



# KUVEYTTÜRK

## KT AT ONE COMPANY LIMITED

(incorporated as an exempted company with limited liability in the Cayman Islands)

### U.S.\$50,000,000 Tier 1 Capital Certificates

The U.S.\$50,000,000 Tier 1 Capital Certificates (the "**Certificates**") of KT AT One Company Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the "**Trustee**") will be constituted by a declaration of trust (the "**Declaration of Trust**") dated 28 September 2020 (the "**Issue Date**") entered into between the Trustee, Kuveyt Türk Katılım Bankası A.Ş. (the "**Bank**" or "**Kuveyt Türk**") and HSBC Corporate Trustee Company (UK) Limited as the delegate (the "**Delegate**"). The Certificates confer on the holders of the Certificates from time to time (the "**Certificateholders**") the right to receive certain payments (as more particularly described herein) arising from an undivided ownership interest in the assets of a trust declared by the Trustee pursuant to the Declaration of Trust (the "**Trust**") over the Trust Assets (as defined in the terms and conditions of the Certificates (the "**Conditions**")) and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the Conditions.

If a Non-Viability Event (as defined in the Conditions) occurs, a Non-Viability Event Write-down (as defined in the Conditions) shall occur on the relevant Non-Viability Event Write-down Date (as defined in the Conditions), as more particularly described in Condition 13 (*Loss Absorption upon the occurrence of a Non-Viability Event*). In such circumstances, the Certificates shall be cancelled (in the case of a write-down in whole) or written-down in part on a *pro rata* basis (in the case of a write-down in part) by the Trustee as determined by the Bank in consultation with the Regulator may, in its sole discretion, direct in accordance with the prevailing Capital Regulations (as defined in the Conditions) and the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital shall automatically be deemed to be irrevocably and unconditionally written-down in the same manner and in the same proportion as the Certificates. If a Trigger Event (as defined in the Conditions) occurs, a Trigger Event Write-down (as defined in the Conditions) shall occur on the Trigger Event Write-down Date, as more particularly described in Condition 12 (*Loss Absorption upon the occurrence of a Trigger Event*). In such circumstances, the Certificates shall, other than in the case of a Reinstatement as defined in the Conditions (and then only to the extent of such Reinstatement), be written-down in part on a *pro-rata* basis by the Trustee as determined by the Bank in consultation with the Regulator and the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital shall automatically be deemed to be irrevocably and unconditionally written-down in the same manner and in the same proportion as the Certificates. See "*Risk Factors — Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit will be written-down (in whole or in part) upon the occurrence of a Non-Viability Event or in part only upon the occurrence of a Trigger Event*".

Periodic Distribution Amounts (as defined in the Conditions) shall be payable subject to and in accordance with the Conditions on the outstanding face amount of the Certificates from (and including) the Issue Date to (but excluding) 28 September 2025 (the "**First Call Date**") at a rate of 9.95 per cent. per annum from amounts of Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as further described below). If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable from (and including) the First Call Date subject to and in accordance with the Conditions at a fixed rate, to be reset on the First Call Date and every five years thereafter, equal to the Relevant Five Year Reset Rate (as defined in the Conditions) plus a margin of 9.681 per cent. per annum. Periodic Distribution Amounts will, if payable pursuant to the Conditions, be payable semi-annually in arrear on 28 March and 28 September in each year, commencing on 28 March 2021. Payments on the Certificates will be made free and clear of and without deduction for, or on account of, taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (as defined in the Conditions) (the "**Taxes**") to the extent described under Condition 15 (*Taxation*). Each payment of a Periodic Distribution Amount will be made by the Trustee **provided that** the Bank (in its capacity as Mudareb (as defined in the Conditions)) shall have paid Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as applicable) (each as defined in the Conditions) equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement (as defined in the Conditions). Payments of such profit amounts under the Mudaraba Agreement are subject to mandatory cancellation if a Non-Payment Event (as defined in the Conditions) occurs, and payments of Rab-al-Maal Mudaraba Profit are otherwise at the sole discretion of the Bank (as Mudareb). Any Periodic Distribution Amounts not paid as aforesaid will not accumulate and neither the Trustee nor the Certificateholders shall have any claim in respect thereof.

The payment obligations of the Bank under the Mudaraba Agreement (including all payments which are the equivalent of principal and profit) (the "**Relevant Obligations**") will rank in priority only to all Junior Obligations (as defined in the Conditions), *pari passu* with all other *Pari Passu* Obligations (as defined in the Conditions) and junior to all Senior Obligations (as defined in the Conditions).

The Certificates are perpetual securities and have no fixed or final redemption date. Unless the Certificates have previously been redeemed or purchased and cancelled as provided for in the Conditions, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem all but not some only of the Certificates on the First Call Date or on any Periodic Distribution Date falling after the First Call Date in accordance with Condition 11.1(b) (*Trustee's Call Option*). In addition, upon the occurrence of a Tax Event or the occurrence and continuation of a Capital Event (each as defined in the Conditions), the Certificates may be redeemed in whole (but not in part), or the terms thereof may be varied by the Trustee (but only upon the instructions of the Bank (acting in its sole and absolute discretion)), in each case at any time on or after the Issue Date in accordance with Conditions 11.1(c) (*Redemption or Variation due to Taxation*) and 11.1(d) (*Redemption or Variation for Capital Event*). Any redemption or variation is subject to the conditions described in Condition 11.1 (*Redemption and Variation*).

The Bank has been assigned a rating of "B+" (long term) with a negative outlook and "B" (short term) by Fitch Ratings Ltd. ("**Fitch**"). Fitch is established in the United Kingdom and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). The Certificates will not be rated by any rating organisation upon their issue.

**A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

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

These Listing Particulars have been prepared on the basis that any offer of securities in any member state of the European Economic Area or in the United Kingdom will be made pursuant to an exemption under Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**") from the requirement to publish a prospectus for offers of securities. These Listing Particulars is not a prospectus for the purposes of the Prospectus Regulation.

Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (the "**Euronext Dublin**") for the Certificates to be admitted to the official list (the "**Official List**") and to trading on the Global Exchange Market of Euronext Dublin (the "**Global Exchange Market**"). The Global Exchange Market is not a regulated market for the purposes of Directive 2014/65/EU (as amended, "**MiFID II**"). These listing particulars (the "**Listing Particulars**") comprise listing particulars for the purposes of application to, and have been approved by, Euronext Dublin.

References in these Listing Particulars to Certificates being "**listed**" (and all related references) shall mean that such Certificates have been (a) admitted to the Official List and (b) admitted to trading on the Global Exchange Market.

The Certificates will be represented by interests in a global certificate in registered form (the "**Global Certificate**") deposited on or before the Issue Date with, and registered in the name of, a nominee for a common depositary (the "**Common Depositary**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

The transaction structure relating to the Certificates (as described in these Listing Particulars) has been approved by the Bank's Sharia board and the KFH Capital Sharia 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 is in compliance with their individual standards of compliance with *Shari'a* principles.

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.

**Sole Lead Manager**  
**KFH Capital**

The date of these Listing Particulars is 25 September 2020

**These Listing Particulars is not a prospectus for the purposes of the Prospectus Regulation. The Global Exchange Market is not a regulated market within the meaning of MiFID II. The Trustee and the Bank accept responsibility for the information contained in these Listing Particulars. To the best of the knowledge of each of the Trustee and the Bank, having taken all reasonable care to ensure such is the case, the information contained in these Listing Particulars is in accordance with the facts and makes no omission likely to affect the import of such information.**

The opinions, assumptions, intentions, projections and forecasts expressed in these Listing Particulars with regard to the Trustee and the Bank are honestly held by the Trustee and the Bank, have been reached after considering all relevant circumstances and are based on reasonable assumptions and are not misleading in any material respect.

None of the Sole Lead Manager, nor any of its directors, affiliates, advisers or agents, the Delegate or the Agents (as defined in the Conditions) or any of their respective affiliates has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in these Listing Particulars or any other information provided by the Trustee or the Bank in connection with the Certificates nor is any responsibility accepted by them, for any acts or omissions of the Trustee, the Bank or any other person (other than the relevant Joint Sole Lead Manager) in connection with the issue and offering of the Certificates.

To the fullest extent permitted by law, the Sole Lead Manager, the Delegate and the Agents accept no responsibility whatsoever for the contents of these Listing Particulars or for any other statement, made or purported to be made by a Joint Sole Lead Manager, the Delegate or any Agent or on its behalf in connection with the Trustee, the Bank or the issue and offering of the Certificates. The Sole Lead Manager, the Delegate and each Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of these Listing Particulars or any such statement.

No person is or has been authorised by the Trustee, the Bank, the Delegate or the Agents to give any information or to make any representation not contained in or not consistent with these Listing Particulars or any other document entered into in relation to the offering of the Certificates and, if given or made, such information or representation should not be relied upon as having been authorised by the Trustee, the Bank, the Delegate, the Agents or the Sole Lead Manager.

Neither the delivery of these Listing Particulars nor the offering, sale or delivery of the Certificates shall, in any circumstances, constitute a representation or create any implication that the information contained in these Listing Particulars is correct subsequent to the date hereof or the date upon which these Listing Particulars have 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 the financial or trading position of the Trustee or the Bank since the date hereof or, if later, the date upon which these Listing Particulars have 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.

No comment is made, or advice is given by, the Trustee, the Delegate, the Agents, the Bank or the Sole Lead Manager or any of their respective directors, affiliates, advisers or agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under applicable or similar laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

The Certificates have not been and will not be registered under the U.S. 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.

The transaction structure relating to the Certificates (as described in these Listing Particulars) has been approved by the Bank's Sharia board and KFH Capital Sharia 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 is in compliance with their individual standards of compliance with *Shari'a* principles.

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

These Listing Particulars does not constitute an offer to sell or a solicitation of an offer to buy Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Sole Lead Manager, the Trustee, the Delegate, the Agents or the Bank makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable laws.

The distribution of these Listing Particulars and the offering, sale and delivery of the Certificates in certain jurisdictions may be restricted by law. None of the Trustee, the Bank, the Sole Lead Manager, or any of their respective directors, affiliates, advisers, agents, the Delegate or the Agents represents that these Listing Particulars may be lawfully distributed, or that Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, the Bank, the Sole Lead Manager, or any of their respective directors, affiliates, advisers, agents, the Delegate or the Agents which is intended to permit a public offering of the Certificates or distribution of these Listing Particulars in any jurisdiction where action for that purpose is required.

Accordingly, the Certificates may not be offered or sold, directly or indirectly, and neither these Listing Particulars nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Persons into whose possession these Listing Particulars comes are required by the Trustee, the Bank and the Sole Lead Manager to inform themselves about and to observe any such restrictions. In particular, there are restrictions on the distribution of these Listing Particulars and the offer or sale of the Certificates in the United States, the European Economic Area (the "**EEA**"), the United Kingdom (the "**UK**"), the Cayman Islands, the United Arab Emirates (the "**UAE**") (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Bahrain, the Kingdom of Saudi Arabia ("**Saudi Arabia**"), the State of Qatar, the Qatar Financial Centre, the State of Kuwait ("**Kuwait**"), Japan, Hong Kong, Malaysia and Singapore.

For a description of the restrictions on offers, sales and deliveries of Certificates and on the distribution of these Listing Particulars and other offering material relating to the Certificates, see "*Subscription and Sale*".

These Listing Particulars does not constitute an offer or an invitation to subscribe for or purchase Certificates and should not be considered as a recommendation by the Trustee, the Bank, the Delegate, the Agents, the Sole Lead Manager, or any of their respective directors, affiliates, advisers, agents or any of them that any recipient of these Listing Particulars or any other information supplied in connection with the issue of the Certificates should subscribe for, or purchase, the Certificates. Each recipient of these Listing Particulars should make, and shall be taken to have made, its own independent investigation and appraisal of the condition (financial or otherwise) and affairs, and its own appraisal of the creditworthiness, of the Trustee and the Bank. None of the Sole Lead Manager, the Delegate or any Agent undertakes to review the financial condition or affairs of the Trustee or the Bank during the life of the arrangements contemplated by these Listing Particulars nor to advise any investor or potential investor in the Certificates of any information coming to the attention of the Sole Lead Manager, the Delegate or any Agent.

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

- (i) 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 these Listing Particulars;

- (ii) 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;
- (iii) 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;
- (iv) understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) 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.

The Certificates are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Certificates unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (a) the Certificates are legal investments for it; (b) the Certificates can be used as collateral for various types of borrowing; and (c) other restrictions apply to its purchase or pledge of any Certificates. 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.

## **STABILISATION**

In connection with the issue of the Certificates, KFH Capital Investment Company KSCC (the "**Stabilisation Manager**") (or persons acting on behalf of the Stabilisation Manager) may effect transactions with a view to supporting the market price of the Certificates during the stabilisation period at a level higher than that which might otherwise prevail, but in so doing, the Stabilisation Manager shall act as principal and not as agent of the Trustee or the Bank. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the Issue Date and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Certificates. The Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) must conduct such stabilisation in accordance with all applicable laws and rules.

## **CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS**

Some statements in these Listing Particulars may be deemed to be forward looking statements. The words "anticipate", "believe", "expect", "plan", "intend", "targets", "aims", "seeks", "estimate", "project", "will", "would", "may", "could", "continue", "should" and similar expressions are intended to identify forward looking statements. All statements other than statements of historical fact included in these Listing Particulars, including, without limitation, those regarding the financial position of the Bank, or the business strategy, management plans and objectives for future operations of the Bank, are forward looking statements. These forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Bank's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward looking statements. These forward looking statements are contained in the sections entitled "*Risk Factors*" and "*Description of Kuveyt Türk Katılım Bankası A.Ş.*" and other sections of these Listing Particulars. The Bank has based these forward looking statements on the current view of its management with respect to future events and financial performance. These forward looking statements are based on numerous assumptions regarding the Bank's present, and future, business strategies and the environment in which the Bank expects to operate in the future. Important factors that could cause the Bank's actual results, performance or achievements to differ materially from those in the forward looking statements are discussed in these Listing Particulars (see "*Risk Factors*").

Forward looking statements speak only as at the date of these Listing Particulars and, without prejudice to any requirements under applicable laws and regulations, the Trustee and the Bank expressly disclaim any obligation or undertaking to publicly update or revise any forward looking statements in these Listing Particulars to reflect any change in the expectations of the Trustee or the Bank or any change in events, conditions or circumstances on which these forward looking statements are based. Given the uncertainties of forward looking statements, the Trustee and the Bank cannot assure potential investors that projected results or events will be achieved and the Trustee and the Bank caution potential investors not to place undue reliance on these statements.

## PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

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

The unaudited consolidated financial statements of Kuveyt Türk for the six-month period ended 30 June 2020 prepared and presented in accordance with BRSA Principles (the "**Interim BRSA Accounts**") are included in these Listing Particulars. The Interim BRSA Accounts were reviewed by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member firm of Ernst & Young Global Limited ("**E&Y**").

The annual statutory audited consolidated financial statements of Kuveyt Türk for the years ended 31 December 2018 and 2019 prepared and presented in accordance with BRSA Principles (the "**BRSA Accounts**") are included in these Listing Particulars. The BRSA Accounts for the year ended 31 December 2018 were audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member of Deloitte Touche Tohmatsu Limited ("**Deloitte**"). The BRSA Accounts for the year ended 31 December 2019 were audited by E&Y.

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

Although Kuveyt Türk is not legally required to prepare financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Standards Interpretations Committee of the IASB (collectively, "**IFRS**"), it also prepares audited consolidated annual financial statements for the year ended 31 December each year in accordance with IFRS (the "**IFRS Accounts**"). IFRS Accounts are not used by Kuveyt Türk for any regulatory purposes and Kuveyt Türk's management principally uses the BRSA Accounts, the Interim BRSA Accounts and the BRSA Principles for the management of Kuveyt Türk. As Kuveyt Türk's management uses the BRSA Accounts and the Interim BRSA Accounts and considers these appropriate for use by investors, IFRS Accounts are not included in (or incorporated by reference into) these Listing Particulars and, for the avoidance of doubt, the financial information included in these Listing Particulars have not been prepared in accordance with IFRS and there may be material differences in such financial information had IFRS been applied in its preparation.

The financial data included in these Listing Particulars is extracted from the BRSA Accounts or the Interim BRSA Accounts.

As a consequence of the acquisition of Neova Sigorta A.Ş ("**Neova**") by Kuveyt Türk on 5 May 2020, the financial information of Kuveyt Türk as at and for the year ended 31 December 2019 was required to be restated in accordance with BRSA Principles (such financial information, the "**2019 Restated Financial Information**"). For a discussion of the restatement of the financial information as at and for the year ended 31 December 2019, see "*Financial Review - Acquisition of Neova Sigorta A.Ş.*". Consequently, the financial information included in these Listing Particulars in relation to Kuveyt Türk as at and for the year ended 31 December 2019 is extracted from, unless otherwise indicated, the 2019 Restated Financial Information, which differs from the financial information as at and for the year ended 31 December 2019 in the BRSA Accounts. In addition, certain of the 2019 Restated Financial Information included in these Listing

Particulars (including the balance sheet data as at 31 December 2019) is extracted from the Interim BRSA Accounts, whilst certain of the other 2019 Restated Financial Information included in these Listing Particulars (including the income statement data as at and for the year ended 31 December 2019) have been derived from Kuveyt Türk's own assessment of the required restatements attributable to the acquisition of Neova in accordance with BRSA Principles.

Neither Deloitte nor E&Y have reviewed or audited the 2019 Restated Financial Information.

### **BRSA Principles and International Financial Reporting Standards**

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

### **Certain Conventions**

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

### **Rounding**

Certain figures and percentages included in these Listing Particulars 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.

### **Foreign Language**

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

### **BRSA Tier 1 Approval**

The Bank has obtained a letter dated 27 August 2020 and numbered 43890421-101.01.04-E.7933 from the BRSA (the "**BRSA Tier 1 Approval**") approving the treatment of the Certificates as Tier 1 capital of Kuveyt Türk for so long as the Certificates comply with the requirements of the BRSA. The BRSA Tier 1 Approval is conditional upon the compliance of the Certificates with the requirements of the Capital Regulations. For a description of other regulatory requirements in relation to Tier 1 capital requirements, see "*Overview of Turkish Banking Sector Regulations*" in these Listing Particulars.

### **Certain Defined Terms**

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

- references to "**BRSA**" are to the Banking Regulation and Supervision Agency of Turkey;
- references to "**TFRS**" are to the Turkish Financial Reporting Standards;
- references to "**Turkish Central Bank**", "**Central Bank**" and "**CBT**" are to the Central Bank of the Republic of Turkey;
- references to a "**Member State**" herein are references to a Member State of the European Economic Area;
- "**NPL ratio**" refers to non-performing loans divided by total loans;

- "cash loans" refers to, unless otherwise indicated, the sum total of gross loans and gross leasing receivables;
- "provision ratio" refers to provisions for non-performing loans divided by non-performing loans; and
- "close monitoring ratio" refers to "Stage 2" loans (comprising loans falling into the categories of rating deterioration, restructurings, delinquency loans and early warning signals according to IFRS 9) divided by total loans.

#### **Alternative Performance Measures ("APMs")**

A number of the financial measures presented by the Bank in these Listing Particulars are not defined by the BRSA Principles. However, the Group believes that these measures provide useful supplementary information to both investors and the Group's management, as they facilitate the evaluation of the Group's performance. It is to be noted that, since not all companies calculate financial measurements in the same manner, these are not always comparable to measurements used by other companies. Accordingly, these financial measures should not be seen as a substitute for measures defined in the BRSA Principles. Unless otherwise stated, the alternative performance measures are defined where used, along with, where necessary, cross-references to "*Key Financial Information – Key Financial Ratios – Certain Financial Measures Used in Calculation of Key Financial Ratios*" that contains information on certain financial measures used in calculation of such alternative performance measures, to the extent that such financial measures are not defined in the BRSA and not included in the BRSA Accounts or the Interim BRSA Accounts.

#### **Information Sourced from Third Parties**

Any information sourced from third parties contained in these Listing Particulars has been accurately reproduced and, as far as the Trustee and the Bank are aware and are able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

#### **NOTICE TO RESIDENTS OF THE UNITED KINGDOM**

The Certificates represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000 ("FSMA")) which has not been authorised, recognised or otherwise approved by the UK Financial Conduct Authority. Accordingly, these Listing Particulars is not being distributed to and must not be passed on to the general public in the UK.

The distribution in the UK of these Listing Particulars and any other marketing materials relating to the Certificates (a) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"); (ii) persons falling within any of the categories of persons described in Article 49(2) (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; or (iii) any other person to whom it may otherwise lawfully be made in accordance with 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(a)-(d) (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order; or (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 UK may not receive and should not act or rely on these Listing Particulars or any other marketing materials in relation to the Certificates.

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

Any individual intending to invest in the Certificates 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 THE CAYMAN ISLANDS**

No invitation whether directly or indirectly may be made to any member of the public of the Cayman Islands to subscribe for the Certificates and these Listing Particulars shall not be construed as an invitation to any member of the public of the Cayman Islands to subscribe for the Certificates.

#### **NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE (AS MODIFIED OR AMENDED FROM TIME TO TIME, THE "SFA")**

In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Bank has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Certificates are "prescribed capital markets products" (as defined in the CMP Regulations 2018).

#### **NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA**

These Listing Particulars may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations 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 these Listing Particulars, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of these Listing Particulars. 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 these Listing Particulars, he or she should consult an authorised financial adviser.

#### **NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN**

In relation to investors in the Kingdom of Bahrain, Certificates issued in connection with these Listing Particulars and related offering documents must only be offered in registered form to existing accountholders and accredited investors (each 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.

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

The CBB has not reviewed, approved or registered these Listing Particulars or related offering documents and it has not in any way considered the merits of the securities 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 these Listing Particulars and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of these Listing Particulars. No offer of securities will be made to the public in the Kingdom of Bahrain and these Listing Particulars 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 THE STATE OF QATAR**

These Listing Particulars do not and are not intended to constitute an offer, sale or delivery of the Certificates under the laws of the State of Qatar and have not been and will not be reviewed or approved



by or registered with the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority, the Qatar Exchange or the Qatar Central Bank. The Certificates have not been, and will not be, offered, sold or delivered at any time, directly or indirectly, in the State of Qatar, including the Qatar Financial Centre, in a manner that would constitute a public offering. The Certificates are not and will not be traded on the Qatar Exchange.

#### **NOTICE TO RESIDENTS OF THE STATE OF KUWAIT**

Unless all necessary approvals from the Kuwait Capital Markets Authority (the "CMA") pursuant to Law No. 7 of 2010, and its executive bylaws (each as amended) together with the various resolutions, regulations, directives, instructions and announcements issued pursuant thereto, or in connection therewith (regardless of nomenclature) or any other applicable law or regulation in Kuwait, have been given in respect of the offering, marketing and sale of the Certificates, the Certificates may not be offered for sale, nor sold, in Kuwait. These Listing Particulars are not for general circulation to the public in Kuwait nor will the Certificates be sold by way of a public offering in Kuwait. For the avoidance of doubt, no Certificates shall be offered, marketed and/or sold in Kuwait except on a private placement basis to Professional Clients (as defined in Module 1 of the executive bylaws of Law No. 7 of 2010 (each as amended)). Where the Certificates are intended to be purchased onshore in Kuwait, the same may only be so purchased through a CMA Licensed Person duly authorised to undertake such activity pursuant to Law No. 7 of 2010 of Kuwait, and its executive bylaws (each as amended).

Investors from Kuwait acknowledge that the CMA and all other regulatory bodies in Kuwait assume no responsibility whatsoever for the contents of these Listing Particulars and do not approve the contents thereof or verify the validity and accuracy of its contents. The CMA, and all other regulatory bodies in Kuwait, assume no responsibility whatsoever for any damages that may result from relying (in whole or in part) on the contents of these Listing Particulars. Prior to purchasing any Certificates, it is recommended that a prospective holder of any Certificates seeks professional advice from its advisors in respect of the contents of these Listing Particulars so as to determine the suitability of purchasing the Certificates.

#### **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 these Listing Particulars or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(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 Trustee or the Bank and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in these Listing Particulars.

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

The Certificates (or beneficial interests therein) shall not be sold in Turkey in any circumstances which would constitute a sale or a public offering within the meaning of the Capital Markets Law without the approval of the Capital Markets Board of Turkey ("CMB"). No transaction that may be deemed as a sale of the Certificates (or beneficial interests therein) in Turkey by way of private placement or a public offering may be engaged in without the approval of the CMB. Additionally, no prospectus and other offering material related to the offering may be utilised in connection with any general offering to the public within Turkey for the purpose of the offer or sale of the Certificates without the prior approval of the CMB. However, pursuant to Article 15(d) (ii) of the Government Decree 32 on the Protection of the Value of the Turkish Currency, as amended ("**Decree 32**"), there is no restriction on the purchase or sale of the Certificates (or beneficial interests therein) in secondary markets by residents of Turkey; provided that they purchase or sell such Certificates (or beneficial interests) in the financial markets outside of Turkey and such sale and purchase is made through licensed banks and/or licensed brokerage institutions authorised pursuant to the CMB regulations and the consideration of the purchase of such Certificates has been or will be transferred through banks operating in Turkey.

#### **PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS**

The Certificates are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Certificates or otherwise making them available to retail investors in the EEA or the UK has been prepared and therefore offering or selling the Certificates or otherwise making them available to any retail investor in the EEA or the UK may be unlawful under the PRIIPS Regulation.

## **VOLCKER RULE**

The Volcker Rule, which became effective on 1 April 2014, but was subject to a conformance period for certain entities that concluded on 21 July 2015, generally prohibits "banking entities" (which is broadly defined to include U.S. banks and bank holding companies and many non-U.S. banking entities, together with their respective subsidiaries and other affiliates) from: (i) engaging in proprietary trading; (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund"; and (iii) entering into certain relationships with "covered funds". The general effects of the Volcker Rule remain uncertain; any prospective investor in the Certificates and any entity that is a "banking entity" as defined under the Volcker Rule which is considering an investment in the Certificates should consult its own legal advisers and consider the potential impact of the Volcker Rule in respect of such investment. If investment by "banking entities" in the Certificates is prohibited or restricted by the Volcker Rule, this could impair the marketability and liquidity of such Certificates. No assurance can be made as to the effect of the Volcker Rule on the ability of certain investors subject thereto to acquire or retain an interest in the Certificates, and accordingly none of the Trustee, the Bank, the Sole Lead Manager, the Delegate or the Agents, or any of their respective affiliates, makes any representation regarding: (a) the status of the Trustee under the Volcker Rule (including whether it is a "covered fund" for their purposes) or; (b) the ability of any purchaser to acquire or hold the Certificates, now or at any time in the future.

