**	**497,028**	**73,887**	**573,455**	**647,342**

*In order to make comparative presentation of the current and prior periods' statement of financial position, unallocated gold account amounting to TL 378,942 is reclassified from the account "Cash and Balances with Central Bank" to the account "Loans and advances to banks" as at 31 December 2011.

15. Loans, lease receivables and advances to customers

As at 31 December 2012 and 2011, all the loans, lease receivables and advances to customers are at amortised cost.

	31 December 2012	**31 December 2011**
Performing loans	12,666,689	10,259,145
Performing lease receivables	304,369	56,330
Non-performing loans and lease receivables	358,259	257,254
Gross amount	**13,329,317**	**10,572,729**
Allowance for individually impaired loans and lease receivables	(258,994)	(162,542)
Allowance for collectively impaired loans and lease receivables	(86,376)	(67,932)
Carrying amount	**12,983,947**	**10,342,255**

Details on performing loans in terms of types are as follows;

	31 December 2012	**31 December 2011**
Corporate loans	9,592,183	7,850,889
Consumer loans and credit cards	2,399,102	1,499,445
Export loans	654,851	791,639
Loans granted to foreign institutions	10,008	110,972
Other	10,545	6,200
Total	**12,666,689**	**10,259,145**

(Currency - In thousands of Turkish Lira unless otherwise stated)

15. Loans, lease receivables and advances to customers (continued)

Allowance for impairment including the portfolio basis allowances

	31 December 2012	31 December 2011
Balance on 1 January	230,474	193,912
Impairment loss for the year:		
-Charge to the deposit accounts	--	7,099
-Charge for the year	181,297	96,725
-Recoveries and reversals	(29,515)	(47,641)
-Write-offs	(35,184)	(21,818)
-Foreign exchange differences	(1,702)	2,197
Balance at end of the year	**345,370**	**230,474**

The provision for possible losses is comprised of amounts for specifically identified as being impaired and non-performing loans, leasing receivables and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers. The amount of the portfolio basis allowance is TL 86,376 (31 December 2011: TL 67,932).

Loans, lease receivables and advances to customers include the following finance lease receivables for leases of certain property and equipment where the Participation Bank is the lessor:

	31 December 2012	31 December 2011
Gross investment in finance leases, receivable:		
Less than one year	117,864	26,791
Between one and four years	221,988	37,912
More than four years	14,858	4,062
Total	**354,710**	**68,765**
Unearned finance income	(50,341)	(12,435)
Net investment in finance leases	**304,369**	**56,330**

The net investment in finance leases comprises:

	31 December 2012	31 December 2011
Less than one year	101,137	21,947
Between one and four years	190,483	31,056
More than four years	12,749	3,327
Net investment in finance leases	**304,369**	**56,330**

(Currency - In thousands of Turkish Lira unless otherwise stated)

16. Derivative financial instruments held for trading

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying, such as financial instrument prices, reference rates, commodity prices or indices. In the ordinary course of business, the Participation Bank enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments used include currency forwards and cross currency swaps.

The tables below show the contractual amounts of derivative instruments analyzed by the term to maturity. The contractual amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The contractual amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

	31 December 2012			31 December 2011		
	Fair value Assets	Fair value Liabilities	Notional Amount	Fair value Assets	Fair value Liabilities	Notional Amount
Forward contracts	11,394	5,115	1,855,800	23,667	16,800	2,408,800
Currency swap contracts	2,879	3,462	1,583,751	--	2,729	866,954
Total	**14,273**	**8,577**	**3,439,551**	**23,667**	**19,529**	**3,275,754**

	31 December 2012					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Forward contracts	1,430,213	204,341	221,246	--	--	**1,855,800**
Currency swap contracts	1,522,160	61,591	--	--	--	**1,583,751**
Total of transactions	**2,952,373**	**265,932**	**221,246**	**--**	**--**	**3,439,551**

	31 December 2011					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Forward contracts	1,561,168	460,841	386,791	--	--	**2,408,800**
Currency swap contracts	866,954	--	--	--	--	**866,954**
Total of transactions	**2,428,122**	**460,841**	**386,791**	**--**	**--**	**3,275,754**

(Currency - In thousands of Turkish Lira unless otherwise stated)

17. Available-for-sale investment securities

	31 December 2012	31 December 2011
Government bonds and sukuks	664,994	619,789
Unquoted equity securities at cost	121	85
Other	4,211	3,953
Total	**669,326**	**623,827**

As at 31 December 2012, the Participation Bank's investment securities comprised of income indexed bonds at a total face value of TL 55,000 (31 December 2011: TL 605,000) and a total carrying value amounting to TL 56,838 (31 December 2011: TL 619,789) and comprised of sukuks (rent certificates) at a total face value of TL 591,642 and a total carrying value amounting to TL 608,156. The coupon payments of these sukuks are semi-annually with an annual coupon rate 2.80% for USD denominated one and 7.40% for TRY denominated one and their maturities are 26 March 2018 and 1 October 2014, respectively.