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## 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 these Listing Particulars. This overview does not contain all of the information that an investor should consider before investing in the Certificates. Each investor should read the entire Listing Particulars carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".*

*Words and expressions defined in the Conditions shall have the same meanings in this overview.*

<b>Certificates</b>	U.S.\$50,000,000 Tier 1 Capital Certificates.
<b>Trustee</b>	KT AT One Company Limited, an exempted company incorporated with limited liability on 21 August 2020 under the laws of the Cayman Islands with company registration number 365379 and its registered office at c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands.
<b>Ownership of the Trustee</b>	The authorised share capital of the Trustee is U.S.\$50,000 consisting of 50,000 ordinary shares of U.S.\$1.00 each, 250 of which are fully paid and issued. The Trustee's entire issued share capital is held on trust for charitable purposes by MaplesFS Limited as share trustee under the terms of a declaration of trust.
<b>Administration of the Trustee</b>	The affairs of the Trustee are managed by MaplesFS Limited (the " <b>Trustee Administrator</b> "), who has agreed to perform certain management functions and provide certain clerical, administrative and other services pursuant to a corporate services agreement dated 10 September 2020 between the Trustee Administrator and the Trustee (the " <b>Corporate Services Agreement</b> "). The Trustee Administrator's principal office is MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman KY1-1102, Cayman Islands.
<b>Mudareb / Obligor</b>	Kuveyt Türk Katılım Bankası A.Ş.
<b>Rab-al-Maal</b>	KT AT One Company Limited.
<b>Risk Factors</b>	Certain factors may affect the Trustee's ability to fulfil its obligations under the Certificates and the Bank's ability to fulfil its obligations under the Transaction Documents. In addition, certain factors are material for the purpose of assessing the market risks associated with the Certificates. These are set out under " <i>Risk Factors</i> ".
<b>Sole Lead Manager</b>	KFH Capital Investment Company KSCC.
<b>Delegate</b>	HSBC Corporate Trustee Company (UK) Limited.  Pursuant to the Declaration of Trust, the Trustee shall delegate to the Delegate certain of the present and future powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled (and, in certain circumstances, shall, subject to being requested and indemnified and/or secured and/or pre-funded to its satisfaction, be obliged) to take enforcement action in the name of the Trustee against the Bank following a Bank Event.
<b>Principal Paying Agent and Calculation Agent</b>	HSBC Bank plc.
<b>Registrar and Transfer Agent</b>	HSBC Bank plc.

<b>Summary of the transaction structure and Transaction Documents</b>	An overview of the structure of the transaction and the principal cash flows is set out under " <i>Structure Diagram and Cash Flows</i> " and a description of the principal terms of certain of the Transaction Documents is set out under " <i>Summary of the Principal Transaction Documents</i> ".
<b>Issue Date</b>	28 September 2020.
<b>Issue Price</b>	100 per cent.
<b>Periodic Distribution Dates</b>	28 March and 28 September every year, commencing on 28 March 2021.
<b>Periodic Distributions</b>	<p>Subject to Condition 8 (<i>Periodic Distribution Restrictions</i>), Periodic Distribution Amounts shall be payable on each Periodic Distribution Date up to and including the First Call Date at a rate of 9.95 per cent. per annum. If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable on each Periodic Distribution Date after the First Call Date (subject as aforesaid) at a fixed rate, to be reset on the First Call Date and every five years thereafter, equal to the Relevant Five Year Reset Rate plus a margin of 9.681 per cent. per annum.</p> <p>If the Bank makes a Non-Payment Election or a Non-Payment Event occurs, the Trustee shall not pay the corresponding Periodic Distribution Amounts (or any part thereof, as applicable) and neither the Bank nor the Trustee shall have any obligation to make any subsequent payment in respect of any unpaid Periodic Distribution Amount as more particularly described in Condition 8 (<i>Periodic Distribution Restrictions</i>).</p>
<b>Form of Certificates</b>	The Certificates will be issued in registered form as described in " <i>Global Certificate</i> ". The Certificates will be represented on issue by a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depository for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Definitive Certificates evidencing a holding of Certificates will be issued in exchange for interests in the Global Certificate only in limited circumstances.
<b>Clearance and Settlement</b>	<p>Certificateholders must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing systems.</p> <p>While the Certificates are represented by the Global Certificate, the Trustee will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of an ownership interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in the Global Certificate.</p> <p>Holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the Certificates so represented. Instead, such holders will be permitted to act only to the extent that they are</p>

enabled by the relevant clearing system and its participants to appoint appropriate proxies.

**Denomination of the Certificates**

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

**Status of the Certificates**

Each Certificate will represent an undivided ownership interest in the Trust Assets, will be a limited recourse obligation of the Trustee and will rank *pari passu* without any preference or priority with all other Certificates; see Condition 4.1 (*Status*).

The Relevant Obligations will: (a) constitute Tier 1 Capital of the Bank on a solo and consolidated basis; (b) constitute direct, unsecured and subordinated obligations of the Bank; (c) rank junior to all Senior Obligations (as defined in the Conditions); (d) rank *pari passu* with all *Pari Passu* Obligations (as defined in the Conditions); and (e) rank in priority only to all Junior Obligations (as defined in the Conditions); see Condition 4.2 (*Subordination*).

**Trust Assets**

The Trust Assets consist of:

- (a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;
- (b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;
- (c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenants given to the Trustee or the Delegate pursuant to clause 11 of the Declaration of Trust); and
- (d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing, which will be held by the Trustee upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each such Certificateholder in accordance with the Declaration of Trust and the Conditions.

**Redemption of Certificates and variation of their terms**

The Certificates are perpetual securities and accordingly do not have a fixed or final redemption date. The Certificates may be redeemed in whole but not in part, or the terms thereof may be varied by the Trustee (but only upon the instructions of the Bank (acting in its sole and absolute discretion)) only in accordance with the provisions of Condition 11 (*Redemption and Variation*).

Pursuant to Condition 11.1(b) (*Trustee's Call Option*), the Trustee may (but only upon the instructions of the Bank (acting in its sole and absolute discretion)), on the First Call Date or on any Periodic Distribution Date thereafter, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

In addition (on any date on or after the Issue Date, whether or not a Periodic Distribution Date), upon the occurrence of a Tax Event or the occurrence and continuation of a Capital Event all, but not some only, of the Certificates may be redeemed at the Tax Redemption Amount or

the Capital Event Amount, respectively, or the terms of the Certificates may be varied, in each case in accordance with Conditions 11.1(c) (*Redemption or Variation due to Taxation*) and 11.1(d) (*Redemption or Variation for Capital Event*), respectively.

Any redemption of the Certificates is subject to the conditions described in Condition 11.1 (*Redemption and Variation*).

**Non-Viability Event Write-down**

If a Non-Viability Event (as defined in the Conditions) occurs: (i) the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital shall automatically be deemed to be irrevocably and unconditionally cancelled (in the case of a Non-Viability Event Write-down in whole) or written-down in part (in the case of a Non-Viability Event Write-down in part) in the same manner and in the same proportion as the Certificates; (ii) the Certificates shall be cancelled (in the case of a Non-Viability Event Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Non-Viability Event Write-down in part) by the Trustee as determined by the Bank in consultation with the Regulator or as the Regulator may, in its sole discretion, direct; and (iii) all rights of any Certificateholder for payment of any amounts due under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) shall, as the case may be, be cancelled or written-down in part on a *pro rata* basis among the Certificateholders and, in each case, will not be restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ceased.

**Trigger Event Write-down**

If a Trigger Event (as defined in the Conditions) occurs, other than in the case of a Reinstatement (and then only to the extent of any Reinstatement, at the sole and absolute discretion of the Bank), in each case: (i) the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital shall automatically be deemed to be irrevocably and unconditionally written-down in part, in the same manner and in the same proportion as the Certificates; (ii) the Certificates shall be written-down in part, by the Trigger Event Write-down Amount, on a *pro rata* basis by the Trustee as determined by the Bank in consultation with the Regulator; and (iii) all rights of any Certificateholder for payment of any amounts due under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) shall be written-down in part on a *pro rata* basis among the Certificateholders and any such amounts will not be restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Trigger Event Notice or the Trigger Event Write-down Date and even if the Trigger Event has ceased.

**Reinstatement**

If positive Distributable Net Period Income (as defined in the Conditions) of the Bank is recorded at any time while the outstanding face amount of a Certificate is less than the Original Face Amount of such Certificate, the Bank may, at its sole and absolute discretion: (i) instruct the Trustee to reinstate and write-up the outstanding face amount of each Certificate in whole or in part; and (ii) reinstate and write-up the Mudaraba Capital, in each case in accordance with this Condition 12.3 (*Reinstatement*) (a "**Reinstatement**").



Upon the provision of such Reinstatement Notice, a Reinstatement will occur at the Reinstatement Amount (subject to the Maximum Reinstatement Amount) on the Reinstatement Date and, with effect from such date and subject to the prior consent of the Regulator (to the extent such consent is required by the Applicable Regulatory Capital Requirements): (i) the Bank shall instruct the Trustee to cause the outstanding face amount of each Certificate to be reinstated and written-up on a *pro rata* basis with each Certificate and with each Loss Absorbing Instrument which is, or represents, a *Pari Passu* Obligation; and (ii) the Mudaraba Capital shall be written-up in proportion to the face amount of each Certificate that is to be reinstated and written-up, in each case, by an amount equal to the relevant Reinstatement Amount. With effect from the Reinstatement Date, Periodic Distribution Amounts shall accrue in respect of the reinstated outstanding face amount of each Certificate and, with effect from such date, references in the Conditions to "face amount" or "outstanding face amount" shall be construed accordingly.

A Reinstatement may occur on more than one occasion provided that the outstanding face amount of a Certificate may never exceed its Original Face Amount.

No Reinstatement may take place if: (i) a Trigger Event has occurred in respect of which the Trigger Event Write-down has not yet occurred; (ii) a Trigger Event has occurred in respect of which the Trigger Event Write-down has occurred but the CET 1 Capital Ratio of the Bank has not been restored to at least, or above, 5.125 per cent.; (iii) the Reinstatement (either alone or together with all simultaneous reinstatements of other Loss Absorbing Instruments that are, or that represent, *Pari Passu* Obligations) would cause a Trigger Event to occur; (iv) a Non-Viability Event has occurred at any time subsequent to a Trigger Event; or (v) a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 14.1 (*Bank Events*).

**Bank Events**

Subject to Condition 14 (*Dissolution Events and Winding-up*), if a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 14.1 (*Bank Events*), and if so requested in writing by the Certificateholders of at least 25 per cent. of the then aggregate face amount of the Certificates outstanding, the Trustee and/or the Delegate shall, subject to Condition 14.3 (*Winding-up, Dissolution or Liquidation*), take the actions referred to therein.

**Withholding Tax**

Subject to Condition 9.2 (*Payments subject to applicable laws*) and Condition 15 (*Taxation*), all payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding or deduction for, or on account of, any Taxes (as defined in Condition 15 (*Taxation*)), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay (subject to certain specified exclusions) Additional Amounts (as defined in the Conditions) so that the full amount which otherwise would have been due and payable under the Certificates in the absence of such deduction or withholding is received by the parties entitled thereto.

In addition, the Transaction Documents provide that payments thereunder by the Bank (in its capacity as the Mudareb) shall be made free and clear of and without withholding or deduction for and on account of any Taxes, unless such withholding or deduction is required by law and, in such case, provide for the payment by the Bank of additional amounts so that the full amount which would otherwise have

been received, in the absence of such withholding or deduction, by the Trustee.

<b>Trustee Covenants</b>	The Trustee has agreed to certain restrictive covenants as set out in Condition 6 ( <i>Covenants</i> ).
<b>Ratings</b>	<p>The Bank has been assigned a rating of "B+" (long term) by Fitch.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued or endorsed by a credit rating agency established in the European Union or the United Kingdom and registered under the CRA Regulation (or is endorsed and published or distributed by subscription by such a credit rating agency in accordance with the CRA Regulation). Fitch is established in the United Kingdom and registered under the CRA Regulation.</p> <p>The Certificates will not be rated by any rating organisation upon their issue.</p>
<b>Certificateholder Meetings</b>	A summary of the provisions for convening meetings of the Certificateholders to consider matters relating to their interests as such is set out in Condition 20 ( <i>Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination</i> ).
<b>Tax Considerations</b>	See " <i>Taxation</i> " for a description of certain tax considerations applicable to the Certificates.
<b>Listing and Admission to Trading</b>	Application has been made to Euronext Dublin for the Certificates to be admitted to the Official List and for the Certificates to be admitted to trading on the Global Exchange Market.
<b>Transaction Documents</b>	The Declaration of Trust, the Agency Agreement and the Mudaraba Agreement are referred to herein as the " <b>Transaction Documents</b> ".
<b>Governing Law</b>	The Transaction Documents and the Certificates, except for Condition 4.2 ( <i>Status, Subordination and Limited Recourse – Subordination</i> ), Condition 12 ( <i>Loss Absorption upon the occurrence of a Trigger Event</i> ), Condition 13 ( <i>Loss Absorption upon the occurrence of a Non-Viability Event</i> ) and clause 2.4 of the Mudaraba Agreement, and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law. Condition 4.2 ( <i>Status, Subordination and Limited Recourse – Subordination</i> ), Condition 12 ( <i>Loss Absorption upon the occurrence of a Trigger Event</i> ), Condition 13 ( <i>Loss Absorption upon the occurrence of a Non-Viability Event</i> ) and clause 2.4 of the Mudaraba Agreement are governed by, and shall be construed in accordance with, the laws of Turkey. The Corporate Services Agreement is governed by the laws of the Cayman Islands.
<b>Limited Recourse</b>	<p>Proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as otherwise provided in Condition 4.4 (<i>Limited Recourse and Agreement of Certificateholders</i>), the Certificates do not represent an interest in any of the Trustee, the Delegate, the Bank, any of the Agents or any of their respective affiliates.</p> <p>If the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets are not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner</p>

contemplated in the Transaction Documents) or of the Delegate or the Agents or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets.

The Bank is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate (acting in the name and on behalf of the Trustee) will, subject to Condition 4.2 (*Subordination*) and Condition 14.3 (*Winding-up, Dissolution or Liquidation*), have recourse against the Bank to recover payments due to the Trustee from the Bank pursuant to such Transaction Documents notwithstanding any other provision of Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against the Bank. None of the Certificateholders, the Trustee or the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Bank in connection with the enforcement of any such claim.

See Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*) for further details.

**Selling Restrictions**

There are restrictions on the distribution of these Listing Particulars and the offer or sale of Certificates in the United States, the EEA, the UK, the Cayman Islands, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Bahrain, Saudi Arabia, the State of Qatar, the Qatar Financial Centre, the State of Kuwait, Japan, Hong Kong, Malaysia and Singapore. See "*Subscription and Sale*".

**Use of Proceeds**

The proceeds of the issue of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Bank (as Mudareb) as Mudaraba Capital pursuant to the terms of the Mudaraba Agreement as described in "*Use of Proceeds*".

## **RISK FACTORS**

*The purchase of the 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 the Certificates should consider carefully, in light of their own financial circumstances and investment objectives, all of the information in these Listing Particulars.*

*Each of the Trustee and the Bank believes that the following factors may affect their ability to fulfil their respective obligations under the Certificates and the Transaction Documents. All of these factors are contingencies which may or may not occur. Factors which the Trustee and the Bank believe may be material for the purpose of assessing the market risks associated with the Certificates are also described below.*

*Each of the Trustee and the Bank believes that the factors described below represent the principal risks inherent in investing in the Certificates but the inability of the Trustee and the Bank to make payments on or in connection with the Certificates and the Transaction Documents may occur for other reasons and neither the Trustee nor the Bank represents that the statements below regarding the risks of holding any Certificate are exhaustive.*

*Although the Trustee and the Bank believe that the various structural elements described in these Listing Particulars lessen some of these risks for Certificateholders, there can be no assurance that these measures will be sufficient to ensure payment to Certificateholders of any Periodic Distribution Amount or the Dissolution Distribution Amount or any other amounts payable in respect of the Certificates on a timely basis or at all. There may also be other considerations, including some which may not be presently known to the Trustee or the Bank or which the Trustee or the Bank currently deems immaterial, that may impact any investment in the Certificates.*

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

### **RISKS RELATING TO THE BANK AND ITS ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE TRANSACTION DOCUMENTS**

#### **Risk Factors Relating to the Trustee**

*The Trustee has no material assets and will depend on receipt of payments from the Bank to make payments to Certificateholders*

The Trustee is a company incorporated with limited liability under the laws of the Cayman Islands on 21 August 2020 and has no operating history other than as described in "*Description of the Trustee*". The Trustee will not engage in any business activity other than the issuance of the Certificates, the acquisition of Trust Assets described herein, and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Trustee'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 Trust Assets, including the obligation of the Bank to make payments under the Mudaraba Agreement in its capacity as Mudareb. Therefore, the Trustee is subject to all the risks to which the Bank is subject to the extent that such risks could limit the Bank's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents to which it is a party. See "*Risks Factors Relating to the Bank's Business*" below for a further description of these risks.

The ability of the Trustee to pay amounts due on any Certificates will primarily be dependent upon receipt by the Trustee from the Bank, of all amounts due under the Mudaraba Agreement, which may not be sufficient to meet all claims under the relevant Certificates and the Transaction Documents in the event that the Bank does not fully perform its obligations thereunder (as applicable).

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

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

Kuveyt Türk's cash loans have increased rapidly in recent years, growing to TRY59,966.17 million as at 31 December 2019 from TRY48,909.75 million as at 31 December 2018. The growth in Kuveyt Türk's cash loans is attributable to an overall increase in the growth of Kuveyt Türk's lending activity which Kuveyt Türk intends to continue to target as part of its growth strategy. See "*Description of Kuveyt Türk Katılım Bankası A.S. —Strategy*" for further details.

As at 31 December 2019, Kuveyt Türk's ratio of funds in arrears in respect of loans was 3.52 per cent., compared to 2.42 per cent. as at 31 December 2018. As a participation bank, the monthly principal repayment structure of Kuveyt Türk's cash loans (which always require a portion of principal to be repaid) helps to reduce its credit risks as compared to conventional banks which provide loans with principal repayable at maturity only. The significant increase in the size of its cash loans has increased Kuveyt Türk's credit exposure and will require continued analysis and monitoring of its credit quality and the adequacy of provisioning levels, as well as continued credit risk management. In common with all other Turkish banks, the growth rates recently experienced have required Kuveyt Türk to seek to attract and retain a significant number of qualified personnel to monitor asset quality.

Kuveyt Türk's credit risk management policies may nevertheless be insufficient to protect it against material cash loan losses and any negative macro-economic developments could have a more significant impact on small-to-medium size enterprise ("**SME**") customers compared to larger corporate and commercial type customers (see "*Risk Management*" for further details). The appropriate level of allowances for cash loan losses in respect of financial statements prepared in accordance with BRSA principles, which relies upon TFRS 9, necessarily requires the exercise of judgment (see "*Overview of Turkish Banking Sector and Regulations—Provisioning and Impairment*"). Kuveyt Türk's increased levels of cash loans may require Kuveyt Türk to make higher levels of provisioning for credit losses. Although Kuveyt Türk constantly seeks to revise and improve its lending procedures and credit quality analysis there can be no assurances that Kuveyt Türk will not experience lapses as a result of the growth and changing quality of its credit portfolio, which accordingly may have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects. See "*—Risk Management—Credit Risk*" for further details.

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

Kuveyt Türk's core banking businesses have historically been, and are expected to continue to be, loans to corporate and SME clients. As at 31 December 2019, loans to corporate and SME customers constituted 44.50 per cent. of Kuveyt Türk's total assets with corporate loans contributing 26.74 per cent. and SME loans contributing 17.76 per cent. Many factors affect customers' ability to repay their loans or meet their other obligations to Kuveyt Türk. Some of these factors, including adverse changes in consumer confidence levels due to local, national and global factors, consumer spending, banking rates, and increased market volatility, may be difficult to anticipate and outside of Kuveyt Türk's control. Other factors are dependent upon Kuveyt Türk's strategy for loan growth (including sector focus) and the viability of Kuveyt Türk's internal credit application and monitoring systems, see "*—Kuveyt Türk's risk management strategies and internal control capabilities may leave it exposed to unidentified or unanticipated risks*". All of the aforementioned risks could have a material adverse impact on Kuveyt Türk's business, financial condition, results of operations and prospects.

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

Kuveyt Türk's business is subject to inherent risk concerning the credit quality of borrowers and counterparties, which affects the value of Kuveyt Türk's assets. Systemic risks and macroeconomic factors in the Turkish and global financial system discussed in these risk factors can all impact the credit quality of Kuveyt Türk's customers and counterparties and negatively affect the value of Kuveyt Türk's assets.

As a result of weaker economic conditions in Turkey, non-performing loan ("NPL") ratios have increased in the Turkish banking sector and for Kuveyt Türk. According to BRSA statistics, the ratio of NPLs to total loans in the Turkish banking sector was 3.1 per cent. as of 31 December 2016, 2.9 per cent. as of 31 December 2017, 3.8 per cent. as of 31 December 2018 and 5.2 per cent. as of 31 December 2019. The Turkish banking sector's NPL amount in TL increased by 55.4 per cent. as of 31 December 2019, compared to 31 December 2018, due to worsening economic conditions.

As at 31 December 2019, 34.02 per cent. of Kuveyt Türk's total loan portfolio consisted of loans to SMEs compared to 20.58 per cent. as at 31 December 2018 (based on BRSA Accounts). Although SMEs typically have less financial strength than larger companies, they are a key component of Kuveyt Türk's current business and growth strategy (see "*Description of Kuveyt Türk—Strategy—Strategies of each core business segment*" for further details). The availability of accurate and comprehensive financial information and general credit information on which to base credit decisions is more limited for SMEs than is the case of larger corporate clients. Therefore, notwithstanding the credit risk determination procedures that Kuveyt Türk has in place, Kuveyt Türk may be unable to evaluate correctly the current financial condition of each prospective SME customer and to determine their long-term financial viability.

Financing to SMEs generally includes a higher degree of risk than financing to larger corporate customers, and there can be no guarantee that Kuveyt Türk's NPLs for SMEs, or any of its other customers, will not materially increase in the near to medium term, particularly if there is a significant deterioration in macroeconomic conditions in Turkey or if Kuveyt Türk is unable to accurately model and manage the risk associated with the SMEs or other customers to which it extends credit (see "*Kuveyt Türk's Risk management strategies and internal control capabilities may leave it exposed to unidentified or unanticipated risks*"). Kuveyt Türk's provisions for impairments in respect of loans and lease receivables increased by 56.69 per cent. to TRY3,042.31 million in 2019 from TRY1,941.61 million in 2018, principally due to the growth of this segment of Kuveyt Türk's business.

Additionally, it is also anticipated that the general level of NPLs within the Turkish banking sector will increase by about 10 per cent., with Kuveyt Türk expecting its own level of NPLs to increase from TRY2,364 million as at 31 July 2020 to approximately TRY2,700 million by the end of 2020. There can be no assurances that an increased level of NPLs will not have a material adverse effect on Kuveyt Türk's business, financial condition results of operations. Due to the on-going COVID-19 pandemic, on 17 March 2020 the BRSA announced temporary changes in NPL classification for banks until 31 December 2020 which extended the delinquency period after which loans are required to be classified as non-performing from 90 days to 180 days. This classification change covers consumer, vehicle, mortgage and commercial loans as well as classification of restructured loans as NPLs. For other coronavirus-related measures, see "*Overview of the Turkish Banking Sector and Regulations—Recent Coronavirus-related Measures*".

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

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

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

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

Kuveyt Türk has a high concentration of loans and deposits in geographic, currency and industry sector terms. Geographically, Kuveyt Türk's total loans are highly concentrated in Turkey with 84.68 per cent. of such loans being cash loans as at 31 December 2019 (compared to 99.25 per cent. as 31 December 2018). Kuveyt Türk's deposits are also concentrated in Turkish lira accounts, which represented 39.96 per cent. of total deposits as at 31 December 2019 (compared to 40.77 per cent. as at 31 December 2018).

As at 31 December 2019, the percentage of Kuveyt Türk's total loans (both cash and non-cash loans) to customers in the construction industry sector and the financial services sector were 16.47 per cent. and 13.14 per cent., respectively (as compared to 19.18 per cent. and 35.60 per cent., respectively as at 31 December 2018).

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

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

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

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

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

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

Liquidity risks could arise from Kuveyt Türk's inability to anticipate and provide for unforeseen decreases or changes in funding sources which could have adverse consequences on Kuveyt Türk's ability to meet its obligations when they fall due. As is the normal practice in the Turkish banking industry, Kuveyt Türk accepts deposits from its customers which are short-term in nature. Accordingly, of its TRY83,687 million in funds collected at 31 December 2019, 95.10 per cent. had contractual maturities of less than three months (compared to 96.65 per cent. of its TRY53,380.66 million in funds collected as at 31 December 2018). However, it is also normal in the banking industry for these short-term deposits to be rolled over on their maturity such that, in practice, a significant portion of them have actual maturities of longer duration. Kuveyt Türk cannot however be certain, that its customer will continue to roll over or maintain their deposits with Kuveyt Türk. In relation to Kuveyt Türk's cash loans, of its TRY59,966.17 million of such loans at 31 December 2019, 35.65 per cent. had contractual maturities of less than three months. See "*Risk Management*" for a description of Kuveyt Türk's exposure to liquidity risks. Accordingly, there is a risk that if a significant number of Kuveyt Türk's customers do not choose to roll over their deposits at any time Kuveyt Türk could experience difficulties in repaying those deposits. In addition, Kuveyt Türk only has limited Sharia compliant products that could be used for short-term liquidity management.

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

financial markets or negative views about the prospects of the sectors to which Kuveyt Türk provides its loans.