Other available-for-sale investment securities are the equity participation to Kredi Garanti Fonu AŞ amounting to TL 4,211 (2011: TL 3,000). As at 31 December 2011, the Participation Bank had the profit/loss participation fund of Malayan Banking Berhad Sukuk Inc. amounting to TL 953.

18. Property and equipment and intangible assets

Movements in property and equipment and intangible assets from 1 January to 31 December 2012 and 2011 are as follows:

Property and equipment	1 January 2012	Additions	Disposals	Value Increase	Transfers	31 December 2012
Cost:						
Buildings	43,915	--	--	71,235	--	**115,150**
Leased tangible assets	6,979	--	--	--	--	**6,979**
Other tangible assets(*)	160,929	36,611	(15,692)	--	--	**181,848**
	211,823	**36,611**	**(15,692)**	**71,235**	--	**303,977**
Accumulated depreciation:						
Buildings	(1,560)	(353)	--	--	--	**(1,913)**
Leased tangible assets	(6,608)	(315)	--	--	--	**(6,923)**
Other tangible assets(*)	(90,995)	(21,666)	14,137	--	--	**(98,524)**
	(99,163)	**(22,334)**	**14,137**	**--**	--	**(107,360)**
Net book value	**112,660**					**196,617**

(*)Other tangible assets are mainly comprised of leasehold improvements and fixtures and furniture.

(Currency - In thousands of Turkish Lira unless otherwise stated)

18. Property and equipment and intangible assets (continued)

Property and equipment	1 January 2011	Additions	Disposals	Value Increase	Transfers	31 December 2011
Cost:						
Buildings	43,915	--	--	--	--	**43,915**
Leased tangible assets	12,788	--	--	--	(5,809)	**6,979**
Other tangible assets(*)	146,723	15,073	(6,676)	--	5,809	**160,929**
	203,426	**15,073**	**(6,676)**	**--**	--	**211,823**
Accumulated depreciation:						
Buildings	(1,207)	(353)	--	--	--	**(1,560)**
Leased tangible assets	(10,455)	(993)	--	--	4,840	**(6,608)**
Other tangible assets(*)	(69,742)	(22,106)	5,693	--	(4,840)	**(90,995)**
	(81,404)	**(23,452)**	**5,693**	--	--	**(99,163)**
Net book value	**122,022**					**112,660**

(*) Other tangible assets are mainly comprised of leasehold improvements and fixtures and furniture.

Intangible assets	1 January 2012	Additions	Disposals	31 December 2012
Cost:				
Software programmes	33,185	14,633	--	**47,818**
Accumulated amortization:				
Software programmes	(21,384)	(7,553)	--	**(28,937)**
Net book value	**11,801**			**18,881**

Intangible assets	1 January 2011	Additions	Disposals	31 December 2011
Cost:				
Software programmes	25,619	7,566	--	**33,185**
Accumulated amortization:				
Software programmes	(15,368)	(6,016)	--	**(21,384)**
Net book value	**10,251**			**11,801**

There were no capitalized borrowing costs related to the acquisition of plant and equipment and to the internal development of software during the year (2011: None).

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

During 2012 and 2011, the Participation Bank identified no events or circumstances that would indicate that the Participation Bank's intangible assets may be impaired.

(Currency - In thousands of Turkish Lira unless otherwise stated)

19. Other assets

	31 December 2012	31 December 2011
Reserve deposits at Central Bank of Turkey	1,701,528	656,080
Receivables from cheque clearing and credit card POS machines	244,513	96,641
Assets held for resale (net)	31,758	30,758
Others	60,760	23,226
Total other assets	**2,038,559**	**806,705**

At 31 December 2012, reserve deposits at the Central Bank of Turkey ("CBT") were kept under the minimum reserve requirement. These funds are not available for the daily operations of the Participation Bank. As required by the regulation, these reserve deposits are calculated on the basis of domestic liabilities of the Participation Bank after some deductions, at the rates determined by the CBT.

In accordance with the current legislation, the reserve deposit rates for TL and foreign currency deposits vary between 5% and 11% according to the maturities (2011: 5% for TL and 11% for foreign currency). These reserve deposit rates are applicable to deposits from banks and customers.

As at 31 December 2012, TL 31,758 (31 December 2011: TL 30,758) of the other assets is comprised of foreclosed real estate acquired by the Participation Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

The impairment losses of foreclosed real estate acquired for the year ended 31 December 2012 is TL 178 (2011: TL 358).