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

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

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

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

As of 31 December 2019, KFH owned 62.24 per cent. of Kuveyt Türk's share capital, see "*Description of Kuveyt Türk—Shareholders*" for further details. There can be no guarantee that the interests of KFH will align with those of the Certificateholders and, if they do not, the Certificateholders may be disadvantaged.

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

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

Although the participation banking industry is well established with a loyal customer base in Turkey, participation banking is a relatively new and growing area in the Turkish banking sector. As at 31 December 2019, participation banks have a total market share of approximately 6.33 per cent. (compared to 5.4 per cent. as at 31 December 2018) and Kuveyt Türk has a market share of approximately 2.32 per cent. (compared to 1.94 per cent. as at 31 December 2018), in each case of the Turkish banking sector in terms of asset size. There can be no assurances that customer perception in relation to participation banking will not change as a result of events and factors affecting the socio-political environment in Turkey and in countries where Kuveyt Türk operates or considers operating in the future or that the market share of participation banks will remain stable.



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

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

In addition to these regulatory measures, the CBT has tightened monetary policy raising short term interest rates and simplifying the operational framework in order to contain the negative impacts of recent developments in domestic and international markets on risk perception and inflation outlook. On 28 May 2018, the CBT decided to complete the simplification process regarding the operational framework of the monetary policy by making the one-week repo rate the policy rate. The CBT also stated that overnight borrowing and lending rates would be determined at 150 basis points below/above the one-week repo rate. This new operational framework took effect on 1 June 2018. On 7 June 2018, the policy rate (one week repo auction rate) was increased from 16.5 per cent. to 17.75 per cent. and, as of 8 June 2018, the overnight borrowing rate and the overnight lending rate and the late liquidity window lending rate increased to 16.25 per cent., and 19.25 per cent., respectively. Following the significant decline in the value of the Turkish lira in the second half of 2018, which fell to a record low (exceeding TRY7.2 per U.S. Dollar in the week ended on 12 August 2018), the CBT (on 13 September 2018) increased its benchmark lending rate by 6.25 per cent., which increased the one week repo rate from 17.75 per cent. to 24.00 per cent. On 6 March 2019, the CBT decided to keep the policy rate constant at 24.00 per cent. However, since then, the policy rates have been steadily and consistently decreasing; as at the date of these Listing Particulars, the one-week repo rate is 8.25 per cent., the overnight borrowing rate is 6.75 per cent. and the overnight lending rate is 9.75 per cent.

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

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

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

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

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

Risk management practices, including "know your customer" procedures depend upon the evaluation of information regarding the markets in which Kuveyt Türk operates, its clients, other matters that are publicly available or information otherwise accessible to Kuveyt Türk. As such practices are less developed in

Turkey than they are in other, non-emerging markets, and may not have been consistently and thoroughly implemented in the past, this information may not be accurate, complete, up to date or properly evaluated in all cases.

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

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

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

Although Kuveyt Türk is a participation bank dealing in financial products that differ in many ways from the products of conventional banks, it faces significant competition from not only other participation banks, but also from conventional banks in the Turkish banking sector. As at 31 December 2019, there were a total of 53 banks (excluding the CBT) licensed to operate in Turkey, 28 of which were banks with foreign ownership (including the subsidiaries of foreign banks and joint ventures between Turkish and foreign shareholders) and 6 of which were participation banks. A small number of banks in the Turkish banking sector dominate the market. According to the BRSA, as at 31 December 2019, the top five banks in Turkey (in terms of asset size), three of which were state controlled, held approximately 56.86 per cent. of the banking sector's total credit portfolio, approximately 53.1 per cent. of total bank assets in Turkey and approximately 57.54 per cent. of total depositors in Turkey. See "*Overview of the Turkish Banking Sector and Regulations*" for further details.

State-controlled banks in Turkey have historically focused on government and government-related projects but are increasingly focusing on the private sector, leading to increased competition and pressure on margins. The government of Turkey (the "**Government**") has granted approvals to various state-controlled banks to enter the participation banking market through the establishment of subsidiaries which will operate as participation banks. Ziraat Katılım Bankası A.Ş.'s participation banking operations (Ziraat Participation Bank) commenced on 12 May 2005 and Vakıf Katılım Bankası A.Ş.'s participation banking operations (Vakıf Participation Bank) commenced as of 24 February 2016. The BRSA granted a banking licence to Türkiye Emlak Katılım Bankası A.Ş. and its participation banking operations (Emlak Participation Bank) commenced on 5 March 2019. In addition, state-controlled banks in Turkey have historically had access to very inexpensive funding in the form of very significant Government deposits, which has provided a competitive advantage over private banks.

International banks have shown an increased interest in the banking sector in Turkey. For example, Standard Chartered Bank of the United Kingdom acquired Credit Agricole's Turkish banking operations (announced in August 2012), and Bank Audi of Lebanon launched retail operations in Turkey through its Odea Bank subsidiary after receiving its operating licence from the BRSA in October 2012. In December 2012, the BRSA approved the incorporation of a bank (with a deposit taking licence) by the Bank of Tokyo—Mitsubishi UFJ, Ltd and The Bank of Tokyo—Mitsubishi UFJ, Ltd was granted an operational permit in September 2013. The Commercial Bank of Qatar (Q.S.C.) acquired 70.84 per cent. of Alternatif Bank A.S. in July 2013. In August 2013, Rabobank International Holding B.V. was granted an authorisation to establish a deposit bank in Turkey. In April 2014, Industrial and Commercial Bank of China Ltd. announced that it had signed an agreement to acquire 75.5 per cent. of Tekstilbank from GSD Holding A.S. In June 2016, Qatar National Bank announced that it had completed the acquisition of Turkey's Finansbank. The entry of foreign-owned banks to the sector, either directly or in collaboration with existing Turkish banks, may increase the already significant competition in the market, especially given that some of these foreign competitors have significantly greater resources and less expensive funding sources than Turkish banks.

Although Kuveyt Türk has been adapting to the changing conditions based on competition to limit the effects on its operations, this increased competition may have a negative impact on the margins Kuveyt Türk can charge for its products. Competitors may also direct greater resources and be more effective in

the development and/or marketing of technologically advanced products and services that may compete directly with Kuveyt Türk's products and services, adversely affecting the acceptance of Kuveyt Türk's products and/or leading to adverse changes in the spending habits of Kuveyt Türk's customer base. The increased competitive environment in the Turkish banking sector inevitably creates increase in demand for talented personnel that may compete directly with Kuveyt Türk's ability to recruit and/or retrain talented personnel. There can be no assurances that further competitive pressures will not result in margin compression or that Kuveyt Türk will be able to keep pace with competitors' development of new products and services, which could have a material adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects.

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

A portion of Kuveyt Türk's assets and liabilities are denominated in foreign currencies, and in particular the U.S. dollar and the Euro. In preparing its financial statements, Kuveyt Türk translates such assets and liabilities, as well as the mark-up earned or paid on such assets and liabilities and gains or losses realised upon the sale of such assets, to Turkish lira. As a result, and in common with all banks dealing with foreign currencies, Kuveyt Türk's capital adequacy ratios and its reported income and assets and liabilities are affected by changes in the value of the Turkish lira with respect to foreign currencies. Accordingly, the overall effect of exchange rate movements on Kuveyt Türk's results of operations depends on the rate of depreciation or appreciation of the Turkish lira against the foreign currencies in which any of its assets and liabilities are denominated. Due to market volatility, the Turkish lira has fluctuated, appreciating or depreciating to TRY2.1304 per U.S. dollar at 31 December 2013, TRY2.3269 per U.S. dollar at 31 December 2014 and TL2.9181 per U.S. dollar at 31 December 2015. In the aftermath of the failed coup attempt, on 31 July 2016, the Turkish lira depreciated significantly to TRY3.0727 per U.S. dollar. In addition, after the U.S. presidential election on 8 November 2016, the U.S. dollar strengthened while the Turkish lira continued to depreciate significantly against the U.S. dollar. From time to time, the Turkish lira may be subject to increased volatility. For example, on 13 August 2018, the Turkish lira depreciated from TRY3.7652 per U.S. dollar as at 2 January 2018 to TRY6.8798 per U.S. dollar due to market volatility and tensions with the United States. In connection with the volatility of the Turkish Lira, on 13 August 2018, the Central Bank introduced Turkish lira and foreign exchange liquidity management measures in order to support financial stability and sustain the effective functioning of markets. After the Central Bank's decision to increase the policy rate on 13 September 2018, the Turkish lira has appreciated against the U.S. dollar. As of 11 August 2020, the Turkish Lira has lost more than 17 per cent. of its value against the U.S. dollar since the start of 2020, with the exchange rate standing at TRY7.2421 per U.S. dollar, amid concerns over depleted reserves, costly state foreign currency interventions and a trend of Turkish nationals buying foreign currencies. Further significant fluctuations in the value of the Turkish lira against foreign currencies, in particular the U.S. dollar and the Euro, could have a material adverse effect on Kuveyt Türk's business, financial condition and results of operations.

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

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

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

adverse effect on its asset quality (with a consequent increase in NPLs), profitability and capital ratios, and in turn, on its business, financial condition, results of operations, cash flows and prospects.

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

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

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

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

Kuveyt Türk's success will depend, in part, on the continued service of its key executives (see "Management" for a description of these individuals) and employees and its ability to continue to attract, retain and motivate qualified personnel.

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

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

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

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

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

Kuveyt Türk has a primary Data Centre in Banking Base at Kocaeli which is located in a first degree earthquake risk zone and a disaster recovery centre (the "**Disaster Recovery Centre**") at Türk Telekom Data Centre in Ankara where is at least 300km away from Kuveyt Türk's head office. Kuveyt Türk has established a separate online back-up system which is used to transfer critical data to the Disaster Recovery Centre. Notwithstanding these precautions, should a natural disaster or other event affecting the Ankara area occur, or should Kuveyt Türk be unable to use its online link to the back-up system at the Disaster Recovery Centre, it may be impossible for Kuveyt Türk to recover data in the event that its main information systems located in Istanbul fail. Therefore, there can be no assurances that such failures or interruptions

will not occur or that Kuveyt Türk will be able to address them in a timely manner if they do occur. Accordingly, the occurrence of any failure, interruption or breach of Kuveyt Türk's information systems could have a material adverse effect on its business, financial condition and results of operations and prospects.

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

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

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

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

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

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

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

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

Any adverse change in investor perception in relation to the participation banking model (whereby depositors participate in pools of financings made by Kuveyt Türk to customers and their deposits are

subject to the credit risks of financings included in such pools) may also have an adverse effect on Kuveyt Türk's business, financial condition, results of operations, cash flows and prospects.

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

Credit ratings affect the cost and other terms upon which Kuveyt Türk is able to obtain funding. Rating agencies regularly evaluate Kuveyt Türk and their ratings of its long-term debt are based on a number of factors, including its financial strength as well as conditions affecting the financial services industry generally. As at the date of these Listing Particulars, Kuveyt Türk's long-term local currency rating was B+/Negative from Fitch. Any ratings of Kuveyt Türk may not reflect the potential impact of all risks related to the Certificates, the global financial market and the Turkish banking sector. In light of the difficulties in the financial markets, there can also be no assurance that the rating agencies will maintain Kuveyt Türk's current ratings or outlooks. Fitch is established in the United Kingdom and registered under the CRA Regulation. As such, Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with CRA Regulation.

Long-term foreign currency debt of the Republic of Turkey is currently rated sub-investment grade by three nationally recognised statistical rating organisations. On 13 July 2018, Fitch downgraded Turkey's long-term foreign currency issuer default rating and senior unsecured foreign currency bond rating and assigned a negative outlook (albeit that such outlook was subsequently revised to positive on 2 November 2019). Fitch indicated, in the context of the rating downgrade, that downside risks to macroeconomic stability had intensified due to the widening in the current account deficit, a more challenging global external financing environment and the jump in inflation and the impact of the plunge in the exchange rate on the private sector. On 17 August 2018, S&P Global Ratings Europe Limited ("**Standard & Poor's**") lowered Turkey's foreign currency and local currency long term credit ratings and assigned a stable outlook. Standard & Poor's stated that the downgrade reflects its expectations that the extreme volatility of the Turkish lira and the resulting projected sharp balance of payments adjustment will undermine Turkey's economy. On 14 June 2019, Moody's downgraded Turkey's long-term issuer ratings and maintained its negative outlook. According to Moody's, the key reason for the downgrade (amongst others) was that the risk of a balance of payments crisis continues to rise, and with it the risk of a government default.

On 12 July 2019, Fitch downgraded Turkey's sovereign rating to "BB-" from "BB", mainly based on the dismissal of the Central Bank governor on 6 July 2019, which heightened doubts over the Turkish authorities' tolerance for a period of sustained below-trend growth and deflation according to Fitch and the risk of U.S. sanctions triggered by the delivery of S-400 missile components from Russia, which Fitch expects to be of a "relatively mild form with minimal direct economic effect" but which might have a significant impact on sentiment according to Fitch. On 1 November 2019, Fitch revised the outlook on Turkey's sovereign rating to stable from negative, and affirmed at "BB-", citing continued progress in rebalancing and stabilisation of the Turkish economy with an improved current account balance, however noting Turkey's gross external financing requirement as a source of vulnerability. On 12 November 2019, following its revision of Turkey's long-term foreign-currency issuer default rating, Fitch revised the rating outlooks for 20 Turkish banks to stable. On 21 February 2020, Fitch affirmed Turkey's long-term foreign currency issuer default rating at "BB+" with a stable outlook.

Such downgrades or any further downgrades of the Turkish sovereign rating could negatively affect Kuveyt Türk's ratings. A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein), does not address the likelihood or timing of repayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

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

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

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

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

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

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

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

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

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

### ***The outbreak of COVID-19 has negatively affected the global and Turkish economy and financial markets and might continue to disrupt and/or otherwise negatively impact the operations of Kuveyt Türk and/or its clients***

In December 2019, a novel coronavirus was detected in China, which subsequently spread globally, including to Turkey. The COVID-19 pandemic has caused significant disruption in the global and Turkish economy and financial markets. Within Turkey and many of its important trading partners, the spread of COVID-19 has caused illness, quarantines, cancellation of events and travel, business shutdowns, reduction in business activity and financial transactions, labour shortages, supply chain interruptions and overall economic and financial market instability.

Due to the disruptions in economic and commercial activities resulting from the COVID-19 outbreak, the Turkish Government has taken measures to assist customers and restore liquidity. The Central Bank has provided additional liquidity to the market by arranging repo transactions with lower interest rates, arranging for additional currency swap lines with longer maturities and expanding the Credit Guarantee Fund programme to provide TL 50 billion in support with a one-year maturity and three-month grace period. The Turkish Government has also introduced several measures to support the real sector and individuals, such as tax payment postponements, employment benefits, pensioner schemes, etc. In addition, the BRSA introduced the asset ratio which requires banks to compare lending, as the numerator, with deposits and funding, as the denominator. Failure to meet the applicable asset ratio requirement may result in fines. This has created pressure in the market on loan and deposit volumes and thus on the interest rate environment. Following the introduction of the asset ratio, interest rates on deposits were also reduced, leading to a decreasing interest rate environment for repricing and newly originating loans.

The extent of the ultimate impact the COVID-19 outbreak has on the Turkish economy and on Kuveyt Türk specifically will depend upon future developments, including actions taken globally and within Turkey to contain COVID-19. The impact on the Turkish economy and banking sector may be significant, which in

turn may materially and adversely impact Kuveyt Türk's business, financial condition and/or results of operations, including in the following ways:

- reductions in business and consumer activity and financial transactions, which might lead to a reduction in demand for loans and/or Kuveyt Türk's banking services that generate fee and commissions income,
- the quality of Kuveyt Türk's loans and other assets (and the value of collateral securing the same) might deteriorate, particularly in those sectors (such as automobiles, textiles, services, real estate and tourism) or those segments (such as Kuveyt Türk's SME segment) that are most dramatically impacted, which might lead (inter alia) to increases in provisions, NPLs and/or reductions in customer payments (e.g., loans under credit cards),
- to the extent that global trade and travel flows remain subdued for a prolonged period of time, potential overcapacity in tourism, transport and logistics infrastructure (including hotels and airports) might lead to a rapid decline in prices of these and other properties, which might then lead to a further deterioration of the asset quality of Kuveyt Türk's loan book and, in case of any restructuring with any borrowers resulting in more favourable terms to borrowers, might lead to a decrease in income for Kuveyt Türk,
- regulatory measures that seek to ease the impact of COVID-19 might (inter alia) affect customer demand for loans and/or services, affect pricing in Turkey's competitive banking landscape, impose limitations on Kuveyt Türk's ability to enforce its contracts (including with respect to collateral) and/or, for temporary regulatory changes (e.g., the rule announced by the BRSA on 23 March 2020 allowing banks to use 31 December 2019 exchange rates in certain capital and other calculations), result in financial calculations that are not comparable to those of previous and later periods (including resulting in potentially material changes after such temporary measures terminate) and/or alter the decision-making process of Kuveyt Türk and/or make it more difficult for investors to assess financial results on a comparative basis,
- sources of liquidity available to Turkish borrowers (including Kuveyt Türk) might be reduced and/or more expensive, including if sentiments in capital markets further deteriorate or international investors reduce their exposure to Turkey,
- continued depreciation of the Turkish Lira could affect Turkey's current account deficit and/or the ability of Turkish borrowers to repay obligations denominated in (or linked to) foreign currencies, which could impact not only Kuveyt Türk's own loan portfolio but also Turkey's economy generally, including by way of increased unemployment, and/or
- some of Kuveyt Türk's operations might be impacted, such as due to illness among staff or the need to close or limit customer access to branches.

The pandemic has already resulted in significant contractions in many economies, including those of the United States and the EU, and the future impact of the outbreak is highly uncertain and cannot be predicted. There is no assurance that the outbreak will not have a material adverse impact on Kuveyt Türk's business, financial condition and/or results of operations. The extent of the impact, if any, will depend upon future developments, including actions taken globally and within Turkey to contain COVID-19. It should be noted that the impact of COVID-19, including actions taken to contain it, might heighten many of the other risks noted within these Risk Factors, including through increasing both the probability of negative impacts as well as the severity of such impacts.

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

In the past, the Turkish economy has experienced significant inflationary pressures and between 2000 and 2008 inflation was one of the most serious problems faced by the Turkish economy. However, as a result of governmental policies intended to combat high levels of inflation, inflation in Turkey has decreased substantially in recent years. Producer Price Index ("PPI") and Consumer Price Index ("CPI") for the period from December 2012 to December 2013 were 7.0 and 7.4 per cent., respectively, for the period from December 2013 to December 2014 period were 6.4 per cent. and 8.2 per cent., respectively; for the period from December 2014 to December 2015 were 5.7 per cent. and 8.8 per cent., respectively; for the period



from December 2015 to December 2016 period were 9.9 per cent. and 8.5 per cent., respectively; for the period from December 2016 to December 2017 period were 15.5 per cent. and 11.9 per cent., respectively; for the period from December 2017 to December 2018 period were 33.6 per cent. and 20.3 per cent; and for the period from December 2018 to December 2019 were 7.3 per cent and 11.8 per cent., respectively. In its January 2020 inflation report, the CBT revised its inflation forecast for 2020 to 8.2 per cent. compared to 9.3 per cent. in October 2019. According to the CBT, the bulk of this increase stemmed from the depreciation of the Turkish lira, changes in pass-through from exchange rates to inflation in the third quarter and increases in energy prices excluding fuel oil which remained above the assumptions of the previous report. The Central Bank introduced Turkish lira and foreign exchange liquidity management measures as part of its policy to stabilise foreign exchange levels and control the effects of the depreciation of the Turkish lira on inflation, which would jeopardise price stability. There can be no assurance that inflation will not increase further in the future. In particular, strong domestic demand and/or an increase in global or regional economic activity that influences the prices of oil and other commodities and external demand could cause an increase in inflation. Increases in employment and wage developments, as well as adjustments to administered prices and taxes, could also contribute to increases in inflation. In addition, the exchange rate pass-through effect has had, and in the future may have, a negative impact on the price of imports, contributing to inflation. These inflationary pressures may result in Turkish inflation exceeding the CBT's inflation target, which may cause the CBT to modify its monetary policy. Inflation-related measures that may be taken by the Government in response to increases in inflation could have an adverse effect on the Turkish economy. If the level of inflation in Turkey were to fluctuate or increase significantly, whether as a result of recent social and political challenges faced in Turkey (see "*Risk Factors – Adverse political, economic and related considerations in Turkey could adversely affect Kuveyt Türk's business*") or otherwise, then this could have a material adverse effect on Kuveyt Türk's business, financial condition and results of operations and prospects.

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

Turkey's current account deficit has widened considerably in recent years mainly due to the increasing trade deficit. In 2013, the current account deficit was U.S.\$63.6 billion, which decreased to U.S.\$43.6 billion in 2014. In 2015, the current account deficit decreased to U.S.\$32.1 billion but slightly increased to U.S.\$33.1 billion in 2016. In 2017, the current account deficit increased to U.S.\$47.3 billion. In 2018, the current account deficit was U.S.\$27.8 billion. In May 2019, the current account deficit was U.S.\$1.1 billion surplus. In May 2020, the current account deficit was U.S.\$3.8 billion, bringing the twelve-month rolling deficit to U.S.\$8.2 billion.

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

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

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

As a result of Turkey's high-level political commitment to work with the Financial Action Task Force ("FATF") to seek to address Turkey's deficiencies in combating the financing of terrorism, the Law on Prevention of Financing of Terrorism Law No. 6415 dated 7 February 2013 (the "**Terrorism Law**") was enacted by Turkey and published in the Official Gazette No. 28561 dated 16 February 2013 in order to make sufficient progress in: (a) adequately criminalising terrorist financing; and (b) implementing an adequate legal framework for identifying and freezing terrorist assets before 22 February 2013. Otherwise, the FATF may call upon its members to apply counter measures proportionate to the risks associated with Turkey (for example, the FATF may require banks in member states to apply extra procedures on any transactions with banks in Turkey).

The Terrorism Law introduces an expanded scope to the financing of terrorism offence (as currently defined under Turkish anti-terrorism laws) and strictly prohibits the financing of terrorism and imposes a criminal penalty of imprisonment for any person conducting such crimes under the Terrorism Law. Furthermore, it facilitates the implementation of United Nations Security Council decisions, in particular those relating to

entities and/or individuals placed on sanctions lists or the subject of sanctions and the claims of other foreign governments in relation to "freezing assets" of any person conducting financing of terrorism and imposes a penalty of imprisonment on those persons.

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

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

In recent years, Turkey has undergone significant political and economic transformation which has resulted in increased stability and economic growth coupled with continued times of instability and unrest. However, Turkey is still considered by international investors to be an emerging market. Emerging markets such as Turkey are subject to a higher risk of being viewed negatively by investors due to external events than more-developed markets, and financial turmoil in any emerging market (or global markets generally) could disrupt the business environment in Turkey. Financial turmoil in one or more emerging market(s) tends to adversely affect prices for securities in other emerging market countries as investors move their money to countries that are perceived to be more stable and economically developed. An increase in the perceived risks associated with investing in emerging economies could decrease capital flows to Turkey and adversely affect the Turkish economy. As a result, investors' interest in the Certificates (and thus their price) may be subject to fluctuations that may not necessarily be related to economic conditions in Turkey or the financial performance of Kuveyt Türk. 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.

Investors' interest in Turkey may be negatively affected by events in other emerging markets or the global economy in general, which could reduce Kuveyt Türk's ability to access the international capital markets for funding on acceptable terms or at all, which could in turn have a material adverse effect on adversely affect Kuveyt Türk's business, financial condition, results of operations and prospects.

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

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

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

On 20 July 2016, the Government declared a three-month state of emergency in Turkey, entitling the Government to exercise additional powers under Article 120 of the Turkish Constitution, in order to take action against those responsible for the Attempted Coup. Following several extensions approved by the Government, the state of emergency ended on 18 July 2018.

On 16 April 2017, a majority of Turkish voters approved a referendum amending certain articles of the Turkish Constitution. The amendments included expanding the powers of the president (the "**President**") to create an executive presidency. Following the entry into force of the constitutional amendments: (a) the current parliamentary system has been transformed into a presidential system, (b) the President is entitled to be the head of a political party and to appoint the ministers, (c) the office of the prime minister has been abolished, (d) the parliament's right to interpellate (i.e., the right to submit questions requesting explanation regarding an act or a policy) the ministers has been annulled, (e) the President is entitled to issue decrees as the head of the government, and (f) the President is entitled to instigate general elections (together with presidential elections).

The general elections (i.e., the parliamentary elections) and the presidential elections were held on 24 June 2018 where President Erdoğan was re-elected in the presidential election with approximately 52.6 per cent. of the votes. In the parliamentary elections, the ruling party, Adalet ve Kalkınma Partisi ("**AKP**"), together with its alliance party, Milliyetçi Hareket Partisi (MHP), received enough votes to gain the majority in parliament.

On 9 July 2018, President Erdoğan announced the new ministers of his cabinet, which included the appointment of the former minister of Energy and Natural Resources and his son-in-law, Berat Albayrak, as the minister of Treasury and Finance. On 10 July 2018, President Erdoğan issued a decree: (a) empowering the President to appoint: (i) the governor of the Central Bank, whereas the Council of Ministers had the authority to appoint the governor of the Central Bank in the parliamentary system, and (ii) the deputy governors of the Central Bank, whereas this appointment was previously made by the Council of Ministers among the candidates suggested by the governor of the Central Bank, (b) removing the previous requirement for deputy governors of the Central Bank to have at least ten years of professional experience and (c) shortening the office term of the governor and the deputy governors of the Central Bank to four years from five years (in any case, the governor's term of office is limited to the term of the President who is on duty at the date of the appointment of such governor). On 6 July 2019, the governor of the Central Bank was removed from his post by a Presidential Decree and, on the same day, President Erdoğan appointed Mr. Murat Uysal, one of the Central Bank's then-deputy governors, as the new governor of the Central Bank. This was followed on 9 August 2019 by the board of the Central Bank, as part of its reorganisation, removing from office its chief economist and some other high-ranking officials. Any failure of the Central Bank and/or the Turkish Treasury to implement effective policies might adversely affect the Turkish economy and thus have a material adverse effect on Kuveyt Türk's business, financial condition and/or results of operations.

On 1 August 2018, the Office of Foreign Assets Control of the U.S. Department of Treasury ("**OFAC**") took action targeting Turkey's Minister of Justice and Minister of Interior, indicating that these Ministers played leading roles in the organisations responsible for the arrest and detention of American pastor Andrew Brunson. Following such action, Turkey imposed reciprocal sanctions against two American officials. On 10 August 2018, the President of the United States stated that he had authorised higher tariffs on steel and aluminium imports from Turkey. On 15 August 2018, Turkey retaliated by increased tariffs on certain imports from the United States, such as cars, alcohol and tobacco. These actions contributed to a decline in the value of the Turkish Lira, which fell to a record low (exceeding TRY 7.2 per U.S. dollar in the week ended on 12 August 2018) before strengthening to TRY 5.3 as of 31 December 2018, due to various reasons, including improving relations between Turkey and the United States following the release of Mr. Brunson on 12 October 2018 and the 2 November 2018 removal of the sanctions imposed upon Turkish ministers and reciprocal sanctions imposed by Turkey. The events prior to the release of Mr. Brunson contributed to the deterioration of the relationship between Turkey and the United States and any future similar events might have an adverse effect on the Turkish economy and/or might impact investors' perception of the risks relating to investments in Turkish issuers, including the Bank.

On 5 November 2018, in an effort to constrain Iran's nuclear programme, the United States reinstated United States sanctions on Iran that had been removed in 2015 as part of the Joint Comprehensive Plan of Action, a multilateral treaty signed with Iran on 14 July 2015 on the Iranian nuclear programme, including certain sanctions imposed upon the Iranian financial and energy sector and some imports from Iran, including (after a short exemption period that has since expired) Turkey's import of Iranian oil. The impact of this action, including any additional costs that might be borne by Turkish importers of oil (and thus on the country's current account deficit) or any sanctions that might be imposed for violations of these requirements and/or Turkey's relationship with Iran, might have a material negative impact on the Turkish economy and thus have a material adverse effect on Kuveyt Türk's business, financial condition and/or results of operations.

On 2 October 2018, Saudi journalist Jamal Khashoggi disappeared after entering the Saudi consulate in İstanbul and it was later announced by the Kingdom of Saudi Arabia that Mr. Khashoggi had been killed inside the consulate by Saudi operatives. This event and/or other political circumstances might result in a deterioration of the relationship between Turkey and Saudi Arabia, which might have a negative impact on the Turkish economy.

Municipal elections took place on 31 March 2019, as a result of which the AKP lost control of several major cities, including İstanbul, Ankara and Antalya. However, on 6 May 2019, the Supreme Election Board of Turkey (*T.C. Yüksek Seçim Kurulu*) cancelled the results of the elections in İstanbul and ordered a revote. Repeat elections were subsequently held on 23 June 2019, as a result of which control of the

Istanbul metropolitan municipality transitioned from the AKP to the main opposition party, the Republic People's Party (*Cumhuriyet Halk Partisi*).

The ongoing conflict in Syria has been the subject of significant international attention and its impact and resolution is difficult to predict. Turkey has been involved in armed conflict in Syria and such conflicts are inherently susceptible to volatility and escalation, particularly given the involvement of a number of international parties. The Presidency made a statement after the Turkish Security Council meeting of 30 July 2019 chaired by the President Recep Tayyip Erdoğan, that Turkey will continue its operations against the Kurdistan Worker's Party (the "**PKK**") in northern Iraq and is determined to make efforts to create a "peace corridor" along the Turkish border with Syria. On 9 October 2019, the Turkish military, following a pullback by the United States of its presence in northern Syria, launched "Operation Peace Spring" and commenced military operations to create a "safe zone" in northern Syria in an effort to enhance Turkey's border security. As this territory was largely held by the People's Protection Units (YPG) in Syria, which had assisted the U.S. in the fight against ISIS but that Turkey designates as a terrorist organisation and believes is affiliated with the PKK (an organisation that is listed as a terrorist organisation by various states and organisations, including Turkey, the EU and the United States), significant conflict in the region might occur.

On 14 October 2019, the President of the United States issued an executive order and the OFAC added the Turkish Ministry of Energy and Natural Resources and the Turkish Ministry of National Defence, as well as the relevant ministers, to its list of specially designated nationals and blocked persons. Several European countries imposed an arms embargo on Turkey. On 17 October 2019, the U.S. and Turkey agreed on a deal in which Turkey agreed to suspend its operations in Syria for 5 days in return for a complete withdrawal by the SDF from a safe zone south of the Syria-Turkey border. On 22 October 2019, the President of Turkey Recep Tayyip Erdoğan and the President of the Russian Federation Vladimir Putin agreed to maintain the status quo in northern Syria reached as a result of "Operation Peace Spring". On 23 October 2019, the President of the United States announced that there was a "permanent" ceasefire in the region and sanctions on Turkey would therefore be lifted. The United States might impose additional sanctions upon Turkish military personnel, political figures and/or entities and/or take other actions that might negatively impact the Turkish economy and/or Turkey's relationship with the United States (in fact, both the U.S. House of Representatives and the Foreign Relations Committee of the U.S. Senate in late 2019 passed bipartisan approvals for sanctions (including, without limitation, freezing assets of senior Turkish officials, banning arms transfers to the country, imposing sanctions on Halkbank and potentially imposing fees and penalties on Turkish financial institutions who are found to have knowingly facilitated certain transactions relating to Turkey's military operations in Syria)). While Turkey has entered into separate agreements with the United States and Russia that aim to achieve multi-party agreement on this "safe zone", the parties might disagree about the implementation of these agreements and/or the parties' adherence to their terms, which might lead to further tensions and/or other actions that negatively impact Turkey and/or its economy. Further, on 27 February 2020, the Syrian army launched an airstrike against Turkish military forces in Idlib, a city located in northern Syria which resulted in casualties of Turkish soldiers. Following the airstrike, on 1 March 2020, Turkey announced that it had launched "Operation Spring Shield" against the Syrian forces with an aim to stabilise the Idlib region. The fighting in the Idlib region, however, halted after the ceasefire brokered by Turkey and Russian Federation came into effect on 6 March 2020

On 27 November 2019, the Turkish government signed a Memorandum of Understanding with Libya's Government of National Accord to recognise a shared maritime boundary in the Mediterranean running from Southwestern Turkey to Northeastern Libya. This was further supported by a separate agreement signed in order to expand security and military cooperation between the two countries. On 2 January 2020, the military resolution was accepted by the Turkish parliament and a small contingent of Turkish troops has been deployed in (and arms shipped to) Libya.

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

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

Turkey is located in a region which has been subject to ongoing political and security concerns especially in recent years. In particular, during 2016 and the first half of 2017, Turkey experienced several terrorist attacks linked to the Islamic State of Iraq and Syria ("**ISIS**") and other terrorist groups, including an attack

at Atatürk Airport in Istanbul in June 2016. Political uncertainty within Turkey and in certain neighbouring countries, such as Iran, Iraq, Georgia, Armenia and Syria, has historically been one of the potential risks associated with investment in securities issued by Turkey and/or financial institutions and corporates based in Turkey.

Since December 2010, political instability has increased markedly in a number of countries in the Middle East and North Africa, such as Tunisia, Egypt, Jordan, Yemen, Syria, Iraq and Libya. Unrest in those countries might affect Turkey's relationships with its neighbours, have political implications in Turkey or otherwise have a negative impact on the Turkish economy, including through both financial markets and the real economy. Political instability in the Middle East and elsewhere remains a concern, most recently exemplified by the internal conflict in Syria and Iraq (and terrorist groups operating in those countries), and tension between Iran and Israel. Unrest in those countries and regions may also have implications for the wider global economy and may negatively affect market sentiment towards other countries in the region, including Turkey and between Iran and member countries of the Gulf Cooperation Council ("GCC"). The conflict in Syria has been the subject of significant international attention and is inherently volatile and its impact and resolution is difficult to predict.

In early October 2012, Turkish territory was hit by shells launched from Syria, some of which killed Turkish civilians. On 4 October 2012, the Turkish Parliament authorised the Government for one year to send and assign military forces in foreign countries should such action be considered appropriate by the Government, and on each of 3 October 2013 and 4 October 2014, the authorisation was extended for one year. More recently, elevated levels of conflict have arisen in Iraq and Syria as ISIS militants seized control of areas in Iraq and Syria, which caused a significant displacement of people. In August 2014, a U.S.-led coalition began an anti-ISIS aerial campaign in northern Iraq and Syria and in August 2016, Turkey commenced operations in Syria jointly with the American military, which concluded in March 2017. On 20 January 2018, Turkish officials announced that the Turkish military had started an operation in the Afrin area of Syria targeting terrorist organisations, including the YPG, a terrorist group. On 13 April 2018, the United States, the United Kingdom and France launched a one-off coordinated missile offensive against Syrian targets in response to an alleged use of chemical weapons against Syrian civilians by the Syrian government. Russia, which has supported the Syrian government, has criticized this offensive, but has not taken any action against these countries. In the meantime, the Turkish military's operations against the YPG continue in the Afrin region of Syria. On 19 December 2018, the United States announced their intention to withdraw the 2,000 troops currently stationed in Syria, although no concrete timeline for the withdrawal has been issued. Given the continuing hostilities in Syria and the number of parties involved, it is very difficult to predict the impact of the continuing tensions on geopolitical stability in the broader region, including Turkey, Turkey's relationship with the United States and any potential resulting adverse effect on the Turkish economy, as well as on Kuveyt Türk's business, financial condition, results of operations and prospects.

In November 2015, relations between Turkey and Russia deteriorated as a result of the downing of a Russian war plane on the boarder of Turkey and Syria. As a result, Russia implemented a series of economic sanctions against Turkey in the aftermath of the event, and while relations have improved, there is no guarantee that any such sanctions will be limited or removed and, to the extent that such sanctions are not limited or removed, they may negatively impact Turkey's economy.

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

Turkey has also experienced problems with domestic terrorist and ethnic separatist groups. For example, Turkey has been in conflict for many years with the People's Congress of Kurdistan, formerly known as the

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

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

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

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

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

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

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

Though Turkey has had a long relationship with the EU, that relationship has at times been strained. During 2006, the EU issued several warnings in connection with Turkey's undertakings under the additional

protocol dated July 2005. Following this, in December 2006, the EU decided that negotiations in eight Chapters should be suspended and that no Chapter be closed until the EU has verified that Turkey has fulfilled its commitments relating to the additional protocol. In November 2013, the negotiations on the Chapters and Turkey's accession to the EU were recommenced. There can be no assurance that the EU will continue to maintain an open approach to Turkey's EU membership, nor that Turkey will be able to meet all the criteria applicable to becoming a member state, including the new Chapters opened in 2009 relating to taxation and the environment. The Parliamentary Assembly of the Council of Europe voted to restart monitoring Turkey in connection with the rule of law, human rights, and the state of democracy on 25 April 2017. This decision might contribute to a deterioration of the relationship between Turkey and the EU.

On 15 July 2019, the EU adopted certain measures against Turkey over Turkey's drilling for gas in waters off Cyprus, including reducing certain funding (including loans via the European Investment Bank) and the suspension of high level communications and of the negotiations for a comprehensive air transport agreement. On 11 November 2019, the EU adopted a framework for imposing sanctions on individuals or entities responsible for, or involved in, these drilling activities and, in February 2020, instituted sanctions against two executives of the Turkish drilling company.

In the event of a loss of market confidence as a result of deterioration, suspension or termination in Turkey's EU accession discussions or any other international relations involving Turkey, the Turkish economy might be adversely affected, which might have a material adverse effect on Kuveyt Türk's business, financial condition and/or results of operations. In addition, there can be no assurance that any future accession by Turkey to the EU would have the expected benefits for the Turkish economy.

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

Significant pieces of legislation have been subject to substantial amendments or enactment of new pieces of legislation from time to time. Accordingly, no assurance can be given that the Government will not implement regulations or fiscal or monetary policies, including policies or new regulations or new legal interpretations of existing regulations or exchange controls, or otherwise take actions which could have an adverse effect on Kuveyt Türk's business, financial condition, results of operations and prospects or which could adversely affect the market price and liquidity of the Certificates.

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

As banks are highly regulated entities, Kuveyt Türk is subject to a number of banking, consumer protection, competition, antitrust and other laws and regulations designed to maintain the safety and financial soundness of banks, ensure their compliance with economic and other obligations and limit their exposure to risk. These regulations, including Turkish laws and regulations (and in particular those of the BRSA), can increase the cost of doing business and limit Kuveyt Türk's activities.

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. Basel III, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements, further affects Turkish banks' capital adequacy requirements. In September 2013, the BRSA announced its intention to adopt the Basel III requirements and has been implementing various measures. Accordingly, Kuveyt Türk is required to comply with capital adequacy and liquidity rules which may affect its capital structure and pricing of its products.

The BRSA published five new regulations for the implementation of Basel III in Turkey; Regulation on Equity of Banks, Amendments to the Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks, Regulation on Capital Protection and Cyclic Capital Buffer, the Regulation on Measurement and Evaluation of Leverage Levels of Banks and the Regulation on the Calculation of the Liquidity Ratio Coverage of Banks. Apart from implementation of certain leverage ratios set out under the aforementioned regulations that became effective on 1 January 2015, these regulations are effective as of 1 January 2014.

In order to further align Turkish banking legislation with Basel principles, the BRSA also amended some of its other regulations and communiqués as published in the Official Gazette dated 23 October 2015 No.

29511 and 20 January 2016 No. 29599, which amendments also entered into force on 31 March 2016, except for the amendments relating to internal systems and internal capital adequacy ratios which entered into force on 20 January 2016. The amendments relate to equity requirements, liquidity coverage ratios, internal systems and internal capital adequacy ratios, capital adequacy requirements, risk assessment models and calculation of market risk, credit risk calculations, credit risk mitigation methods, risk management disclosures and financial statement disclosures. Furthermore, in February 2016, the BRSA published a regulation regarding systemically important banks, which introduced additional capital requirements for such banks in line with the requirements of Basel III.

The Regulation on Equity of Banks and amendments to the Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks, as published in Official Gazette No. 28756 dated 5 September 2013, entered into effect on 1 January 2014. The Regulation on Equity of Banks introduced core Tier I capital and additional Tier I capital as components of Tier I capital, while the amendments to the Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks: (a) introduced a minimum core capital adequacy standard ratio (4.5 per cent.) and a minimum Tier I capital adequacy standard ratio (6.0 per cent.) to be calculated on a consolidated and non-consolidated basis (which are in addition to the previously existing requirement for a minimum total capital adequacy ratio of 8.0 per cent.) and (b) change the risk weights of certain items that are categorised under "other assets", with the BRSA amending its guidance on 24 February 2017 to allow foreign exchange required reserves held with the Central Bank to be subject to a 0 per cent. risk weight. The Regulation on Equity of Banks also introduced new Tier II rules and determined new criteria for debt instruments to be included in the Tier II capital. The capital instruments that have already been included within the equity of the bank before the effective date of 1 January 2014 in the regulation would be subject to a different equity calculation method. If such instruments no longer qualify as Tier 1 or Tier 2 capital, for each remaining year of the instrument, 10 per cent. of the instrument will cease to be taken into account for the purpose of the equity calculations of the bank. According to amendments to the Regulation on Equity of Banks and Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks, from 1 January 2022, general provisions will: (i) no longer be allowed to be included in the supplementary capital (i.e., Tier 2 capital) of Turkish banks and (ii) be deducted from their risk-weighted assets.

The Regulation on Capital Protection and Cyclic Capital Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, and the Regulation on Measurement and Evaluation of Leverage Levels of Banks, through which the BRSA seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks, were published in the Official Gazette No. 28812 dated 5 November 2013 and entered into effect on 1 January 2014 with the exception of certain provisions of the Regulation on the Measurement and Evaluation of Leverage Levels of Banks that have entered into effect as at 1 January 2015 (except net stable funding ratio and counterparty credit risk requirements).

The Regulation on the Calculation of the Liquidity Ratio Coverage of Banks, through which the BRSA seeks to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period both on a consolidated and unconsolidated basis, was published in the Official Gazette No. 28948 dated 21 March 2014 (and most recently amended on 15 August 2017) and entered into effect immediately with the provisions thereof becoming applicable as at 1 January 2014 (with the exception of certain provisions relating to minimum coverage ratio levels and the consequences of failing to maintain compliance, which entered into effect on 1 January 2015). According to the Regulation on the Calculation of the Liquidity Ratio Coverage of Bank, the liquidity coverage ratios of banks is not permitted to fall below 100 per cent. on an aggregate basis and 80 per cent. on a foreign currency-only basis; provided that, on 26 March 2020, the BRSA announced that any non-compliance by a bank with the minimum requirements for liquidity coverage ratios will not require such bank to report their remediation measures under the Regulation on the Calculation of the Liquidity Ratio Coverage of Bank to the BRSA until 31 December 2020.

Pursuant to the regulation regarding the internal systems and internal capital assessment process of banks as issued by the BRSA and published in the Official Gazette No. 29057 dated 11 July 2014, banks are obligated to establish, manage and develop (for themselves and all of their consolidated affiliates) internal audit, internal control and risk management systems commensurate with the scope and structure of their organisations, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of



directors. To achieve this, according to the regulation, the internal control personnel cannot also be appointed to work in a role conflicting with their internal control duties.

See "*Overview of the Turkish Banking Sector and Regulations*" for a description of the Turkish banking regulatory environment, including the implementation of Basel III in Turkey. The BRSA conducts examinations of all banks operating in Turkey and financial information, capital ratios, open positions, liquidity, interest rate risks and credit portfolios (inter alia) are followed up in detail at frequent intervals by the BRSA.

Such measures might also limit or reduce growth of the Turkish economy and, consequently, the demand for Kuveyt Türk's products and services. Furthermore, as a consequence of certain of these changes, Kuveyt Türk might be required to increase its capital reserves and/or might need to access more expensive sources of financing to meet its regulatory liquidity and capital requirements, which in turn might have an adverse impact on its level of profitability and/or net profit margin. New or revised laws might also increase Kuveyt Türk's cost of doing business and/or limit its activities, such as the Central Bank's frequent changes to monetary policy and reserve requirements. For example, the Turkish government (including the BRSA and the Central Bank) has introduced (and might introduce in the future) laws that impose limits with respect to fees and commissions charged to customers, increase the monthly minimum payments required to be paid by holders of credit cards or increase reserves. Kuveyt Türk might not be able to pass on any increased costs associated with such regulatory changes to its customers, particularly given the high level of competition in the Turkish banking sector. Accordingly, Kuveyt Türk might not be able to sustain its level of profitability in light of these regulatory changes and Kuveyt Türk's profitability might be materially adversely impacted until (if ever) such changes can be incorporated into Kuveyt Türk's pricing (and even then such changes might affect Kuveyt Türk's profitability as increased pricing for customers might reduce customer demand for Kuveyt Türk's products and services). Any failure by Kuveyt Türk to adopt adequate responses to these or future changes in the regulatory framework might have an adverse effect on Kuveyt Türk's business, financial condition and/or results of operations. In addition, non-compliance with laws might expose Kuveyt Türk to potential liabilities and fines and/or damage its reputation.

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

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

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

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

Pursuant to amendments to Decree 32 and with effect from 2 May 2018: (a) Turkish individuals cannot utilise foreign currency loans and Turkish individuals and Turkish legal entities cannot utilise foreign currency indexed loans; however, Turkish individuals and Turkish legal entities may utilise Turkish lira loans from abroad provided that they have foreign currency earnings; (b) Turkish legal entities with no foreign currency earnings cannot utilise foreign currency loans from Turkey or from abroad with the exceptions explained in the amendment; (c) legal entities with foreign currency earnings in Turkey are allowed to utilise foreign currency loans from Turkey or from abroad, subject to several restrictions and qualifications; and (d) legal entities with an outstanding cash loan balance of less than U.S.\$15 million will not be allowed to refinance their loans if they do not qualify for the exceptions explained in the amendment.

The amendments might have a material adverse effect on the Kuveyt Türk's business, financial condition and/or results of operations.

Further to the amendments in relation to Decree 32, the Central Bank published the Regulation on Procedures and Principles for Monitoring the Transactions Affecting the Foreign Exchange Positions on 17 February 2018 (the "**Foreign Exchange Positions Regulation**"). Pursuant to the Foreign Exchange Positions Regulation, all companies with foreign currency loans and foreign currency indexed loans amounting to higher than U.S.\$15 million (or its equivalent in other foreign currencies) utilised from Turkey or from abroad are required to notify the Central Bank. While calculating the U.S. Dollar equivalent of other foreign currencies, foreign exchange rates published in the Official Gazette on the last business day of the relevant accounting period will be considered. Calculation of the total amount of foreign exchange loans and foreign currency indexed loans will be made in accordance with the financial position statements prepared based upon Turkish accounting standards. If the borrower company does not have financial position statements prepared based upon Turkish accounting standards, the calculation will be made based upon the balance sheets to be submitted to the public authorities within the framework of tax legislation. Companies with the notification requirement are required to engage with an auditor, execute an audit agreement and such auditor will conduct the required audit to form its opinion and submit such opinion to the relevant tracking system to be established by the Central Bank.

In August 2018, the BRSA capped Turkish banks' exposure under swap, spot and forward transactions with foreign entities to 25 per cent. of a bank's regulatory capital, then reducing this level to 10 per cent. in February 2020. In the case of a bank exceeding this level, new transactions may not be executed or renewed until the 10 per cent. level (which is calculated on a daily basis) is attained; however, transactions conducted between local banks and their consolidated affiliates located abroad that qualify as a bank or financial institution are exempt from this restriction. Separately, when calculating the transactions falling within the scope of the threshold, local banks are to consider transactions having a maturity of: (a) 90 to 360 days at 75 per cent. of their amount and (b) no less than 360 days at 50 per cent. of their amount.

Pursuant to Presidential Decree No. 85 published in the Official Gazette on 13 September 2018, Decree 32 was amended such that, except for certain exemptions determined by the Turkish Treasury, the contract price and all other payment obligations under: (a) sale, purchase, and lease agreements (including financial lease) concerning movable and immovable properties, (b) employment, (c) service and (d) construction agreements entered into between Turkish residents must be based upon Turkish lira. Within 30 days following the introduction of this amendment, all prices denominated in foreign currency under the already-executed contracts (falling within the scope of the restriction above) were required to be redenominated in Turkish lira except for certain exceptions determined by the Turkish Treasury. Capital markets instruments (including the Certificates) and certain contracts, persons and instruments are excluded from, and not with the scope of, these new set of restrictions.

On 18 December 2019, the BRSA announced that the total notional amount of a Turkish bank's currency swaps, forwards, options and other similar products with non-residents with a remaining maturity of seven days or fewer where, at the maturity date, such bank pays Turkish Lira and receives foreign exchange shall not exceed 10 per cent. of such bank's most recently calculated regulatory capital; provided that this restriction does not apply to transactions with a bank's non-Turkish financial subsidiaries and other affiliates that are subject to consolidation.

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

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

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

results of operations and/or prospects. Investors should note that notwithstanding the Turkish economy's traditional resort to the IMF in times of macroeconomic imbalance, the Government decided that IMF support was not required in connection with the 2008 global financial crisis.

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

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

#### ***The Turkish economy is subject to significant macroeconomic risks***

The Turkish economy remains vulnerable to both external and internal shocks, including volatility in oil prices, changing investor opinion, outbreaks of disease (e.g., SARS and the COVID-19 coronavirus) and natural events such as earthquakes. For example, the impact of the COVID-19 coronavirus on the global economy (including precautions taken to minimise transmission, including travel restrictions, the closure of factories and restrictions on public gatherings) has increased risks to global growth and financial markets. Global macroeconomic and geopolitical uncertainties, slowdown in capital flows to emerging markets and an increasingly protectionist approach to global foreign trade also continue to negatively affect the Turkish economy. See "*The outbreak of COVID-19 has negatively affected the global and Turkish economy and financial markets and might continue to disrupt and/or otherwise negatively impact the operations of Kuveyt Türk and/or its clients*" above.

Domestic macroeconomic factors, including the current account deficit, high levels of unemployment (12.9 per cent as of May 2020), high levels of inflation and interest rate and currency volatility, remain of concern, particularly in light of the recent depreciation of the Turkish Lira. These conditions have had, and likely will continue to have, a material adverse effect on Kuveyt Türk's business, financial condition and/or results of operations, including as a result of their impact on Kuveyt Türk's customers. The Turkish government has sought to improve economic growth and, in September 2019, the Turkish Treasury announced a new three-year medium-term economic programme (the "**New Economic Programme**") for 2020 to 2022 under which GDP growth was anticipated to be 5.0 per cent. for each year; however, such expectations have been superseded by the impact of the COVID-19 pandemic.

In April 2019, Treasury and Finance Minister Mr. Albayrak announced "Structural Transformation Steps" as tools under the New Economic Programme, which tools are intended to support and strengthen the financial sector, the fight against inflation, budget discipline and tax reform and sustainable growth. On the financial sector side, the main efforts have been focused on increased capitalisation and strengthening the asset quality of the banking sector, including additional capital infusions into the public banks and guidance to private banks to increase capital (including a temporary prohibition on the distribution of dividends).

Should Turkey's economy experience macroeconomic imbalances or otherwise be unsuccessful, it might have a material adverse impact on Kuveyt Türk's business, financial condition and/or results of operations.

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

A significant portion of Turkey's population and most of its economic resources are located in a first-degree earthquake risk zone and Turkey has experienced a large number of earthquakes in recent years, some quite significant in magnitude. For example, in October 2011, the eastern part of the country was struck by an earthquake measuring 7.2 on the Richter scale, causing significant property damage and loss of life. On 6 February 2017, two earthquakes with preliminary measurements of 5.3 on the Richter scale struck Turkey's northern Aegean coast and damaged dozens of homes in at least five villages and injured at least five people. On 2 March 2017, an earthquake measuring 5.5 on the Richter scale struck the southeastern region of Turkey and injured at least five people. On 26 September 2019, an earthquake measuring 5.8 on the Richter scale struck the Sea of Marmara, damaging a number of buildings in Istanbul, and on 24 January 2020, an earthquake measuring 6.8 on the Richter scale struck the eastern province of Elazığ. More recently, on 23

February 2020 an earthquake measuring 5.7 on the Richter scale struck the Iran-Turkey border and on 14 June 2020 an earthquake measuring 5.9 on the Richter scale struck Bingöl province.