20. Deposit from banks

As at 31 December 2012 and 2011, deposits from banks comprise of current accounts amounting to TL 365,688 (TL 62,351 denominated in foreign currency) and TL 13,704 (TL 11,907 denominated in foreign currency), respectively.

21. Deposit from customers

As at 31 December 2012 and 2011, deposits from customers comprise the following:

	31 December 2012		31 December 2011	
	Current account	Profit sharing deposits	Current account	Profit sharing deposits
Saving deposits-TL	580,048	4,797,639	537,637	4,247,746
Saving deposits-FC	745,823	2,043,887	718,085	1,684,124
Public, commercial and other enterprises-TL	722,514	1,037,544	709,982	766,670
Public, commercial and other enterprises-FC	475,446	667,156	363,967	497,728
Total deposits from customers	**2,523,831**	**8,546,226**	**2,329,671**	**7,196,268**

(Currency - In thousands of Turkish Lira unless otherwise stated)

22. Funds borrowed

As at 31 December 2012 and 2011, funds borrowed are all in foreign currency denominated and detailed as follows:

	31 December 2012	31 December 2011
Short-term	900,026	81,862
Long-term	1,603,917	1,430,094
Total	**2,503,943**	**1,511,956**

In the current year, the Participation Bank borrowed two syndication loans amounting to USD 251,500 thousand and EUR 76,500 thousand which will mature in 2013.

23. Provisions

	31 December 2012	31 December 2011
Provision for non-cash loans and cheques	64,998	41,512
Short-term employee benefits	30,821	28,200
Reserve for employee severance indemnity	15,824	11,460
Provision for law suits against the Participation Bank	4,913	3,792
Provision for credit card promotions	1,333	1,124
Total	**117,889**	**86,088**

Under the Turkish Labour Law, the Group entities are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires.

Reserve for retirement pay is computed and reflected in the financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Participation Bank arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the Government.

The principal assumptions used for the purpose of the calculations are as follows:

	2012	2011
Discount rate	2.76%	4.66%
The ratio used against retirement possibility (%)	94.06%	94.35%

Movement in the reserve for employee severance indemnity is as follows:

	2012	2011
Balance on 1 January	11,460	9,262
Payments during the year	(2,156)	(1,768)
Provision for the year	6,520	3,966
Balance on 31 December	**15,824**	**11,460**

(Currency - In thousands of Turkish Lira unless otherwise stated)

23. Provisions (continued)

The movements of the provisions including provision for non-cash loans and cheques, short-term employee benefits, law suits against the Participation Bank and credit card promotions during the years ended 31 December are as follows:

	Provision for non-cash loans and cheques	Short-term employee benefits	Provision for law suits	Provision for credit card promotions	Other	Total
Balance as at 1 January 2011	**16,623**	**23,778**	**2,246**	**1,151**	**3,920**	**47,718**
Provision for the year	26,944	4,422	1,848	--	--	33,214
Recoveries and reversals	(2,055)	--	(302)	(27)	(3,920)	(6,304)
Balance as at 31 December 2011	**41,512**	**28,200**	**3,792**	**1,124**	**--**	**74,628**

	Provision for non-cash loans and cheques	Short-term employee benefits	Provision for law suits	Provision for credit card promotions	Total
Balance as at 1 January 2012	**41,512**	**28,200**	**3,792**	**1,124**	**74,628**
Provision for the year	26,989	5,255	2,422	209	34,875
Recoveries and reversals	(3,503)	(2,634)	(1,301)	--	(7,438)
Balance as at 31 December 2012	**64,998**	**30,821**	**4,913**	**1,333**	**102,065**

24. Other liabilities

	31 December 2012	31 December 2011
Payable to cheque clearing account	546,608	210,424
Cash guarantees received	215,143	199,980
Share capital commitment*	125,000	--
Blocked accounts	120,293	55,599
Unearned income	86,206	60,805
Blocked accounts against expenditures of credit card holders	84,110	83,596
Taxes payable other than income tax	23,596	23,972
Others	74,476	14,123
Total	**1,275,432**	**648,499**

*Share capital commitment that was paid in cash was not transferred to the share capital account because the approval of Banking Regulation and Supervision Agency has not been submitted to the Participation Bank as at 31 December 2012.

(Currency - In thousands of Turkish Lira unless otherwise stated)

25. Capital and reserves

Share capital

	31 December 2012	31 December 2011
Number of common shares, TL 1 (in full TL), par value Authorized, issued and outstanding as thousands	1.650.000.000	800.000.000

The authorized nominal share capital of the Participation Bank is TL 1,650,000 as at 31 December 2012 (31 December 2011: TL 800,000). During the current year the Participation Bank increased its share capital amounting to TL 850,000 consisting of TL 150,000 paid in cash and TL 700,000 from retained earnings (2011: None).