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

## **RISKS RELATING TO THE TURKISH BANKING INDUSTRY**

### ***Increased competition in the Turkish banking sector could have a material adverse effect on the Bank***

The Bank faces direct competition from the five other participation banks in Turkey: Vakıf Katılım Bankası A.Ş., Türkiye Finans Katılım Bankası A.Ş., Türkiye Emlak Katılım Bankası A. Ş., Albaraka Türk Katılım Bankası A.Ş. and Ziraat Katılım Bankası A.Ş. Notwithstanding the fact that the Bank is a participation bank, it also competes in the wider Turkish banking sector and accordingly the Bank also faces significant and increasing competition from other participants in the Turkish banking sector, including both public and private banks in Turkey as well as many subsidiaries and branches of foreign banks and joint ventures between Turkish and foreign shareholders. As of March 2020, in addition to the six participation banks, there are currently 47 (excluding the Turkish Central Bank) licensed to operate in Turkey. A small number of these banks dominate the banking industry in Turkey. According to the BRSA, as at 31 March 2019, the top five banks in Turkey (in terms of asset size), one of which is state controlled, held 49.5 per cent. of the banking sector's total credit portfolio, 52.30 per cent. of total bank assets in Turkey and 61.4 per cent. of total depositors in Turkey.

In 2013, the Turkish government announced the expansion of the participation banking sector in Turkey by establishing public participation banks. The Turkish government's main intention was to increase the market share of participation banks which then stood at 5.1 per cent. in terms of asset size, 6.0 per cent. in terms of total credits and 6.2 per cent. in terms of deposits. In December 2019, the market share enjoyed by participation banks was 6.3 per cent. in terms of asset size, 5.5 per cent. in terms of total loans and 8.4 per cent. in terms of deposits. The new public participation banks may have a positive impact on overall the market share enjoyed by participation banks and human resources in the participation banking sector, but it could also have a negative impact on the Bank by increasing the competition which it faces. In Turkey, state controlled banks have historically had access to Turkish government and governmental entities deposits, which have provided such banks with a competitive advantage over private banks. This advantage gives these banks a competitive pricing on both deposit and loan products. Along with the strong capital base, they could engage the market more aggressively, expand their branch network and increase their customer base. It is common for Turkish customers to have more confidence in the state controlled banks than in private banks. The effect of this could be that the Bank's market share is negatively impacted.

Foreign financial institutions have shown a strong interest in competing in the banking sector in Turkey. HSBC Bank plc, UniCredito Italiano, BNP Paribas, the National Bank of Greece, Sberbank, Citigroup, ING and Bank Hapoalim, Burgan Bank, Bank Audi, Bank of Tokyo and Mitsubishi UFJ, Commercial Bank of Qatar, Rabobank Pasha Bank, ICBC (Industrial and Commercial Bank of China Ltd.), Bank of China, Intesa Sanpaolo and Standard Chartered Bank are among the many non-Turkish financial institutions that have purchased or made investments in Turkish banks or opened their own Turkish offices. The entry of foreign competitors into the banking sector, either directly or in collaboration with existing Turkish banks, has increased competition in the market, and any further entry of foreign competitors is likely to further increase competition, especially given that some of these foreign competitors have significantly greater resources and less expensive funding sources than Turkish banks.

Competition has been particularly acute in certain sectors where state-controlled banks and foreign owned banks have been active, such as general purpose loans, for which state-controlled banks have lent funds at rates below those considered commercially viable by the Bank. Increased competition from such state-controlled banks or private international banks or otherwise could have a material adverse effect on the Bank's business, financial condition results of operations and/or prospects.

***The Bank is subject to numerous banking and other laws and regulations that are subject to change and such changes may have a material adverse effect on the Bank***

The implementation process of Directives of the European Community numbered 2006/48/EC and 2006/49/EC ("**CRD**") and Basel II became effective in July 2012 and Basel III became effective on 1 January 2014. Prior to the effectiveness of Basel II and Basel III, in order to monitor the implementation process of the banks on CRD/Basel II, the BRSA had requested banks to submit a progress survey on the adaptation of CRD/Basel II every six months. Potential changes relating to Basel III, once implemented by the BRSA in Turkey, may impact the manner in which the Bank calculates its capital adequacy ratios and may impose higher capital requirements. If the Bank is unable to maintain its capital adequacy or leverage ratios above the minimum levels required by the BRSA or other regulators (whether due to the inability to obtain additional capital on acceptable economic terms, losses or otherwise), then it may be required to seek additional capital and/or sell assets (including subsidiaries) at commercially unreasonable prices, which could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The Banking Law, which was approved by the Turkish Parliament on 19 October 2005 and published in the Official Gazette on 1 November 2005, replaced the previous Banks Act No. 4389 (the "**Banks Act**") and was designed to address the dynamic nature of the banking sector and international financial and economic developments and to operate in parallel with EU banking laws and regulations, as well as in parallel with international banking standards. Compared to its predecessor, the Banking Law is much more comprehensive and detailed. EU banking directives, international rules and standards and relevant country laws and applications were taken into account during the preparation of the Banking Law. The objective of the Banking Law is to maintain the safety and soundness of Turkish financial markets and the Turkish credit system and to protect the rights and interests of investors. Under the Banking Law, customers' rights are regulated with new principles, measures that are to be taken against systemic risk have been introduced, honesty, competence, transparency, confidentiality and ethical principles have been made legal obligations and an extensive list of judicial offences has been defined, the breach of any of which may lead to heavy penalties. The Banking Law also places a strong emphasis on remedial measures for banks in financial difficulty.

New laws and regulations may increase the Bank's cost of doing business or limit its activities. For instance, until the slowdown in economic conditions in 2016, the Central Bank had significantly increased reserve requirement ratios in order to slow down domestic demand, discourage loan growth and lower inflation. In addition, a Resource Utilization Support Fund Levy has been applied on consumer loans at a rate of 15.0 per cent., mortgage loan-to-value ratios have been limited to 75.0 per cent., a ceiling on mutual fund fees has been imposed and ceiling rates on credit cards have been decreased. The BRSA also introduced amendments to its regulations on 18 June 2011 and on 8 October 2013, which are specifically designed to curb consumer lending. The amendments require all banks with consumer lending portfolios exceeding 25.0 per cent. of their overall loan book, or with non-performing consumer loan (classified as illiquid claims, excluding mortgage loans) ratios greater than 8.0 per cent. of their total consumer loans, to set aside higher general provisioning of 4.0 per cent. (increased from 1.0 per cent.) for outstanding standard (Stage 1) loans and 8.0 per cent. (increased from 2.0 per cent.) for outstanding closely monitored (Stage 2) loans.

The amendments additionally require banks to increase risk weightings for capitalization purposes on new consumer loans (excluding vehicle and housing loans) with maturities of one to two years and above two years to 150 per cent. and 200 per cent., respectively (increased from 100 per cent. and 100 per cent., respectively), and also impose certain limits with respect to fees and commissions charged to customers and increase the monthly minimum payments required to be paid by holders of credit cards. The Bank 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 sector. Accordingly, the Bank might not be able to sustain or improve its level of profitability in light of these regulatory changes and the Bank's profitability would likely be materially adversely impacted until (if ever) such changes could be incorporated into the Bank's pricing.

The BRSA and Central Bank issued separate decrees in February and March 2020 that impose new limitations on certain fees and commissions that Turkish banks may charge to customers, including imposing a limit on fees for electronic funds transfers, which might negatively impact the fees and commissions earned by the Bank.

In addition, according to the BRSA's Communiqué Regarding Reserve Requirements (the "**Communiqué Regarding Reserve Requirements**") published in the Official Gazette on 25 December 2013 and numbered 28862, as amended from time to time, the BRSA has imposed incremental additional reserve requirements to be applicable for banks depending on their leverage ratios, which may result in an increase in reserve requirements. Such measures could also limit or reduce the growth of the Turkish economy and consequently demand for the Bank's products and services.

On 18 April 2020, the BRSA introduced a new test referred to as the "Asset Ratio", which ratio banks are required to meet on a weekly basis starting from 1 May 2020. The monthly average of the Asset Ratio, which is a modified form of a financial assets (e.g., loans and securities) to deposits ratio and is (inter alia) intended to measure (and encourage) a bank's use of deposits for active lending (particularly in Turkish Lira) as opposed to investing in securities or other financial assets (particularly in foreign currencies), should not be lower than 95 per cent. for deposit taking banks and 75 per cent. for participation banks. Any failure to satisfy this minimum level subjects the applicable bank to a fine of up to 5 per cent. of the shortfall, which fine shall not be less than TL 500,000 in any case. For other coronavirus-related measures, see "*Overview of the Turkish Banking Sector and Regulations—Recent Coronavirus-related Measures*". See also "*The outbreak of COVID-19 has negatively affected the global and Turkish economy and financial markets and might continue to disrupt and/or otherwise negatively impact the operations of Kuveyt Türk and/or its clients*" above.

The Central Bank also reduced the monthly cap on individual credit card interest rates from 2.34 per cent. in 2012 to 2.02 per cent. as of 1 October 2013 (the cap remained at this rate as of 31 December 2016). On 5 August 2013, the Central Bank introduced caps on commercial credit cards interest rates in line with the caps on individual cards. Accordingly, the ceiling for contractual interest rates for commercial cards is set at 2.12 per cent. On 27 May 2013, the Central Bank also amended the Communiqué on Interest Rates of Deposits and Loans and Other Benefits from Lending Transactions, introducing an interest rate cap on overdraft loans. Accordingly, the maximum interest rates charged on overdraft accounts will not exceed that of credit cards. Moreover, on 7 November 2013, the Grand National Assembly enacted a new consumer protection law, Consumer Protection Law No. 6502 ("**New Consumer Protection Law**"), which was published in the Official Gazette dated 28 November 2013 and numbered 28835. The New Consumer Protection Law came into force in May 2014 and replaced the then existing Consumer Protection Law No. 4077. The New Consumer Protection Law's main aims are to set out a framework to govern the imposition of fees by banks on customers and to increase transparency and comparability between banks so that customers can make more informed decisions. Pursuant to this or other regulations, the Turkish Government may impose limits or prohibitions on interest rates, fees and/or commissions charged to customers, including fees associated with credit cards, or otherwise affect payments received by the Bank from its customers, which could have an adverse effect on the Bank's business, financial condition or results of operations.

The BRSA published a Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks in the Official Gazette dated 23 October 2015 and numbered 29511 (the "**2015 Capital Adequacy Regulation**"), which entered into force on 31 March 2016 and replaced the previous Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks, which was published in the Official Gazette dated 28 June 28 2012 and numbered 28337 and entered into force on 1 July 2012 (the "**2012 Capital Adequacy Regulation**"). The 2015 Capital Adequacy Regulation sustains the capital adequacy ratios introduced by the former regulation, but changes the risk weights of certain items. In order to further align Turkish banking legislation with Basel principles, the BRSA also amended certain regulations and communiqués as published in the Official Gazette dated 23 October 2015 and numbered 29511, which amendments came into force on 31 March 2016. On 22 June 2016, the BRSA introduced a further amendment to the 2013 Equity Regulation to change the items included in equity calculation with an enforcement date of 1 January 2017 and also published a draft Communiqué on Principles for Debt Instruments to be Included in Equity Calculations by Banks to introduce certain rules in relation to conversion and write-down of debt instruments to be included in additional Tier 1 or Tier 2 capital.

On 23 February 2016, the BRSA issued a domestic systemically important banks ("**D-SIBs**") regulation (the "**D-SIBs Regulation**") in line with the Basel Committee standards, introducing a methodology for assessing the degree to which banks are considered to be systemically important to the Turkish domestic market and setting out the additional capital requirements for those banks classified as D-SIBs. The BRSA defines D-SIBs according to their size, complexity and impact on the financial system and economic activity. The banks are to be classified under four categories based upon a score set by the BRSA and will be required to keep additional core Tier 1 capital buffers up to a further 3 per cent. buffer for Group 4 banks,

2 per cent. for Group 3, 1.5 per cent. for Group 2 and 1 per cent. for Group 1. In 2016, capital buffer requirements for D-SIBs were introduced at one-fourth of the full requirements (i.e., Group 4: 0.75 per cent.; Group 3: 0.5 per cent., Group 2: 0.375 per cent.; and Group 1: 0.25 per cent.).

As some of the new banking laws and regulations issued by regulatory institutions have only been implemented over the past two years, the manner in which those laws and regulations are applied to the operations of financial institutions is still evolving. Moreover, in light of such new laws and regulation, additional regulatory proceedings or actions may be commenced by the BRSA and other regulators against Turkish banks to seek to reduce fees and/or impose additional fines or penalties, which could be material. Further new laws or regulations might be adopted, enforced or interpreted in a manner that could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. If the Bank does not adequately respond to such changes in the regulatory framework, these developments may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. Finally, non-compliance with regulatory guidelines could expose the Bank to potential liabilities and fines.

The BRSA continuously conducts examinations of all banks operating in Turkey, including the Bank. Even small credit deteriorations are closely monitored by the BRSA. Financial information, total capital ratios, open positions, liquidity, interest rate risks and credit portfolios are followed up in detail at frequent intervals. Although the Bank has implemented procedures to monitor these issues, there can be no guarantee that the Bank will not breach the ratios and limits set by the regulator.

As applicable to all other enterprises in Turkey, the Bank is also subject to competition and antitrust laws.

In the future, new laws or regulations might be adopted, enforced or interpreted in a manner that could have an adverse effect on the Bank's business, financial condition, cash flows and/or results of operations. In addition, a breach of regulatory guidelines could expose it to potential liabilities or sanctions. Changes in these regulations may have a material effect on the Bank's business and operations. Any of these developments may have an adverse effect on the Bank's business, financial condition or results of operations.

***The Turkish banking sector has experienced significant volatility in the past***

The significant volatility in the Turkish currency and FX markets experienced in 1994, 1998 and 2001, combined with the short FX 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, including one participation bank. Following this crisis, the government made structural changes to the Turkish banking system to strengthen the private banking sector and allow it to compete more effectively with 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 and potentially a consequential adverse effect on the Bank's financial condition. The Bank's NPLs, deposit level and its profitability could be affected by such volatile macro-economic conditions.

**RISKS RELATING TO THE CERTIFICATES**

***Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit will be written-down (in whole or in part) upon the occurrence of a Non-Viability Event or in part only upon the occurrence of a Trigger Event.***

If a Non-Viability Event (as defined in the Conditions) occurs: (i) the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital shall automatically be deemed to be irrevocably and unconditionally cancelled (in the case of a Non-Viability Event Write-down in whole) or written-down in part (in the case of a Non-Viability Event Write-down in part) in the same manner and in the same proportion as the Certificates; (ii) the Certificates shall be cancelled (in the case of a Non-Viability Event Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Non-Viability Event Write-down in part) by the Trustee as determined by the Bank in consultation with the Regulator or as the Regulator may, in its sole discretion, direct; and (iii) all rights

of any Certificateholder for payment of any amounts due under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) shall, as the case may be, be cancelled or written-down in part on a *pro rata* basis among the Certificateholders and, in each case, will not be restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ceased.

If a Trigger Event (as defined in the Conditions) occurs, other than in the case of a Reinstatement (and then only to the extent of any Reinstatement, at the sole and absolute discretion of the Bank), in each case: (i) the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital shall automatically be deemed to be irrevocably and unconditionally written-down in part, in the same manner and in the same proportion as the Certificates; (ii) the Certificates shall be written-down in part, by the Trigger Event Write-down Amount, on a *pro rata* basis by the Trustee as determined by the Bank in consultation with the Regulator; and (iii) all rights of any Certificateholder for payment of any amounts due under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) shall be written-down in part on a *pro rata* basis among the Certificateholders and any such amounts will not be restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Trigger Event Notice or the Trigger Event Write-down Date and even if the Trigger Event has ceased.

Further, while it is intended that the ordinary shares of the Bank should absorb losses prior to the Certificates, a write-down in full or in part of the Certificates could occur prior to the ordinary shares of the Bank absorbing losses in full. A write-down shall not constitute a Dissolution Event. As a result, Certificateholders may lose all or part, as the case may be, of their investment in the Certificates. Investors should also be aware that the application of a Trigger Event or non-viability loss absorption feature similar to Condition 12 (*Loss Absorption upon the occurrence of a Trigger Event*) and Condition 13 (*Loss Absorption upon the occurrence of a Non-Viability Event*) has not been tested in Turkey and therefore some degree of uncertainty may exist in its application.

***The circumstances surrounding a Non-Viability Event or a Trigger Event are unpredictable, and there are a number of factors that could affect the CET 1 Capital Ratio***

The occurrence of a Non-Viability Event or a Trigger Event are inherently unpredictable and depends on a number of factors, many of which are outside of the Bank's control.

The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Regulator (as defined in the Conditions). As a result, the Regulator may require a Non-Viability Event Write-down in circumstances that are beyond the control of the Bank and with which the Bank may not agree. Additionally, upon the occurrence of a Trigger Event, the Bank is required to consult with the Regulator to determine the Trigger Event Write-down Amount. As the Bank does not have sole discretion to determine the Trigger Event Write-down Amount, the consequences of the occurrence of a Trigger Event for Certificateholders are outside of the Bank's control. See "*Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit will be written-down (in whole or in part) upon the occurrence of a Non-Viability Event or in part only upon the occurrence of a Trigger Event*".

The exercise (or perceived likelihood of exercise) of any such power by the Regulator or any suggestion of such exercise could materially adversely affect the value of the Certificates and could lead to the holders of the Certificates losing some or all of their investment in the Certificates.

The financial viability of the Bank will also depend in part on decisions made by the Bank in relation to its business and operations, including the management of its capital position. In making such decisions, the Bank will not necessarily have regard to the interests of Certificateholders and, in particular, the consequences for Certificateholders of any such decisions and there can be no assurance in any such circumstances that the interests of the Bank, its shareholders and the Regulator will be aligned with those of the Certificateholders.

The calculation of the CET 1 Capital Ratio could be affected by one or more factors, including, among other things, changes in the mix of the Bank's business, major events affecting the Bank's earnings, dividend payments by the Bank, regulatory changes (including changes to definitions and calculations of regulatory



capital ratios and their components, including CET 1 Capital and Risk Weighted Assets (each as defined in the Conditions)) and the Bank's ability to manage Risk Weighted Assets in both its ongoing businesses and those which it may seek to exit. In addition, the Bank has capital resources and risk weighted assets denominated in foreign currencies, and changes in foreign exchange rates will result in changes in the relevant currency equivalent value of foreign currency denominated capital resources and Risk Weighted Assets. As a result, the CET 1 Capital Ratio is exposed to foreign currency movements. The calculation of the CET 1 Capital Ratio may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as of the relevant calculation date, the BRSA could require the Bank to reflect such changes in any particular calculation of the CET 1 Capital Ratio.

Accordingly, accounting changes or regulatory changes may have a material adverse impact on the Bank's calculations of regulatory capital, including CET 1 Capital and Risk Weighted Assets, and the CET 1 Capital Ratio. Because of the inherent uncertainty regarding whether a Trigger Event will occur, it will be difficult to predict when, if at all, a Trigger Event Write-down, may occur.

Accordingly, the trading behaviour of the Certificates is not necessarily expected to follow the trading behaviour of other types of security. Any indication that a Trigger Event may occur can be expected to have a material adverse effect on the market price of the Certificates.

***The CET 1 Capital Ratio will be affected by the Bank's business decisions and, in making such decisions, the Bank's interests may not be aligned with those of the Certificateholders***

As discussed, the CET 1 Capital Ratio could be affected by a number of factors. It will also depend on the Bank's decisions relating to its businesses and operations, as well as the management of its capital position. The Bank will have no obligation to consider the interests of the Certificateholders in connection with the strategic decisions of the Bank, including in respect of capital management. Certificateholders will not have any claim against the Bank relating to decisions that affect the business and operations of the Bank, including its capital position, regardless of whether they result in the occurrence of a Trigger Event. Such decisions could cause Certificateholders to lose all or part of the value of their investment in the Certificates.

***Certificateholders will bear the risk of changes in the CET 1 Capital Ratio***

The market price of the Certificates is expected to be affected by changes in the CET 1 Capital Ratio. Changes in the CET 1 Capital Ratio may be caused by changes in the amount of CET 1 Capital and/or Risk Weighted Assets, as well as changes to their respective definition and interpretation under the Applicable Regulatory Capital Requirements.

The Bank only publicly reports the CET 1 Capital Ratio quarterly as of the period end, and therefore during the quarterly period there is no published updating of the CET 1 Capital Ratio and there may be no prior warning of adverse changes in the CET 1 Capital Ratio. However, any indication that the CET 1 Capital Ratio is moving towards the level of a Trigger Event may have an adverse effect on the market price of the Certificates. A decline or perceived decline in the CET 1 Capital Ratio may significantly affect the trading price of the Certificates.

In addition, the BRSA, as part of its supervisory activity, may instruct the Bank to calculate such ratio as at any time, including if the Bank is subject to recovery and resolution actions by the relevant resolution authority, or the Bank might otherwise determine to calculate such ratio in its own discretion at any time. Moreover, the relevant resolution authority is likely to allow a Trigger Event to occur rather than to resort to the use of public funds.

***The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations***

Payments of Periodic Distribution Amounts will be made by the Trustee **provided that** the Bank (as Mudareb) shall have paid to the Trustee profit amounts equal to such Periodic Distribution Amounts pursuant to the terms of the Mudaraba Agreement. In this regard, prospective investors should note that the payment obligations of the Bank under the Mudaraba Agreement rank junior to all Senior Obligations (as defined in the Conditions), rank *pari passu* with all *Pari Passu* Obligations (as defined in the Conditions)

and rank in priority only to all Junior Obligations (as defined in the Conditions), as more particularly described in Condition 4.2 (*Subordination*).

Further, the payment obligations of the Bank under the Mudaraba Agreement are unsecured and no collateral is or will be given by the Bank in relation thereto.

The Trustee may exercise its enforcement rights in relation to the Mudaraba Agreement only in the manner provided in Condition 14.3 (*Winding-up, Dissolution or Liquidation*). If the Bank were wound up, liquidated or dissolved, the Bank's liquidator would apply the assets of the Bank to satisfy all claims of creditors in respect of Senior Obligations in priority to the claims of the holders of the Certificates. If the Bank does not have sufficient assets to settle claims of such creditors in full, the claims of the Trustee in relation to the Relevant Obligations will not be settled. Further, the Trustee will share equally in payment with the claims of creditors in respect of Pari Passu Obligations. In such case, there may not be sufficient assets to satisfy the claims of the holders of the Certificates in full and holders could lose all or part of their investment.

***No limitation on issuing senior securities; subordination***

Other than the limitations in relation to the issue of further Tier 1 Capital by the Bank as set out in Condition 4.3 (*Other Issues*) which limit the circumstances in which Tier 1 Capital of the Bank can be issued that ranks senior to the Certificates, there is no restriction in the Conditions or in the terms of the Transaction Documents on the Bank (in its capacity as Mudareb or otherwise) incurring additional financing or issuing securities or creating any guarantee or contractual support arrangement which would rank senior to the Certificates and the obligations of the Bank under the Mudaraba Agreement ("**Bank Senior Obligations**"). The issue of or the creation of any such Bank Senior Obligations may reduce the amount recoverable by Certificateholders on a winding-up of the Bank. Accordingly, in the winding-up of the Bank and after payment to creditors in respect of Senior Obligations, there may not be a sufficient amount of funds to satisfy the amounts owing to the Certificateholders. See also "*The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations*".

***Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative***

The Bank may elect, in its sole discretion and by instructing the Trustee to such effect, not to make payment of a Periodic Distribution Amount (in whole or in part) to Certificateholders on the corresponding Periodic Distribution Date, except that no such election may be made in respect of the Periodic Distribution Amount payable on the Dissolution Date or if the Trustee has given notice to Certificateholders that the Certificates will be redeemed in whole in accordance with Condition 11 (*Redemption and Variation*), all as more particularly provided in Condition 8.2 (*Non-Payment Election*).

In addition, if a Non-Payment Event (as defined in the Conditions) occurs, the Bank (in its capacity as Mudareb) shall be prohibited from paying Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) pursuant to the Mudaraba Agreement, and as a result thereof the Trustee shall be prohibited from paying Periodic Distribution Amounts to the Certificateholders on the corresponding Periodic Distribution Dates, as more particularly provided in Condition 8.1 (*Non-Payment Event*).

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of the Bank's election or a Non-Payment Event then, from the date of such election or Non-Payment Event, the Bank will be prohibited from declaring or paying certain distributions and from redeeming, purchasing, cancelling, reducing or otherwise acquiring certain non-equity securities issued directly and indirectly by the Bank (including Ordinary Shares), in each case for a limited period of time, as more particularly described in Condition 8.4 (*Payment and Redemption Restrictions*). However, the Certificateholders shall have no claim in respect of any Periodic Distribution Amount not paid as a result of either an election by the Bank or a Non-Payment Event and the consequential non-payment of any Periodic Distribution Amount in such a circumstance shall not constitute a Dissolution Event. The Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee will not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts.

If such a situation occurs, the Certificateholders shall not receive Periodic Distribution Amounts on their investment in the Certificates and neither the Trustee nor the Certificateholders shall have any claim in respect thereof. Any non-payment of Periodic Distribution Amounts or perceived risk of such non-payment may have a material adverse effect on the market value of the Certificates.

***The Certificates are perpetual securities and contain limited Dissolution Events***

The Certificates are perpetual securities which have no scheduled payment date. The Trustee is under no obligation to redeem the Certificates at any time and the Certificateholders have no right to call for their redemption unless a Bank Event occurs.

The Dissolution Events and Certificateholders' rights following a Dissolution Event are set out in Condition 14 (*Dissolution Events and Winding-up*). The Dissolution Events in the Conditions are limited to: (a) Bank Events (being: (i) a default by the Mudareb for a period of seven days or more in the payment of any principal or profit amount due and payable by it under the Mudaraba Agreement; (ii) a final determination by a court or other official body that the Bank is insolvent or bankrupt or unable to pay its debts; (iii) (x) any distribution of the assets of the Bank on a dissolution, winding-up or liquidation of the Bank whether in bankruptcy, insolvency, receivership, voluntary or mandatory reorganisation or indebtedness (*konkordato*) or any analogous proceedings referred to in the Banking Law (Law No. 5411), the Turkish Commercial Code (Law No. 6102) or the Turkish Execution and Bankruptcy Code (Law No. 2004) or (y) an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Bank or the Bank applies or petitions for a winding-up or administration order in respect of itself or ceases, or through an official action of its board of directors threatens to cease, to carry on all or substantially all of its business or operations, except, in each case, (A) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and the Conditions or the Trustee is directed by an Extraordinary Resolution of the Certificateholders); or (B) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority) and (b) Trustee Events (being similar in nature to Bank Events in respect of the Trustee), all as more fully described in the Conditions.