Fair value reserve – available for sale financial assets

Revaluation of available-for-sale financial assets is detailed as follows:

	31 December 2012	31 December 2011
Balance at the beginning of the year	**(2,996)**	**21,028**
Net change in fair value of available-for-sale financial assets	14,081	(30,029)
Related deferred income taxes	(2,471)	6,005
Net amount transferred to profit or loss	(1,713)	--
Balance at the end of the year	**6,901**	**(2,996)**

Revaluation reserve – buildings

Revaluation of buildings is detailed as follows:

	31 December 2012	31 December 2011
Balance at the beginning of the year	**21,582**	**21,582**
Net change in revaluation of tangible assets	71,615	--
Related deferred income taxes	(3,582)	--
Balance at the end of the year	**89,615**	**21,582**

Other reserves

Other reserves consist of legal reserves kept within the Participation Bank. The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5%, until the total reserve reaches 20% of the Bank's paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

(Currency - In thousands of Turkish Lira unless otherwise stated)

26. Related party transactions

Balances with related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The shareholders of the Participation Bank namely the National Commercial Bank, Boydak Group and Ülker Group and all their subsidiaries, and their ultimate owners, directors and executive officers are referred to as related parties. During the course of the business, the Participation Bank has granted loans, advances and lease receivables to related parties and also received deposits from these related parties at various terms. These are all commercial transactions and realised on an arms-length basis. The Participation Bank had the following balances outstanding from and transactions with related parties as at and for the year ended on 31 December 2012 and 2011:

	31 December 2012	31 December 2011
Balances with the related parties:		
Loans and advances to customers	77,518	129,125
Lease receivables	8,057	4,085
Funds borrowed	935,865	376,757
Deposits	324,139	284,309
Non-cash loans	163,891	133,803

	31 December 2012	31 December 2011
Transactions with the related parties:		
Profit share income	17,128	29,215
Profit share expense on deposits	(28,052)	(14,583)
Profit share expense on borrowings	(25,887)	(6,314)

In addition to the transactions and balances explained in the note above, the total remuneration of directors and other key members of key management during the year are as follows:

	31 December 2012	31 December 2011
Short-term compensation of key management personnel	9,560	10,698
Other benefits	1,134	1,747
Total	**10,694**	**12,445**

No impairment losses have been recorded against balances outstanding during the year with related parties and no specific allowance has been made for impairment losses on balances with the related parties as at 31 December 2012 and 2011.

(Currency - In thousands of Turkish Lira unless otherwise stated)

27. Commitments and contingencies

	31 December 2012	31 December 2011
Letters of guarantee	6,197,780	5,565,661
Commitments	1,561,940	1,391,530
Letters of credit	618,692	727,907
Acceptances	292,225	244,971
Total	**8,670,637**	**7,930,069**

Litigations

There are 319 ongoing law suits filed against the Participation Bank as at reporting date. Total amount of these suits are TL 162,888 (31 December 2011: 192 suits, TL 162,783). TL 4,913 of provision for ongoing law suits for which cash outflow is probable and measurable reliably is set by the Participation Bank in the financial statements (31 December 2011: TL 3,792).

28. Events after the reporting period

As at 31 December 2012, share capital commitment amounting to TL 125,000 was paid in cash by the shareholders of the Participation Bank, however, it is recorded as share capital after the approval of Banking Regulation and Supervision Agency on 6 February 2013. New shareholder structure of the Participation Bank is as follows:

	Amount	%
The National Commercial Bank JSC	1,176,369	66.27
Gözde Girişim Sermayesi Yatırım Ortaklığı AŞ	205,405	11.57
(Hacı) Mustafa Boydak	41,173	2.32
Boydak Holding AŞ	39,213	2.21
Bekir Boydak	33,269	1.87
Memduh Boydak	33,269	1.87
Mustafa Boydak (Sami)	33,250	1.87
Yusuf Boydak	31,309	1.76
Şükrü Boydak	27,730	1.56
Hacı Boydak	26,678	1.50
Other shareholders	127,335	7.20
Total	**1,775,000**	**100.00**

According to the decision of Board of Directors on 22 October 2012, the Participation Bank decided to establish an asset lease company in order to issue rent certificates (Sukuks). Related asset lease company named TF Varlık Kiralama A.Ş. was established with the approvals of Banking Regulation and Supervision Agency on 20 December 2012, Capital Markets Board on 8 February 2013 and Ministry of Customs and Trade on 11 February 2013.

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