In certain circumstances the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem the Certificates, including on the First Call Date or any Periodic Distribution Date thereafter and if a Tax Event or a Capital Event occurs, as more particularly described in Condition 11 (*Redemption and Variation*), although there is no assurance that the Bank will require it to do so.

Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Certificates indefinitely, unless:

- (i) the Trustee exercises its rights to redeem the Certificates in accordance with Condition 11 (*Redemption and Variation*);
- (ii) the Trustee is directed by an Extraordinary Resolution of the Certificateholders, or by the Delegate (acting in accordance with the Declaration of Trust and the Conditions), following a Bank Event to redeem the Certificates; or
- (iii) they sell their Certificates.

The exercise of (or perceived likelihood of exercise of) any such redemption feature of the Certificates may limit their market value, which is unlikely to rise substantially above the price at which the Certificates can be redeemed.

If the Certificates are redeemed, there can be no assurance that Certificateholders will be able to reinvest the amount received upon redemption in a comparable security at a rate that will provide the same rate of return as their investment in the Certificates. Potential investors should consider reinvestment risk in light of other investments available at that time. See also "*Absence of secondary market/limited liquidity*" for a description of the risks relating to the ability of holders of Certificates to sell the Certificates in the secondary market.

### ***Basel regulatory framework as implemented in Turkey may have an effect on the Certificates***

The Basel Committee on Banking Supervision (the "**Basel Committee**") has put forward a number of fundamental reforms to the regulatory capital framework for internationally active banks. On 16 December 2010 and on 13 January 2011, the Basel Committee issued guidance on the eligibility criteria for Tier 1 and Tier 2 capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions ("**Basel III**"). The international implementation of the Basel III reforms began on 1 January 2013; however, the requirements are subject to a series of transitional arrangements that will be phased in over a period of time. The Basel Committee's press release dated 13 January 2011 entitled "*Minimum requirements to ensure loss absorbency at the point of non-availability*" (the "**January 2011 Press Release**") included an additional qualification requirement for Tier 1 and Tier 2 capital instruments under Basel III.

This requirement (the "**Non-Viability Requirement**") requires contractual or legislative terms providing for, at the option of the relevant authority, the writing-down of the principal amount of Tier 1 instruments or the conversion of such Tier 1 instruments into ordinary shares upon the occurrence of a Non-Viability Event (as defined in the Conditions).

The January 2011 Press Release states that instruments issued after 1 January 2013 must meet the Non-Viability Requirement in order to be recognised as Tier 1 or Tier 2 instruments for regulatory capital purposes.

In 2013, the BRSA announced its intention to adopt the Basel III requirements and issued the following regulations and, as published in the Official Gazette dated 5 September 2013 and numbered 28756, adopted the 2013 Equity Regulation and amendments to 2012 Capital Adequacy Regulation, which entered into effect on 1 January 2014. The 2013 Equity Regulation introduced core Tier 1 capital and additional Tier 1 capital as components of Tier 1 capital.

Please see the section "*- Basel Committee – Basel III*" below for further details on the abovementioned new regulations.

The BRSA has provided the Bank with a letter of no objection to the issuance of the Certificates as Tier 1 Capital under the BRSA Tier 1 Approval.

To the extent that the relevant statutory and/or regulatory authorities in Turkey introduce any amendments to the 2013 Equity Regulation, or introduce a statutory resolution regime to implement loss absorbency upon the occurrence of a Non-Viability Event, either through the writing-off of the principal amount of the instruments or the conversion of such instruments into ordinary shares, it is possible that such amendments or loss absorbency measures, if applicable to the Certificates, could: (i) (in the event of any introduction of a statutory regime) supersede the write-down provisions contained in Condition 13 (*Loss Absorption upon the occurrence of a Non-Viability Event*); or (ii) (in the event of any amendments to the 2013 Equity Regulation) give rise to a Capital Event as a consequence of which the Certificates may be redeemed or varied pursuant to Condition 11.1(d) (*Redemption or Variation for Capital Event*). The introduction (or anticipation) of any such amendments or new statutory resolution regime could, therefore, materially adversely affect the value of the Certificates. See "*- Variation upon the occurrence and continuation of a Capital Event or the occurrence of a Tax Event*" and "*-The Certificates may be subject to early redemption; redemption is conditional*".

### ***The Certificates will cease to accrue profit from the due date for redemption (if any)***

Investors are advised that each Certificate will cease to accrue profit from the due date for redemption (following liquidation of the Mudaraba). Consequently, should payments owing to Certificateholders on the due date for redemption (if any) be received by them after the due date for any reason, no additional profit payment, late payment amount or other equivalent amount will be payable in respect of such delay. See Condition 7.3 (*Cessation of Accrual*).

### ***Due to the deeply subordinated nature of the obligations arising under the Certificates, the Conditions contain limited remedies***

The Certificates are perpetual instruments with no fixed redemption date and there is no obligation on the Trustee to pay the face amount of the Certificates other than in accordance with the exercise of a call option in accordance with Condition 11.1(b) (*Trustee's Call Option*), a redemption in accordance with Condition

11.1(c) (*Redemption or Variation due to Taxation*), a redemption in accordance with Condition 11.1(d) (*Redemption or Variation for Capital Event*) or following the occurrence of a Bank Event in accordance with Condition 14.1 (*Bank Events*). In addition, the Trustee may be prohibited from making, or instructed by the Bank not to make, payments of Periodic Distribution Amounts on the Certificates in accordance with Condition 8 (*Periodic Distribution Restrictions*) and Periodic Distribution Amounts will not therefore be due other than in the limited circumstances described in the Conditions.

Moreover, pursuant to Condition 14 (*Dissolution Events and Winding-up*), upon the occurrence of any Bank Event, and following the delivery of a Dissolution Notice pursuant to Condition 14.1 (*Bank Events*), the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement and the remedies available to the Trustee, the Delegate and/or the Certificateholders (as applicable) are limited to giving notice to the Trustee and the Bank that the Certificates outstanding are, and shall immediately become, due and payable without presentation, demand, protest or other notice of any kind at their aggregate outstanding face amount together with any Outstanding Payments and thereafter: (i) instituting any steps, actions or proceedings for the winding-up or bankruptcy of the Bank; and/or (ii) proving in the winding-up of the Bank; and/or (iii) claiming in the liquidation of the Bank; and/or (iv) taking such other steps, actions or proceedings which, under the laws of Turkey, have an analogous effect to the actions referred to in paragraphs (i) to (iv) above, in each case, for the payment of amounts due under the Mudaraba Agreement. Therefore, it will only be possible to enforce claims for payment of such amounts when the same have become due pursuant to the Mudaraba Agreement and the Conditions.

Furthermore, the Senior Obligations of the Bank will first have to be satisfied in any winding-up, bankruptcy, dissolution, liquidation or analogous proceedings before the Certificateholders may expect to obtain any amounts in respect of their Certificates and prior thereto Certificateholders will have only limited (if any) ability to influence the conduct of such winding-up, liquidation or analogous proceedings.

***Resettable fixed rate instruments have a market risk***

A holder of an instrument with a fixed profit (or equivalent) rate that will be reset during the term of the instrument (as will be the case for the Certificates with effect from each Reset Date (as defined in the Conditions) if not previously redeemed and/or purchased and cancelled) is exposed to the risk of fluctuating interest or profit rate levels and uncertain interest or profit rate income. While the expected profit rate on the Certificates is fixed until the First Call Date (with a reset of the initial profit rate on the First Call Date as set out in the Conditions and every five years thereafter), the current investment return rate in the capital markets (the "**market return rate**") typically changes on a daily basis. As the market return rate changes, the market value of the Certificates may also change, but in the opposite direction. If the market return rate increases, the market value of the Certificates would typically decrease. If the market return rate falls, the market value of the Certificates would typically increase. Certificateholders should be aware that movements in these market return rates can adversely affect the market value of the Certificates and can lead to losses for the Certificateholders if they sell the Certificates.

***Variation upon the occurrence and continuation of a Capital Event or the occurrence of a Tax Event***

Upon the occurrence of a Tax Event, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, subject as provided in Condition 11.1(c) (*Redemption or Variation due to Taxation*) and without any requirement for consent or approval of the Certificateholders, vary the terms of the Mudaraba Agreement, subject to approval of the Kuveyt Türk Katılım Bankası A.Ş. *Shari'a* Advisory Board, and the Certificates such that the Certificates become or, as appropriate, remain, Qualifying Tier 1 Instruments (as defined in the Conditions).

Upon the occurrence and continuation of a Capital Event, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, subject as provided in Condition 11.1(d) (*Redemption or Variation for Capital Event*), vary the terms of the Mudaraba Agreement, subject to, *inter alios*, the prior approval of the Kuveyt Türk Katılım Bankası A.Ş. *Shari'a* Advisory Board and the Certificateholders by way of an Extraordinary Resolution in accordance with the requirements set out in Condition 20 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*) and the Declaration of Trust, and the Certificates such that the Certificates become or, as appropriate, remain, Qualifying Tier 1 Instruments (as defined in the Conditions).

A Capital Event is deemed to have occurred if the Bank is notified in writing by the Regulator to the effect that the outstanding face amount of the Certificates is excluded (in full or in part) from the consolidated or

consolidated solo Tier 1 Capital of the Bank (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital). A Tax Event will arise if the Bank or the Trustee (as the case may be) would, in making any payments under the Mudaraba Agreement or on the Certificates (as the case may be) has or will or would on the next date for such payment, be required to pay Additional Amounts or additional amounts under clause 5.11 of the Mudaraba Agreement (and such requirement cannot be avoided by the Bank or the Trustee (as the case may be) taking reasonable measures available to it). Each of Tax Event and Capital Event is more particularly described in Condition 11.1 (*Redemption and Variation*).

The tax and stamp duty consequences of holding the Certificates following variation as contemplated in Condition 11.1 (*Redemption and Variation*) could be different for certain Certificateholders from the tax and stamp duty consequences for them of holding the Certificates prior to such variation and none of the Trustee, the Delegate, the Agents or the Bank shall be responsible to any Certificateholder for any such consequences in connection therewith. Further, while the Conditions stipulate that the variation (as contemplated by the Conditions) must not be materially less favourable to the Certificateholders (other than in respect of the tax treatment of the new instrument in the hands of all or any Certificateholder, or any transfer or similar taxes that may apply on the acquisition of the new instrument, as stated aforesaid), no assurance can be given as to whether any of these changes will negatively affect any particular Certificateholder.

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

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the Trust Assets. Recourse to the Trustee in respect of the Certificates is limited to the Trust Assets, and the proceeds of the Trust Assets are the sole source of payments on the Certificates. Upon receipt by the Trustee of a Dissolution Notice in accordance with the terms of Condition 14.1 (*Bank Events*), the sole rights of each of the Trustee and/or the Delegate will be (subject to Condition 14.3 (*Winding-up, Dissolution or Liquidation*)) against the Bank to perform its obligations under the Transaction Documents.

Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets. The Bank is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Trustee and/or the Delegate (acting in the name and on behalf of the Trustee) will have recourse against the Bank to recover such payments due to the Trustee pursuant to the Transaction Documents. After enforcing or realising the rights in respect of the Trust Assets and distributing the net proceeds of such Trust Assets in accordance with Condition 5.3 (*The Trust - Order of Priority for Payments*), the obligations of the Trustee and/or the Delegate in respect of the Certificates shall be satisfied and neither the Trustee nor the Delegate nor any Certificateholder may take any further steps against the Trustee to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and (in the case of the Delegate only) the Bank shall be (in accordance with Condition 14.3 (*Winding-up, Dissolution or Liquidation*)) to enforce their respective obligations under the Transaction Documents.

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

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. The Certificates generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are perpetual securities (see "*The Certificates are perpetual securities and contain limited Dissolution Events*"), are subordinated (see "*The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations*"), will be permanently written-down (in whole or in part) upon the occurrence of a Non-Viability Event or written-down, other than in the case of a Reinstatement (and then only to the extent of such Reinstatement), in part only upon the occurrence of a Trigger Event (see "*Certificateholders'*

*right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit will be written-down (in whole or in part) upon the occurrence of a Non-Viability Event or in part only upon the occurrence of a Trigger Event") and payments of Periodic Distribution Amounts may be restricted in certain circumstances (see "-Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative").*

Application has been made for the Certificates to be admitted to the Official List and for such Certificates to be admitted to trading on Euronext Dublin. However, there can be no assurance that any such listing or admission to trading will occur on or prior to the Issue Date or at all or, if it does occur, that it will enhance the liquidity 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.

***The Certificates may be subject to early redemption; redemption is conditional***

Upon the occurrence of a Tax Event or the occurrence and continuation of a Capital Event, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, at any time, having given not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 19 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem in accordance with the Conditions all, but not some only, of the Certificates together with any accrued but unpaid Periodic Distribution Amounts (as more particularly described in Condition 11.1(c) (*Redemption or Variation due to Taxation*) in relation to a Tax Event, and Condition 11.1(d) (*Redemption or Variation for Capital Event*) in relation to a Capital Event). Investors should note that any change to, or revocation of, the private tax ruling obtained by Kuveyt Türk from the Large Taxpayers Office on 31 May 2019 (see "*Taxation – Turkey – Withholding Tax*") with respect to the withholding tax rate applicable to certain payments to be made by Kuveyt Türk under the Transaction Documents to which it is a party may, in certain circumstances, constitute a Tax Event.

Any redemption of the Certificates is subject to the requirements in Condition 11.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), including obtaining the prior approval of the Regulator. There can be no guarantee that the approval of the Regulator will be received on time or at all.

There is no assurance that the Certificateholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Certificates. During any period when the Bank may instruct the Trustee to redeem the Certificates, the market value of the Certificates generally will not rise substantially above the relevant redemption amount payable in respect of the Certificates. Potential investors should consider reinvestment risk in light of other investments available at that time.

***Investment in the Mudaraba Assets***

Pursuant to the Mudaraba Agreement, the proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb which proceeds shall form the initial capital of the Mudaraba (the "**Mudaraba Capital**"). The Mudaraba Capital will be invested by the Bank (as Mudareb), on an unrestricted co-mingling Mudaraba basis, in its general business activities and, following investment of the Mudaraba Capital in accordance with the terms of the Investment Plan, the assets in which the Mudaraba Capital are invested shall constitute *pro rata* undivided assets of the Mudaraba (the "**Mudaraba Assets**") with a view to earning profit therefrom, which will in turn be applied towards payments due to Certificateholders in respect of the Certificates.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Mudaraba Assets. The investment activities of the Mudaraba will be carried out by the Bank, and the Certificateholders shall have no ability to influence such activities. The Bank shall be granted the express entitlement to co-mingle the Mudaraba Capital with its shareholders' equity and such amounts may be co-mingled with its own assets and, as a result, it may not be possible to identify the Mudaraba Assets separately from the assets of the Bank.

If any of the risks relating to the business of the Bank mentioned above (see "*Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents*") materialise or otherwise impact the Bank's business, the value of and profit earned from the investment in such Mudaraba Assets may decrease which may, in turn, have a material adverse effect on the Bank's ability to fulfil its payment obligations under the Mudaraba Agreement and, consequently, the Trustee's ability to make payments in respect of the Certificates.

Furthermore, while the Mudareb has agreed in the Mudaraba Agreement to ensure that the Mudaraba Capital is invested in accordance with the Investment Plan (and with the degree of skill and care that it would exercise in respect of its own assets), the Mudaraba Agreement also provides that there is no guarantee of any return from the Mudaraba Assets. In addition, the Trustee and the Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee except to the extent such losses are caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful default or fraud.

Accordingly, potential investors are advised that any claim by or on behalf of the Trustee for the Mudaraba Capital following any Dissolution Event may be reduced if and to the extent that the Mudareb is able to prove that any losses to the Mudaraba Capital were not caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful default or fraud. If the Mudareb is able to provide such proof, Certificateholders may lose all or some of their investment. It is not possible to state with certainty what approach any court with jurisdiction will take in such circumstances.

## **RISKS RELATING TO ENFORCEMENT**

### ***Enforcement Risk***

Ultimately the payments under the Certificates are dependent upon the Bank making payments to the Trustee and the Trustee making payments to Certificateholders in the manner contemplated under the Transaction Documents. If the Bank or the Trustee fails to do so, it may be necessary to bring an action in accordance with Condition 14 (*Dissolution Events and Winding-up*).

Certain of the Transaction Documents are governed by English law (excluding certain specified provisions therein in respect of subordination and loss absorption which are governed by Turkish law), with the courts of England stated to have jurisdiction to settle any disputes. Notwithstanding that a judgment may be obtained in an English court, there is no assurance that the Bank or the Trustee has, or would at the relevant time have, assets in the United Kingdom against which such judgment could be enforced.

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

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

In 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, it may be necessary for a foreign plaintiff or plaintiffs under Law of Charges (Law No. 492) published in the Official Gazette dated 17 July 1964 and numbered 11756 (as amended from time to time) to pay, among other amounts (including amounts in relation to security for court costs), court fees in the amount of 6.831 per cent. of the Turkish Lira equivalent of the amount claimed plus a fixed application fee to the relevant courts.

## **ADDITIONAL RISK FACTORS**

### ***No assurance can be given as to Shari'a rules***

The Bank's Sharia board and the KFH Capital Sharia Committee have confirmed that the Transaction Documents are, in their view, *Shari'a*-compliant. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be *Shari'a*-compliant by any other *Shari'a* board or *Shari'a* scholars. None of the Trustee, the Bank, the Delegate, the Agents or the Sole Lead Manager makes any representation as to the *Shari'a*-compliance of the Transaction Documents, or of the Certificates and/or any trading thereof, and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible.

### ***Shari'a requirements in relation to interest awarded by a court***

In accordance with applicable *Shari'a* principles, each of the Bank, the Trustee and the Delegate will waive all and any entitlement it may have to interest awarded in its favour by any court in connection with any dispute under the Mudaraba Agreement. Should there be any delay in the enforcement of a judgment given against the Bank, judgment interest may accrue in respect of that delay and, as a result of the waiver referred to above, Certificateholders will not be entitled to receive all, or any part of, such interest.

### ***Certificates with a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade***

As the Certificates have a denomination consisting of the minimum Authorised Denomination (as defined in the Conditions and further described in Condition 2.1 (*Form and Denomination*)) plus a higher integral multiple of another smaller amount, it is possible that the Certificates may be traded in amounts in excess of such minimum Authorised Denomination that are not integral multiples of such minimum Authorised Denomination. In such case a Certificateholder who, as a result of trading such amounts, holds a face

amount of less than the minimum Authorised Denomination would need to purchase an additional amount of Certificates at or in excess of the minimum Authorised Denomination such that it holds an amount equal to at least the minimum Authorised Denomination to be able to trade such Certificates. Certificateholders should be aware that a holding of Certificates which has a face amount that is not an integral multiple of the minimum Authorised Denomination may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than the minimum Authorised Denomination in his account with the relevant clearing system at the relevant time, such Certificateholder 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 at least an Authorised Denomination in order to be eligible to receive a Definitive Certificate.

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 Authorised Denomination may be illiquid and difficult to trade.

#### *Consents are required in relation to the variation of Transaction Documents and other matters*

The Conditions contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally and for obtaining written resolutions on matters relating to the Certificates from Certificateholders without calling a meeting. A written resolution signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Declaration of Trust and whose Certificates are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Certificates are held in global form in the clearing systems, the Trustee will be entitled to rely upon:

- (i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by the Trustee, the Delegate or the Bank or given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates for the time being outstanding; and
- (ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Trustee, the Delegate and/or the Bank by accountholders in the clearing systems with entitlements to the Global Certificate or, where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held (directly or via one or more intermediaries), **provided that** the Trustee has obtained commercially reasonable evidence to ascertain the validity of such holding and taken reasonable steps to ensure such holding does not alter following the giving of such consent/instruction and prior to effecting such resolution.

A written resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Certificateholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Certificateholders satisfying the special quorum in accordance with the provisions of the Declaration of Trust, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. These provisions permit defined majorities to bind all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The Conditions also provide that the Delegate may, without the consent or approval of the Certificateholders, agree to the substitution of another company as obligor under the Certificates in place of the Trustee, in the circumstances described in Condition 14.2 (*Trustee Events*).

The Conditions also provide that the Delegate may, without the consent or approval of the Certificateholders, agree to the variation of the terms of the Certificates so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, as provided in Condition 11.1(c) (*Redemption or Variation due to Taxation*).

The Declaration of Trust also contains provisions permitting the Delegate from time to time and at any time without the consent or approval of the Certificateholders to make any modification to the Declaration of Trust if, in the sole opinion of the Delegate, such modification: (a) is of a formal, minor or technical nature; or (b) is made to correct a manifest error; or (c) is not materially prejudicial to the interests of the Certificateholders then outstanding and is other than in respect of a Reserved Matter (as defined in the Declaration of Trust) or any provision of the Declaration of Trust referred to in the definition of Reserved Matter. Unless the Delegate otherwise agrees, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

***Exchange rate risks and exchange controls***

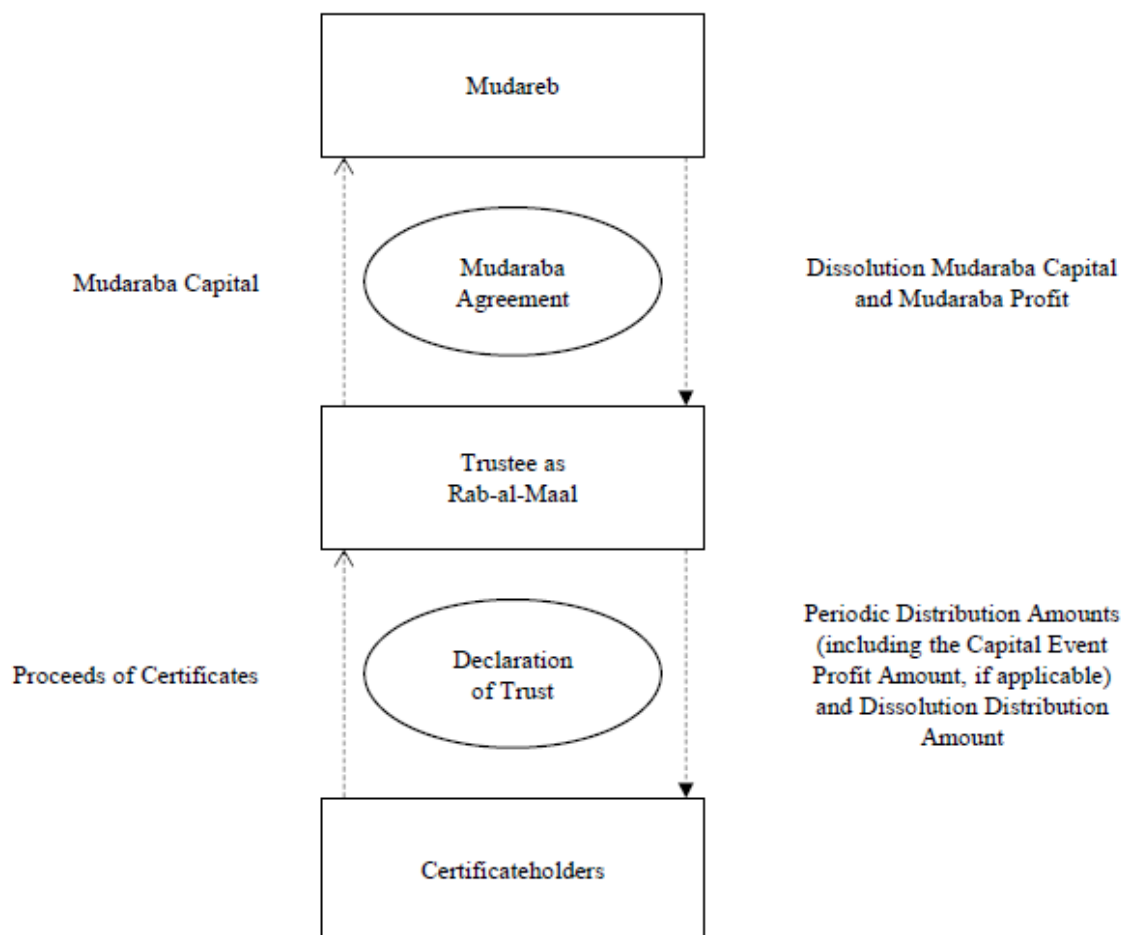
The Trustee will make all payments on the Certificates in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include 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 which could adversely affect an applicable exchange rate. Neither the Bank nor the Trustee has any control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in the future. 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 principal payable on the Certificates (to the extent that any Dissolution Distribution Amount, or the aggregate outstanding face amount of the Certificates, becomes payable as provided in the Conditions); 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 well as the availability of a specified foreign currency at the time of any payments including of any Periodic Distribution Amount on a Certificate. As a result, investors may receive less amounts under the Certificates than expected, or no such amounts. Even if there are no actual exchange controls, it is possible that U.S. dollars may not be available at the date of redemption of the Certificates.

## STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows relating to the Certificates. This does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the more detailed information appearing elsewhere in these Listing Particulars. Potential investors are referred to the Conditions and the detailed descriptions of the relevant Transaction Documents set out elsewhere in these Listing Particulars for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below. Potential investors should read this entire Listing Particulars carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".

### Structure Diagram



### Principal Cash Flows

#### Payments by the Certificateholders and the Trustee

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to the Trustee. Pursuant to the Declaration of Trust, the Trustee will declare a trust, in favour of the Certificateholders, over:

- (a) the cash proceeds of the issuance of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;
- (b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets (as defined below);
- (c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in

any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee or the Delegate by the Bank pursuant to clause 11 of the Declaration of Trust); and

- (d) all amounts standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing (together, the "**Trust Assets**").

The proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb and shall form the initial capital of the Mudaraba (the "**Mudaraba Capital**") pursuant to the Mudaraba Agreement. The Mudaraba Capital will be invested, on an unrestricted co-mingling Mudaraba basis, by the Bank in its general business activities and, following investment of the Mudaraba Capital in accordance with the terms of the Investment Plan, the assets in which the Mudaraba Capital are invested shall constitute *pro rata* undivided assets of the Mudaraba (the "**Mudaraba Assets**").

#### **Periodic payments by the Trustee**

Unless a Non-Payment Event occurs or a Non-Payment Election has been made, prior to each Periodic Distribution Date, the Mudareb shall distribute the profit generated by the Mudaraba to both the Trustee and the Mudareb in accordance with an agreed profit sharing ratio (99 per cent. to the Trustee (as Rab-al-Maal) and 1 per cent. to the Mudareb). The Trustee shall apply its share of the profit (if any) generated by the Mudaraba on each Periodic Distribution Date to pay the Periodic Distribution Amount due to the Certificateholders on such date.

Payments of Mudaraba Profit (as defined in the Mudaraba Agreement) by the Bank (as Mudareb) are at the sole discretion of the Bank (as Mudareb) and may only be made in circumstances where a Non-Payment Event has not occurred. The Mudareb shall not have any obligation to make any subsequent payment in respect of such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise).

Under the terms of the Mudaraba Agreement, the Mudareb shall be expressly entitled to co-mingle the Mudaraba Capital with its shareholders' equity and such amounts may be co-mingled in its general business activities.

#### **Dissolution payments, redemption and variation by the Trustee and the Mudareb**

The Mudaraba is a perpetual arrangement with no fixed end date. Accordingly, the Certificates are perpetual securities in respect of which there is no fixed redemption date.

Subject to certain conditions set out in clause 8 of the Mudaraba Agreement, the Bank (as Mudareb) may (acting in its sole and absolute discretion) elect to liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

- (i) on the First Call Date or any Periodic Distribution Date after the First Call Date, by giving not less than 30 nor more than 60 days' prior notice to the Trustee; or
- (ii) on any date on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 30 nor more than 60 days' prior notice to the Trustee:
  - (a) if a Tax Event occurs; or
  - (b) if a Capital Event occurs and is continuing.

The Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, upon receipt of notice in accordance with paragraph (i) above, redeem all, but not some only, of the Certificates and, upon receipt of notice in accordance with paragraph (ii) above, redeem all, but not some only, of the Certificates or vary the terms thereof, in each case by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders, all as more particularly described in the Conditions, and in each case following final constructive liquidation of the Mudaraba, as described above.

The Bank (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by the Bank to be varied upon the occurrence of a Tax Event or the occurrence and continuation of a Capital Event, to make such variations as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments, provided that, in the case of a variation

upon the occurrence of a Capital Event, Certificateholder consent by way of an Extraordinary Resolution will be required.

## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents which have previously been published and have been filed with Euronext Dublin shall be incorporated in, and form part of, these Listing Particulars:

- (a) the unaudited consolidated financial statements of Kuveyt Türk for the six month period ended 30 June 2020 prepared in accordance with BRSA Principles, together with the review report of the independent auditors (<https://www.kuveytturk.com.tr/medium/document-file-3820.vsf>);
- (b) the audited consolidated financial statements of Kuveyt Türk for the year ended 31 December 2019 prepared in accordance with BRSA Principles, together with the audit report of the independent auditors (<https://www.kuveytturk.com.tr/medium/document-file-3497.vsf>); and
- (c) the audited consolidated financial statements of Kuveyt Türk for the year ended 31 December 2018 prepared in accordance with BRSA Principles, together with the audit report of the independent auditors (<https://www.kuveytturk.com.tr/medium/document-file-2462.vsf>).

Any documents themselves incorporated by reference in the documents incorporated by reference in these Listing Particulars shall not form part of these Listing Particulars.

Copies of documents incorporated by reference in these Listing Particulars can be obtained upon request, free of charge, from the registered office of the Issuer and from the specified office of the Principal Paying Agent.

## **SUMMARY OF DIFFERENCES BETWEEN IFRS AND BRSA PRINCIPLES**

Certain financial information contained in these Listing Particulars, and in particular "*Selected Financial Information*", is presented in accordance with BRSA Principles (see "*Presentation of Financial and Certain Other Information*").

BRSA Principles differ from IFRS. Such differences are primarily related to the presentation of financial statements, disclosure requirements (e.g., IFRS 7) and certain accounting policies. BRSA presentation and disclosure requirements are prescribed by applicable regulations and are not always consistent with IFRS. Among the differences in accounting policies some of the most important are:

### **Application of IFRS 9**

With the implementation of IFRS 9 on 1 January 2018, classification and measurement as well as expected credit loss principles assigned to financial instruments portfolios became the same under the BRSA and IFRS accounting standards. However, the BRSA have made some amendments and further declarations to the application of BRSA Principles through communiqués and legislation, which may cause differences between the BRSA Principles and the application of IFRS in terms of staging and expected credit losses calculations.

### **Consolidation Scope**

Only subsidiaries and associates in the financial sector are consolidated and equity accounted, respectively, under BRSA Principles; others are carried at cost or fair value. Under IFRS, however, all subsidiaries are consolidated.

### **Control Power**

The definition of control under BRSA Principles is based on the power to appoint or remove the decision-making majority of members of the board of directors or those having control over the majority of the voting rights as a consequence of holding privileged shares or agreements with other shareholders although not owning the majority of capital, whereas in IFRS 10 an investor is deemed to control an investee when the investee is exposed, 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.

### **Associates**

The threshold for "significant influence" for associates differs. Under the BRSA Principles, if the parent bank has qualified shares (i.e. shares that represent directly or indirectly 10% or more of the capital or voting rights in the associate or that give the privilege to appoint members to the associate's board of directors even though such rate is below 10%) in the invested entity, unless otherwise proved, it is accepted that the parent bank has significant influence in that associate. In IAS 28 such a threshold is set as 20%.

### **Application Period for Hyperinflationary Accounting**

Under BRSA Principles, this period ends at 1 January 2005 whereas under IFRS it ends at 1 January 2006, which represents a difference of one year between the two.

### **Related Party Disclosures**

Related party transactions and balances are disclosed in IFRS based on the definition provided in IAS 24, whereas in BRSA such disclosures are based on "risk group" as defined in the Banking Law.



## TERMS AND CONDITIONS OF THE TIER 1 CAPITAL CERTIFICATES

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

KT AT One Company Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the "**Trustee**"), has issued Tier 1 Capital Certificates (the "**Certificates**") in an aggregate face amount of U.S.\$50,000,000. The Certificates are constituted by a declaration of trust (the "**Declaration of Trust**") dated 28 September 2020 (the "**Issue Date**") made between the Trustee, Kuveyt Türk Katılım Bankası A.Ş. (the "**Bank**") and HSBC Corporate Trustee Company (UK) Limited as the delegate of the Trustee acting as (i) donee of certain powers donated to it under the Declaration of Trust and (ii) as delegate of certain of powers delegated to it under the Declaration of Trust (the "**Delegate**", which expression shall include all persons for the time being appointed as the delegate or delegates under the Declaration of Trust).

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

These Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 1 (*Interpretation*)). Copies of the Transaction Documents are available for inspection and/or collection during normal business hours at the specified offices of the Principal Paying Agent. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee, on behalf of the Certificateholders: (i) to contribute the sums paid by it in respect of its Certificate(s) to the Mudareb in accordance with the Mudaraba Agreement (each as defined in Condition 5 (*The Trust*)); (ii) to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf (which authorisation and direction shall also apply to its successors in title and any Substituted Trustee (as defined below)); and (iii) to enter into each Transaction Document, subject to the provisions of the Declaration of Trust and these Conditions.

### 1. **Interpretation**

Words and expressions defined in the Declaration of Trust and the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between any such document and these Conditions, these Conditions will prevail. In addition, in these Conditions the following expressions have the following meanings:

"**Additional Amounts**" has the meaning given to it in Condition 15 (*Taxation*);

"**Applicable Regulatory Capital Requirements**" means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to the Bank, including transitional rules and waivers granted in respect of the foregoing;

"**Authorised Denomination**" has the meaning given to it in Condition 2.1 (*Form and Denomination*);

"**Authorised Signatory**" means any person who is duly authorised by the Bank to sign documents on its behalf and whose specimen signature has been provided to the Trustee and the Delegate;

**"Bank Event"** means:

- (i) **Non-payment:** the Bank (acting in its capacity as Mudareb) fails to pay an amount which is equivalent to principal or profit (including Additional Amounts) due and payable by it pursuant to the Mudaraba Agreement and the failure continues for a period of seven days (save in each case where such failure occurs solely as a result of the occurrence of a Non-Payment Event or, in the case of profit only, a Non-Payment Election); or
- (ii) **Insolvency:** a final determination is made by a court or other official body that the Bank is insolvent or bankrupt or unable to pay its debts (which shall be deemed to include any debt or other financing arrangement issued (or intended to be issued) in compliance with the principles of *Shari'a* and which is treated as debt for the purposes of applicable law, in each case whether entered into directly or indirectly by the Bank); or
- (iii) **Winding-up:** (A) there is any distribution of the assets of the Bank on a dissolution, winding-up or liquidation of the Bank whether in bankruptcy, insolvency, receivership, voluntary or mandatory reorganisation or indebtedness (*konkordato*) or any analogous proceedings referred to in the Banking Law (Law No. 5411), the Turkish Commercial Code (Law No. 6102) or the Turkish Execution and Bankruptcy Code (Law No. 2004); or (B) an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Bank or the Bank applies or petitions for a winding-up or administration order in respect of itself or ceases, or through an official action of its board of directors threatens to cease, to carry on all or substantially all of its business or operations, except, in each case: (a) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and these Conditions) or by an Extraordinary Resolution of the Certificateholders; or (b) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or
- (iv) **Analogous Event:** any event occurs which under the laws of Turkey has an analogous effect to any of the events referred to in paragraph (ii) or (iii) above.

**"Basel III Documents"** means the Basel Committee on Banking Supervision document "*A global regulatory framework for more resilient banks and banking systems*" released by the Basel Committee on Banking Supervision on 16 December 2010 and revised in June 2011 and the Annex contained in its document "*Basel Committee issues final elements of the reforms to raise the quality of regulatory capital*" on 13 January 2011 as amended or supplemented from time to time;

**"BRSA"** means the Banking Regulation and Supervision Agency (*Bankacılık Düzenleme ve Denetleme Kurumu*) of Turkey or such other governmental authority in Turkey having primary supervisory authority with respect to the Bank;

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

**"Capital Event"** is deemed to have occurred if the Bank is notified in writing by the Regulator to the effect that the outstanding face amount of the Certificates is excluded (in full or in part) from the consolidated or solo Tier 1 Capital of the Bank (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital);

**"Capital Event Amount"** in relation to a Certificate means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

**"Capital Event Profit Amount"** means, on the date of final constructive liquidation of the Mudaraba pursuant to subclause 8.3(c) of the Mudaraba Agreement, an amount equal to 1 per cent. of the Mudaraba Capital on such date;

**"Capital Regulations"** means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy for banks (including participation banks) then in effect in Turkey, including those of the Regulator and, as at the Issue Date, includes the BRSA Regulation on

Equities of Banks (published in the Official Gazette dated 5 September 2013, No. 28756, as amended, modified, supplemented or superseded from time to time);

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

"**CET 1 Capital**" means, at any time, the sum, expressed in Turkish Lira, of all amounts that constitute common equity tier 1 capital of the Bank as at such date, less any deductions from common equity tier 1 capital required to be made as at such date, in each case as calculated by the Bank in accordance with the Applicable Regulatory Capital Requirements, as at such time (which calculation shall be binding on the Trustee, the Delegate and the Certificateholders). For the purposes of this definition "common equity tier 1 capital" means capital of the Bank qualifying as, and approved by the Regulator as, or capital which would, but for any applicable limitation on the amount of such capital, qualify as common equity tier 1 capital in accordance with the Capital Regulations;

"**CET 1 Capital Ratio**" means, at any time, the ratio of CET 1 Capital of the Bank as at such date to the Risk Weighted Assets of the Bank, as at the same date, expressed as a percentage;

"**Code**" means the U.S. Internal Revenue Code of 1986, as amended;

"**Comparable Treasury Issue**" means, with respect to any Reset Period, the U.S. Treasury security or securities selected by the quotation agent (being a primary U.S. government securities dealer in New York City appointed by the Bank after consultation with the Calculation Agent) with a maturity date on or about the last day of such Reset Period and that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in U.S. dollars and having a maturity of five years;

"**Comparable Treasury Price**" means, with respect to any Reset Date: (a) the arithmetic average of the Reference Treasury Dealer Quotations for such Reset Date (calculated on the Determination Date for such Reset Date), after excluding the highest and lowest such Reference Treasury Dealer Quotations; (b) if fewer than five such Reference Treasury Dealer Quotations are received, the arithmetic average of all such quotations; or (c) if fewer than two such Reference Treasury Dealer Quotations are received, then such Reference Treasury Dealer Quotation as quoted in writing to the Calculation Agent by a Reference Treasury Dealer;

"**Corporate Services Agreement**" means the corporate services agreement dated 10 September 2020 between the Trustee and the Trustee Administrator;

"**Day-count Fraction**" means the actual number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months and, in the case of an incomplete month, the number of days elapsed of the Relevant Period (including the first such day but excluding the last));

"**Definitive Certificate**" means a certificate in definitive registered form issued by the Trustee in accordance with the provisions of, and substantially in the form set out in, the Declaration of Trust in exchange for the Global Certificate, and includes any replacements for Definitive Certificates issued pursuant to Condition 18 (*Replacement of Definitive Certificates*);

"**Determination Date**" means the second U.S. Government Securities Business Day before the commencement of the Reset Period for which the relevant rate will apply;

"**Dispute**" has the meaning given to it in Condition 23.2 (*Governing Law and Dispute Resolution*);

"**Dissolution Distribution Amount**" means the Trustee Call Amount, the Capital Event Amount or the Tax Redemption Amount, as the case may be, or such other amount in the nature of a redemption amount as may be determined in accordance with these Conditions;

"**Dissolution Event**" means a Bank Event and/or a Trustee Event;

"**Dissolution Notice**" has the meaning given to it in Condition 14.1 (*Bank Events*);

"**Dissolution Request**" has the meaning given to it in Condition 14.1 (*Bank Events*);

"**Distributable Funds**" means the aggregate of the Bank's: (a) consolidated retained earnings and reserves after the transfer of any amounts to non-distributable reserves; and (b) profits (after the transfer of any profits to reserves, if applicable), in each case: (i) as set out in the most recent audited or (as the case may be) auditor reviewed consolidated financial statements of the Bank; and (ii) to the extent not restricted from distribution by applicable law or otherwise;

"**Distributable Net Period Income**" means the consolidated distributable net period income of the Bank as set out in the most recent audited or (as the case may be) auditor reviewed consolidated financial statements of the Bank;

"**Extraordinary Resolution**" has the meaning given to it in the Declaration of Trust;

"**Final Mudaraba Profit**" has the meaning given to it in the Mudaraba Agreement;

"**First Call Date**" means 28 September 2025;

"**First Mudaraba Profit Distribution Date**" means 28 March 2021;

"**H.15**" means the weekly statistical release designated as such, or any successor or replacement publication, published by the Board of Governors of the United States Federal Reserve System, which may be currently obtained at the following website: <https://www.federalreserve.gov/releases/h15/>;

"**Initial Period**" means the period from (and including) the Issue Date to (but excluding) the First Call Date;

"**Initial Periodic Distribution Rate**" has the meaning given to it in Condition 7.4(a) (*Periodic Distribution Rate*);

"**Junior Obligations**" means all claims of the holders of Ordinary Shares and all payment obligations of the Bank in respect of its other CET 1 Capital and any other payment obligations of the Bank that rank, or are expressed to rank, junior to the Relevant Obligations;

"**Loss Absorbing Instrument**" means any security or other instrument issued directly or indirectly by the Bank, or payment obligation of the Bank, that has provision for all or some of its principal amount to be reduced and/or converted into equity (in accordance with its terms or otherwise) upon the occurrence, or as a result of, a Non-Viability Event or a Trigger Event (or any similarly analogous occurrence) (which shall not include Ordinary Shares or any other instrument that does not have such provision in its terms or otherwise but which is subject to any Statutory Loss Absorption Measure);

"**Margin**" means 9.681 per cent. per annum;

"**Maximum Reinstatement Amount**" means, in respect of any Reinstatement, the Distributable Net Period Income multiplied by the Original Face Amount of each Certificate, divided by the total Tier 1 Capital of the Bank as at the date of the relevant Reinstatement;

"**Mudaraba**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba Agreement**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba Assets**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba Capital**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba End Date**" means: (i) the date on which the Certificates are redeemed in whole but not in part in accordance with these Conditions, following the liquidation of the Mudaraba in accordance with the terms of the Mudaraba Agreement; or (ii) (if earlier), in the case of a Non-Viability Event Write-down in whole only, the Non-Viability Event Write-down Date;

"**Mudaraba Profit**" has the meaning given to that term in the Mudaraba Agreement;

"**Mudaraba Profit Distribution Date**" means 28 March and 28 September in each year, starting on (and including) the First Mudaraba Profit Distribution Date;

"**Mudaraba Reserve**" has the meaning given to it in the Mudaraba Agreement;

"**Mudareb**" has the meaning given to it in Condition 5 (*The Trust*);

"**Non-Payment Election**" has the meaning given to it in Condition 8.2 (*Non-Payment Election*);

"**Non-Payment Event**" has the meaning given to it in Condition 8.1 (*Non-Payment Event*);

"**Non-Viable**" means, in the case of the Bank, where the Bank is at the point at which the Regulator may determine pursuant to Article 71 of the Banking Law (No. 5411) that: (i) its operating licence is to be revoked and that the Bank is to be liquidated; or (ii) the rights of its shareholders, and the management and supervision of the Bank, are to be transferred to the SDIF;

"**Non-Viability Event**" means the determination by the Regulator, and notification thereof to the Bank, that, upon the incurrance of a loss by the Bank (on a consolidated or solo basis), that the Bank has become, or it is probable that the Bank will become, Non-Viable;

"**Non-Viability Event Write-down**" means:

- (i) the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital shall automatically be deemed to be irrevocably and unconditionally cancelled (in the case of a Non-Viability Event Write-down in whole) or written-down in part (in the case of a Non-Viability Event Write-down in part) in the same manner and in the same proportion as the Certificates;
- (ii) each Certificate shall be cancelled (in the case of a Non-Viability Event Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Non-Viability Event Write-down in part) by the Trustee as determined by the Bank in consultation with the Regulator or as the Regulator may, in its sole discretion, direct; and
- (iii) all: (A) rights of any Certificateholder for payment of any amounts due under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) shall, as the case may be, be cancelled or written-down in part on a *pro rata* basis among the Certificateholders; and (B) rights of the Trustee for payment of any amounts due under or in respect of the Mudaraba Agreement shall, as the case may be, be cancelled or written-down in part and, in each case, will not be restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ceased,

and references herein to "written-down" and "writing down" shall be construed accordingly;

"**Non-Viability Event Write-down Date**" shall be the date on which the Non-Viability Event Write-down will take place as specified in the Non-Viability Notice, which date shall be no later than 15 Business Days (or such other date as determined by the Regulator) after the date of the Non-Viability Notice;

"**Non-Viability Notice**" has the meaning given to it in Condition 13.2 (*Non-Viability Notice*);

"**Ordinary Shares**" means the ordinary shares of the Bank;

"**Original Face Amount**" means, in respect of a Certificate, the face amount of that Certificate as issued on the Issue Date;

"**Outstanding Payments**" means, in relation to any amounts payable on redemption of the Certificates, an amount representing accrued but unpaid Periodic Distribution Amounts, or part

thereof (as the case may be), for the Periodic Distribution Period during which redemption occurs up to the date of redemption plus Additional Amounts thereon, if any, and, if the Certificates are redeemed following a Capital Event, shall include a further profit amount in an amount equal to the Capital Event Profit Amount;

**"Pari Passu Obligations"** means the Bank's payment obligations in relation to the U.S.\$200,000,000 Tier 1 Capital Certificates issued by KT One Company Limited and all other subordinated payment obligations of the Bank which rank, or are expressed by their terms to rank, *pari passu* with the Relevant Obligations;

**"Payment Business Day"** has the meaning given to it in Condition 9.4 (*Payment only on a Payment Business Day*);

**"Periodic Distribution Amount"** has the meaning given to it in Condition 7.2 (*Periodic Distribution Amounts*);

**"Periodic Distribution Date"** means 28 March and 28 September in each year, starting on (and including) 28 March 2021;

**"Periodic Distribution Period"** means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Periodic Distribution Date and each successive period beginning on (and including) a Periodic Distribution Date and ending on (but excluding) the next succeeding Periodic Distribution Date or the Mudaraba End Date (as applicable);

**"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;

**"Profit Rate"** means, in respect of the Initial Period, the Initial Periodic Distribution Rate, and, in respect of each Reset Period thereafter, the rate calculated in accordance with the provisions of Condition 7.4(a) (*Periodic Distribution Rate*);

**"Qualifying Tier 1 Instruments"** means instruments (whether securities, trust certificates, interests in limited partnerships or otherwise) other than Ordinary Shares or other CET 1 Capital, issued directly or indirectly by the Bank that:

- (i) will be eligible to constitute (or would, but for any applicable limitation on the amount of such capital, constitute) Tier 1 Capital of the Bank;
- (ii) have terms and conditions not materially less favourable to a Certificateholder than the Certificates (as reasonably determined by the Bank (**provided that** in making this determination the Bank is not required to take into account the tax treatment of the new instrument in the hands of all or any Certificateholders, or any transfer or similar taxes that may apply on the acquisition of the new instrument) **provided that** a certification to such effect of two Authorised Signatories shall have been delivered to the Trustee and the Delegate prior to the variation of the terms of the instruments);
- (iii) will constitute direct or indirect (whether by a guarantee or equivalent support undertaking by the Bank) obligations of the Bank;
- (iv) rank on a winding up at least *pari passu* with the Relevant Obligations;
- (v) have at least the same face value and profit distribution dates as the Certificates and an at least equal profit or distribution rate or rate of return as the Certificates;
- (vi) are listed on the same stock exchange as the Certificates;
- (vii) have, to the extent such payment is not cancelled or written-down, the same claim to accrued but unpaid distributions;
- (viii) (where the instruments are varied prior to the First Call Date) have the same first call date as the Certificates;

- (ix) have the same optional redemption dates as the Certificates save that any right to redeem the Certificates, as amended, prior to the fifth anniversary of the Issue Date may be disappplied if such right to redeem would cause a Capital Event; and
- (x) preserve the Relevant Obligations upon any redemption of the Certificates and the ranking of any claims in a winding-up or dissolution of the Bank,

and which may include such technical changes as necessary to reflect the requirements of Tier 1 Capital under the Capital Regulations then applicable to the Bank (including, without limitation, such technical changes as may be required in the further adoption and implementation of the Basel III Documents);

"**Rab-al-Maal**" has the meaning given to it in Condition 5 (*The Trust*);

"**Rab-al-Maal Final Mudaraba Profit**" has the meaning given to it in the Mudaraba Agreement;

"**Rab-al-Maal Mudaraba Profit**" has the meaning given to it in the Mudaraba Agreement;

"**Record Date**" means, in the case of the payment of a Periodic Distribution Amount, the date falling on the 15th day before the relevant Periodic Distribution Date and, in the case of the payment of a Dissolution Distribution Amount, the date falling two Payment Business Days before the date for payment of the relevant Dissolution Distribution Amount, as the case may be;

"**Reference Treasury Dealer**" means each of up to five banks selected by the Trustee and the Bank (following, where practicable, consultation with the Calculation Agent), or the affiliates of such banks, which are: (a) primary U.S. Treasury securities dealers, and their respective successors; or (b) market makers in pricing corporate bond issues denominated in U.S. dollars;

"**Reference Treasury Dealer Quotations**" means, with respect to each Reference Treasury Dealer and any Reset Date, the price, as determined by the Reference Treasury Dealer, of the applicable Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, at 11:00 a.m. (New York City time), on the Determination Date for such Reset Date;

"**Register**" has the meaning given to it in Condition 2.1 (*Form and Denomination*);

"**Registered Account**" has the meaning given to it in Condition 9.1 (*Payments in respect of the Certificates*);

"**Registered Office Terms**" means the standard terms and conditions for the provision of registered office services pursuant to which MaplesFS Limited provides registered office services to the Trustee;

"**Regulator**" means the BRSA or any successor entity having primary bank supervisory authority with respect to the Bank in Turkey;

"**Reinstatement**" has the meaning given to it in Condition 12.3 (*Loss Absorption upon the occurrence of a Trigger event – Reinstatement*);

"**Reinstatement Amount**" means the amount, subject to the Maximum Reinstatement Amount, by which the outstanding face amount of each Certificate and the relevant portion of the Mudaraba Capital, in each case in effect prior to the relevant Reinstatement, is to be reinstated and written-up on the Reinstatement Date on the balance sheet of the Bank on such date (as applicable), as specified in the Reinstatement Notice;

"**Reinstatement Date**" means the date on which the outstanding face amount of each Certificate and the relevant portion of the Mudaraba Capital is reinstated and written-up on the balance sheet of the Bank (in whole or in part), as specified in the relevant Reinstatement Notice;

"**Reinstatement Notice**" has the meaning given to it in Condition 12.3 (*Loss Absorption upon the occurrence of a Trigger event – Reinstatement*);

**"Relevant Date"** in respect of a Certificate means: (a) the date on which payment in respect of such Certificate first becomes due; or (b) if the full amount of the money payable has not been received by the Principal Paying Agent or the Delegate on or before the due date, the date on which, the full amount of the money having been so received, notice to that effect has been duly given to Certificateholders in accordance with Condition 19 (*Notices*);

**"Relevant Jurisdiction"** means each of the Cayman Islands and Turkey or, in each case, any political subdivision or any authority thereof or therein having power to tax to which payments made by the Trustee or the Bank in connection with the Certificates become generally subject;

**"Relevant Obligations"** has the meaning given to it in Condition 4.2 (*Subordination*);

**"Relevant Five Year Reset Rate"** means: (i) the rate (in per cent. per annum) equal to the weekly average yield to maturity for United States Treasury Securities at "constant maturity" for a designated maturity of five years on the relevant Determination Date, as displayed on the Bloomberg Screen designated as "H15T5Y" or if the relevant yields are not published on the Bloomberg Screen by the relevant time, in the H.15 under the caption "treasury constant maturities (nominal)"; (ii) in respect of any Reset Period, if the Calculation Agent cannot procure the determination of the Relevant Five Year Reset Rate on the relevant Determination Date pursuant to the methods described in (i), then the Relevant Five Year Reset Rate will be the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Reset Date; or (iii) in respect of any Reset Period, if the Calculation Agent cannot procure the determination of the Relevant Five Year Reset Rate on the relevant Determination Date pursuant to the methods described in (i) and (ii), then the Relevant Five Year Reset Rate will be: (a) equal to the rate applicable to the immediately preceding Reset Period; or (b) in the case of the Reset Period commencing on the First Call Date, 0.269 per cent.;

**"Reserved Matter"** has the meaning given to it in the Declaration of Trust;

**"Reset Date"** means the First Call Date and every fifth anniversary thereafter;

**"Reset Period"** means the period from (and including) the First Call Date to (but excluding) the earlier of: (a) the Mudaraba End Date; and (b) the following Reset Date, and (if applicable) each successive period thereafter from (and including) such Reset Date to (but excluding) the earlier of: (x) the Mudaraba End Date; and (y) the next succeeding Reset Date;

**"Risk Weighted Assets"** means, at any time, the aggregate amount, expressed in Turkish Lira, of the risk weighted assets of the Bank as at such date, as calculated by the Bank, in accordance with the Applicable Regulatory Capital Requirements on such date (which calculation shall be binding on the Trustee, the Delegate and the Certificateholders);

**"SDIF"** means the Savings Deposit Insurance Fund (*Tasarruf Mevduatı Sigorta Fonu*) of Turkey;

**"Senior Obligations"** means all unsubordinated payment obligations of the Bank (including amounts payable to depositors) and all subordinated payment obligations (if any) of the Bank except those constituting Junior Obligations or Pari Passu Obligations;

**"Statutory Loss Absorption Measure"** means the transfer of shareholders' rights and the management and supervision of the Bank to the SDIF pursuant to Article 71 of the Banking Law (No. 5411) or any analogous procedure or other measure under the laws of Turkey by which the relevant loss(es) of the Bank giving rise to the Non-Viability Event may be absorbed by Junior Obligations;

**"Subsidiary"** means, in relation to any Person (the first person) at any particular time, any other Person (the second person) whose affairs and policies the first person controls or has the power to control, whether by ownership or share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise;

**"Substituted Territory"** has the meaning given to it in Condition 14.2 (*Trustee Events*);

**"Substituted Trustee"** has the meaning given to it in Condition 14.2 (*Trustee Events*);



"**Taxes**" has the meaning given to it in Condition 15 (*Taxation*);

"**Tax Event**" is deemed to have occurred if in making any payment of Mudaraba Profit under the Mudaraba Agreement by the Bank (acting in its capacity as Mudareb) or any payment of a Periodic Distribution Amount under the Certificates by the Trustee (as the case may be), the Bank or the Trustee (as the case may be) has or will or would on the next payment date under, as the case may be, the Mudaraba Agreement or the Certificates, become obliged to pay Additional Amounts or additional amounts under clause 5.11 of the Mudaraba Agreement (in each case, whether or not a Non-Payment Event has occurred or a Non-Payment Election has been made), in each case as a result of any change in, or amendment to, the laws, published practices or regulations of a Relevant Jurisdiction, or any change in the application or interpretation of such laws, published practices or regulations, which change or amendment becomes effective (or, in the case of application or interpretation, is announced) on or after the Issue Date (and such requirement cannot be avoided by the Bank or the Trustee (as the case may be) taking reasonable measures available to it);

"**Tax Redemption Amount**", in relation to a Certificate, means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

"**Tier 1 Capital**" means capital qualifying as, and approved by the Regulator as, tier 1 capital in accordance with the Capital Regulations;

"**Transaction Account**" has the meaning given to it in Condition 5 (*The Trust*);

"**Transaction Documents**" means each of the Declaration of Trust, the Agency Agreement and the Mudaraba Agreement;

a "**Trigger Event**" shall occur if the Bank determines at any time that the CET 1 Capital Ratio of the Bank (on a solo or a consolidated basis) is less than 5.125 per cent.;

"**Trigger Event Notice**" has the meaning given to it in Condition 12.2 (*Trigger Event Notice*);

"**Trigger Event Write-down**" means:

- (i) the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital shall automatically be deemed to be irrevocably and unconditionally written-down in part, in the same manner and in the same proportion as the Certificates;
- (ii) each Certificate shall be written-down in part, by the Trigger Event Write-down Amount, on a *pro rata* basis by the Trustee as determined by the Bank in consultation with the Regulator; and
- (iii) all: (A) rights of any Certificateholder for payment of any amounts due under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) shall be written-down in part on a *pro rata* basis among the Certificateholders; and (B) rights of the Trustee for payment of any amounts due under or in respect of the Mudaraba Agreement shall be written-down in part and, in each case, will not be restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Trigger Event Notice or the Trigger Event Write-down Date and even if the Trigger Event has ceased,

provided, however, that in each case any such Trigger Event Write-down may be subsequently reinstated in the case of a Reinstatement (and then only to the extent of any Reinstatement, at the sole and absolute discretion of the Bank). References herein to "written-down" and "writing down" shall be construed accordingly;

"**Trigger Event Write-down Amount**" means, upon the occurrence of a Trigger Event, the amount by which: (A) the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital; (B) the then outstanding face amount of each Certificate; (C) the rights of a Certificateholder for payment of any amounts due under or in respect of the Certificates; and (D) the rights of the Trustee for payment of any amounts due

under or in respect of the Mudaraba Agreement are, in each case, to be written-down on the Trigger Event Write-down Date, which shall be:

- (i) the amount (when taken together with the write-down on a *pro rata* basis of each other Certificate and any utilisation and conversion or utilisation and write-down (to the extent possible) of any other Loss Absorbing Instrument that is, or represents, a Pari Passu Obligation, to be written-down or converted concurrently (or substantially concurrently)) that would be sufficient to restore the CET 1 Capital Ratio of the Bank to at least 5.125 per cent.; or
- (ii) if that write-down (when taken together with the write-down on a *pro rata* basis of each other Certificate and any utilisation and conversion or utilisation and write-down (to the extent possible) of any other Loss Absorbing Instrument that is, or represents, a Pari Passu Obligation, to be written-down or converted concurrently (or substantially concurrently)) would be insufficient to restore the CET 1 Capital Ratio of the Bank to at least 5.125 per cent., or the CET 1 Capital Ratio is not capable of being so restored, the amount necessary to reduce the outstanding face amount of such Certificate to U.S.\$0.01 and to reduce the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital by a corresponding concurrent (or substantially concurrent) and *pro rata* amount,

provided, however, with respect to each Loss Absorbing Instrument (if any), such *pro-rata* write-down or conversion shall only be taken into account to the extent required to restore the CET 1 Capital Ratio of the Bank to the lower of: (a) such Loss Absorbing Instrument's trigger level, or where there is more than one such trigger level, the highest of such trigger levels as has been triggered thereon; and (b) 5.125 per cent. (in respect of which the Trigger Event has occurred) and provided further, however, that to the extent the write-down, or, as the case may be, conversion of the face amount of any Loss Absorbing Instrument is not, or by the relevant Trigger Event Write-down Date will not be, effective for any reason, the ineffectiveness of any such write-down or, as the case may be, conversion, shall not prejudice the requirement to effect a write-down of each Certificate and a corresponding concurrent (or substantially concurrent) and *pro rata* write-down of the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital under Condition 12 (*Loss Absorption upon the occurrence of a Trigger Event*) and the amount of any future potential write-down or conversion (as the case may be) of such Loss Absorbing Instrument shall not be taken into account in determining, and so shall not reduce, the amount of the write-down of the outstanding face amount of each Certificate and the corresponding concurrent (or substantially concurrent) and *pro rata* write-down of the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital;

"**Trigger Event Write-down Date**" shall be the date on which the Trigger Event Write-down will take place as specified in the Trigger Event Notice, which date shall be no later than 15 Business Days (or such other date as determined by the Regulator) after the date of the Trigger Event Notice;

"**Trust Assets**" has the meaning given to it in Condition 5 (*The Trust*);

"**Trustee Administrator**" means MaplesFS Limited;

"**Trustee Call Amount**", in relation to a Certificate, means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

"**Trustee Event**" means any of the following events:

- (i) **Non-Payment:** default is made in the payment of the Dissolution Distribution Amount, or default is made in the payment of any Periodic Distribution Amount, in each case, on the due date for payment thereof and, in the case of any Periodic Distribution Amount only, such default continues for a period of seven days; or
- (ii) **Insolvency:** a final determination is made by a court or other official body that the Trustee is insolvent or bankrupt or unable to pay its debts in relation to the Certificates; or

- (iii) **Winding-up:** an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Trustee or the Trustee applies or petitions for a winding-up or administration order in respect of itself except, in each case: (a) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and these Conditions) or by an Extraordinary Resolution of the Certificateholders; or (b) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or
- (iv) **Analogous Event:** any event occurs that under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraph (ii) or (iii) above.

For the purpose of subparagraph (i) above, all amounts payable in respect of the Certificates shall be considered due and payable (including any amounts calculated as being payable under Condition 7.4 (*Periodic Distributions*)) notwithstanding that the Trustee has at the relevant time insufficient funds or relevant Trust Assets to pay such amounts including, without limitation, as a result of any failure by the Mudareb to comply with the matters described in Condition 4.4(c) (*Limited Recourse and Agreement of Certificateholders*) (save in each case where such insufficient funds arise solely as a result of the occurrence of a Non-Payment Event or a Non-Payment Election);

"**Trustee's Territory**" has the meaning given to it in Condition 14.2 (*Trustee Events*);

"**Turkey**" means the Republic of Turkey;

"**Turkish Lira**" means the lawful currency of Turkey; and

"**U.S. Government Securities Business Day**" means any day except for a Saturday, Sunday or a day on which the U.S. Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

All references in these Conditions to "**U.S. dollars**", "**U.S.\$**" and "**\$**" are to the lawful currency of the United States of America and all references to any act or statute, or any provision of any act or statute, shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order, or regulation made thereunder or under such modification or re-enactment.

## 2. **Form, Denomination and Title**

### 2.1 **Form and Denomination**

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

*Upon issue, the Certificates will be represented by the Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/ NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Ownership 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. These Conditions are modified by certain provisions contained in the Global Certificate. Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive Definitive Certificates representing their holdings of Certificates. See "Global Certificate".*

## 2.2 **Title**

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

## 3. **Transfers of Certificates**

### 3.1 **Transfers**

Subject to Conditions 3.4 (*Closed Periods*) and 3.5 (*Regulations*) and the provisions of the Agency Agreement, a Certificate may be transferred in an Authorised Denomination only by depositing the Definitive Certificate by which it is represented, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents 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 Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.*

### 3.2 **Delivery of New Definitive Certificates**

Each new Definitive Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Definitive Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Definitive Certificate is deposited in connection with a transfer is located. Where some but not all of the Certificates in respect of which a Definitive Certificate is issued are to be transferred, a new Definitive Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Definitive Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such Certificateholder appearing on the Register or as specified in the form of transfer.

### 3.3 **Formalities Free of Charge**

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Trustee or any Transfer Agent except that the Trustee may require payment of a sum to it (or the giving of such indemnity as the Trustee or any Transfer Agent may reasonably require) to cover any stamp duty, tax or other governmental charges which may be imposed in relation to the registration.

### 3.4 **Closed Periods**

No Certificateholder may require the transfer of a Certificate to be registered during the period of 15 days ending on a Periodic Distribution Date or any other date on which any payment of the face amount or payment of any premium or profit in respect of a Certificate falls due.

### 3.5 **Regulations**

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning the transfer of Certificates scheduled to the Declaration of Trust. The

regulations may be changed by the Trustee from time to time with the prior written approval of the Delegate (acting in accordance with the Declaration of Trust and these Conditions) and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests a copy of such regulations.

The Certificateholders shall be entitled to receive, in accordance with Condition 3.2 (*Delivery of New Definitive Certificates*), only one Definitive 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 Definitive Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3.2 (*Delivery of New Definitive Certificates*).

#### 4. **Status, Subordination and Limited Recourse**

##### 4.1 **Status**

The Certificates represent undivided ownership interests in the Trust Assets and are limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu* without any preference or priority, with all other Certificates. The rights and claims of the Trustee and the Certificateholders (acting through the Delegate and/or Trustee) against the Bank in respect of the Relevant Obligations are subordinated as described in Condition 4.2 (*Subordination*).

##### 4.2 **Subordination**

4.2.1 The payment obligations of the Bank under the Mudaraba Agreement (including all payments which are the equivalent of principal and profit) (the "**Relevant Obligations**") will: (a) constitute Tier 1 Capital of the Bank on a solo and consolidated basis; (b) constitute direct, unsecured and subordinated obligations of the Bank; (c) rank junior to all Senior Obligations, (d) rank *pari passu* with all Pari Passu Obligations; and (e) rank in priority only to all Junior Obligations.

4.2.2 In the event of there being any distribution of the assets of the Bank on a dissolution, winding-up or liquidation of the Bank whether in bankruptcy, insolvency, receivership, voluntary or mandatory reorganisation or indebtedness (*konkordato*) or any analogous proceedings referred to in the Banking Law (Law No. 5411), the Turkish Commercial Code (Law No. 6102) or the Turkish Execution and Bankruptcy Code (Law No. 2004), the Relevant Obligations shall rank junior to all Senior Obligations but *pari passu* with all Pari Passu Obligations and in priority to all other Junior Obligations.

4.2.3 The Trustee may only exercise its enforcement rights in relation to any Relevant Obligation or in relation to any of its other rights under the Mudaraba Agreement or any other Transaction Document in the manner provided in Condition 14.3 (*Winding-up, Dissolution or Liquidation*).

4.2.4 The Trustee will, in each relevant Transaction Document, unconditionally and irrevocably waive 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 the Relevant Obligations. No collateral is or will be given by the Bank for the Relevant Obligations and any collateral that may have been or may in the future be given in connection with other obligations of the Bank shall not secure the Relevant Obligations.

4.2.5 Nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

##### 4.3 **Other Issues**

So long as any of the Certificates remain outstanding, the Bank (in its capacity as Mudareb or otherwise) will not issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (on a solo basis) issued Tier 1 Capital of the Bank if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards

distributions on a return of assets on a winding-up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Relevant Obligations. This prohibition will not apply if at the same time or prior thereto: (a) these Conditions and (to the extent applicable) the Transaction Documents are amended to ensure that the Trustee (on behalf of the Certificateholders) obtains; and/or (b) the Relevant Obligations have, in each case, the benefit of, such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Relevant Obligations rank at least *pari passu* with, and contain substantially equivalent rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

#### 4.4 **Limited Recourse and Agreement of Certificateholders**

Save as provided in this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the Delegate, the Bank, any of the Agents or any of their respective affiliates. Each Certificateholder, by subscribing for or acquiring the Certificates, acknowledges and agrees that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (a) no payment of any amount whatsoever shall be made by the Trustee or any of its directors, officers, employees or agents on its behalf except to the extent funds are available therefor from the Trust Assets;
- (b) the Trustee may not deal with the Mudaraba Assets or realise or deal with its interest, rights, title, benefit and entitlements, present and future, in, to and under the Transaction Documents and the Trust Assets except in the manner expressly permitted by the Transaction Documents;
- (c) the proceeds of the Trust Assets are the sole source of payments on the Certificates. Payment by the Trustee of any Periodic Distribution Amount or any amount required to redeem the Certificates is subject to receipt by the Trustee of the amounts expected to be received by it from the Mudareb in accordance with the provisions of the Mudaraba Agreement;
- (d) if the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets is not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents, or any of their respective affiliates in respect of any such shortfall, and no recourse shall be had in respect of, and no Certificateholder will have any claim for, the payment of any amount (including any fee, indemnity or other amount) due and owing hereunder or under any Transaction Document, or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee to the extent the Trust Assets have been exhausted (following which all obligations of the Trustee shall be extinguished) or the Delegate or the Agents;
- (e) it will not petition for, institute or join with any other person in instituting proceedings for the reorganisation, arrangement, liquidation, bankruptcy, winding-up or receivership or other proceedings under any bankruptcy or similar law against the Trustee or any of its directors, officers, agents, shareholders or affiliates as a consequence of such shortfall described in paragraph (d) of this Condition 4.4 or otherwise;
- (f) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee arising under or in connection with these Conditions or the Transaction Documents by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, director or corporate services provider of the Trustee in their capacity as such. The obligations of the Trustee under these Conditions and the Transaction Documents are corporate or limited liability obligations of the Trustee and no personal liability shall attach to or be incurred by the shareholders, members, officers, agents, directors or corporate services provider of the Trustee (in each of their respective

capacities as such), save in the case of their wilful default or actual fraud. References in these Conditions to wilful default or actual fraud means a finding to such effect by a court of competent jurisdiction (in relation to the conduct of the relevant party);

- (g) it shall not 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 any sums due under such Certificate. No collateral is or will be given for the payment obligations under the Certificates; and
- (h) the Trustee and Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful default or fraud.

The Bank is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate (acting in the name and on behalf of the Trustee) will, subject to Condition 4.2 (*Subordination*) and Condition 14.3 (*Winding-up, Dissolution or Liquidation*), have recourse against the Bank to recover payments due to the Trustee from the Bank pursuant to such Transaction Documents notwithstanding any other provision of this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against the Bank. None of the Certificateholders, the Trustee and the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Bank in connection with the enforcement of any such claim.

For the avoidance of doubt: (i) the Trust Assets do not constitute collateral or a security interest in favour of the Certificateholders, the Trustee or the Delegate; and (ii) the laws and regulations applicable in each of England and Wales, Turkey and the Cayman Islands do not regard the Trust Assets as collateral or a security interest in favour of the Certificateholders, the Trustee or the Delegate.

## 5. The Trust

### 5.1 The Mudaraba Agreement

KT AT One Company Limited (in its capacity as Trustee and as the "**Rab-al-Maal**") will enter into a mudaraba agreement (the "**Mudaraba Agreement**") to be dated the Issue Date with the Bank (in such capacity, the "**Mudareb**"). Pursuant to the Mudaraba Agreement, the Rab-al-Maal will contribute the proceeds of the issue of the Certificates to the Mudareb, which proceeds will form the initial capital of the Mudaraba (as defined below) and which may be subject to change after the Issue Date in accordance with Condition 11.2 (*Purchase*) (the "**Mudaraba Capital**"). The Mudareb will invest the Mudaraba Capital in its general business activities and, following investment of the Mudaraba Capital in the Mudareb's general business activities, the Mudaraba Capital shall constitute *pro rata* undivided assets in the Mudareb's general business activities (the "**Mudaraba Assets**") in accordance with the Mudaraba Agreement, which shall include an investment plan prepared by the Mudareb and shall constitute a mudaraba (the "**Mudaraba**").

The Trustee has opened a transaction account (the "**Transaction Account**") in its own name with the Principal Paying Agent (details of which are set out in the Declaration of Trust) into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement. If the Trustee is substituted in accordance with Condition 14.2 (*Trustee Events*), the Substituted Trustee will be required to open a new transaction account in its name with the Principal Paying Agent into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement from the date of substitution onwards, and references in these Conditions to the "Transaction Account" will be construed accordingly.

### 5.2 The Trust Assets

Pursuant to the Declaration of Trust, the Trustee holds:

- (a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

- (b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;
- (c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee or the Delegate pursuant to clause 11 of the Declaration of Trust); and
- (d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the "**Trust Assets**") upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each such Certificateholder in accordance with the Declaration of Trust and these Conditions.

### 5.3 **Order of Priority for Payments**

On each Periodic Distribution Date and on any date fixed for payment of the Dissolution Distribution Amount, the Principal Paying Agent or the Delegate (as the case may be) shall apply the monies standing to the credit of the Transaction Account in the following order of priority (in each case, only if and to the extent that payments of a higher priority have been made in full):

- (a) *first* (to the extent not previously paid), to the Delegate and/or any Appointee (as defined in the Declaration of Trust) in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate in accordance with the Declaration of Trust;
- (b) *second* (to the extent not previously paid), to the Agents in respect of all amounts owing to them under the Transaction Documents in their capacity as an Agent;
- (c) *third*, only if such payment is due on or before a Periodic Distribution Date (to the extent not previously paid) to pay, *pro rata* and *pari passu*: (i) the Trustee in respect of all amounts owing to it under the Transaction Documents in its capacity as trustee; and (ii) Trustee Administrator in respect of all amounts owing to it under the Transaction Documents, the Corporate Services Agreement and the Registered Office Terms in its capacity as trustee administrator and registered office provider;
- (d) *fourth*, only if such payment is due on a Periodic Distribution Date, and subject to Condition 8 (*Periodic Distribution Restrictions*), in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts (including Additional Amounts) due but unpaid;
- (e) *fifth*, only if such payment is due on a date fixed for payment of the Dissolution Distribution Amount, in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount; and
- (f) *sixth*, only after all amounts required to be paid in respect of the Certificates have been discharged in full, in payment of any residual amount to the Bank.

### 6. **Covenants**

The Trustee has covenanted in the Declaration of Trust that, *inter alia*, for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate (given in accordance with the Declaration of Trust and these Conditions)):

- (a) incur any indebtedness in respect of financed, obtained or raised money whatsoever (whether structured (or intended to be structured) in accordance with the principles of *Shari'a* or otherwise), 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;
- (b) secure any of its present or future indebtedness or present or future obligations (whether structured in accordance with the principles of *Shari'a* or otherwise) by granting or



permitting to be outstanding any lien, pledge, charge, mortgage or other security interest upon any of its present or future undertakings, assets, properties or revenues (other than those arising by operation of law (if any) or under or pursuant to any of the Transaction Documents);

- (c) sell, transfer, assign, participate, exchange or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise, or permit such to occur or suffer such to exist) any part of its interest in any of the Trust Assets except pursuant to any of the Transaction Documents (other than those arising by operation of law);
- (d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
- (e) amend or agree to any amendment to any Certificate or Transaction Document (other than in accordance with the terms thereof) in each case without the written approval of the Delegate or in a manner which is materially prejudicial to the rights of Certificateholders, without the prior approval of the Certificateholders by way of Extraordinary Resolution, save that it shall be permitted to make such variations to the Transaction Documents and these Conditions as are required pursuant to Condition 11.1 (*Redemption and Variation*);
- (f) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;
- (g) have any subsidiaries or employees;
- (h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;
- (i) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding-up (except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders) or any resolution for the commencement of any other bankruptcy or insolvency proceedings with respect to it; and
- (j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents and the Corporate Services Agreement or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:
  - (i) as provided for or permitted in the Transaction Documents;
  - (ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and
  - (iii) such other matters which are incidental thereto.

## 7. **Periodic Distributions**

### 7.1 **Distribution of Mudaraba Profit**

The Trustee has agreed in the Mudaraba Agreement that the Bank shall be entitled (in its capacity as Mudareb or otherwise) to utilise the Mudaraba Assets (and the proceeds thereof) to make payments in respect of the Senior Obligations or to cover losses of the Mudaraba and that such entitlement shall apply at any time before an order has been made, or an effective resolution has been passed, for the winding-up, dissolution or liquidation (or other analogous event) of the Bank (in its capacity as Mudareb or otherwise).

### 7.2 **Periodic Distribution Amounts**

Subject to Conditions 4.2 (*Subordination*), 4.4 (*Limited Recourse and Agreement of Certificateholders*), 7.3 (*Cessation of Accrual*), 8 (*Periodic Distribution Restrictions*), 9 (*Payments*), 12 (*Loss Absorption upon the occurrence of a Trigger Event*) and 13 (*Loss Absorption upon the occurrence of a Non-Viability Event*), the Trustee shall distribute to Certificateholders, out of amounts transferred into the Transaction Account, a distribution in relation to their respective holdings of Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount. Subject as provided in Condition 7.4 (*Periodic Distributions*), the "**Periodic Distribution Amount**" payable on each Periodic Distribution Date: (i) falling prior to and including the First Call Date shall be U.S.\$49.75 per U.S.\$1,000 in face amount of the Certificates; and (ii) falling after the First Call Date shall be the relevant amount calculated pursuant to Condition 7.4 (*Periodic Distributions*).

### 7.3 **Cessation of Accrual**

Subject to Conditions 4.2 (*Subordination*), 8 (*Periodic Distribution Restrictions*), 12 (*Loss Absorption upon the occurrence of a Trigger Event*) and 13 (*Loss Absorption upon the occurrence of a Non-Viability Event*), each Certificate will cease to be eligible to earn Periodic Distribution Amounts from the due date for redemption, following liquidation of the Mudaraba in accordance with these Conditions and the Mudaraba Agreement.

### 7.4 **Periodic Distributions**

Subject to Condition 8 (*Periodic Distribution Restrictions*), the Certificates bear profit at the applicable Profit Rate from (and including) the Issue Date in accordance with the provisions of this Condition 7 (*Periodic Distributions*). Periodic Distribution Amounts will not be cumulative and any Periodic Distribution Amount which is not paid will not accumulate or compound and Certificateholders will have no right to receive such Periodic Distribution Amount at any time, even if Periodic Distribution Amounts are paid in the future. Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on the Certificates semi-annually in arrear on each Periodic Distribution Date, in each case as provided in this Condition 7 (*Periodic Distributions*).

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Periodic Distribution Period (the "**Relevant Period**") (including, without limitation, in connection with the payment of any Outstanding Payments on redemption of the Certificates), it shall be calculated as an amount equal to the product of: (a) the applicable Profit Rate; (b) the face amount of the relevant Certificates; and (c) the applicable Day-count Fraction for the Relevant Period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

#### (a) **Periodic Distribution Rate**

For the Initial Period, the Certificates bear profit at the Profit Rate of 9.95 per cent. per annum (the "**Initial Periodic Distribution Rate**").

The Profit Rate will be reset on each Reset Date on the basis of the aggregate of the Margin and the Relevant Five Year Reset Rate (as determined by the Calculation Agent) on the relevant Determination Date.

The Calculation Agent will, as soon as practicable upon determination of the Profit Rate which shall apply to the Reset Period commencing on the relevant Reset Date, but in no event later than the second Business Day thereafter, cause the applicable Profit Rate and the corresponding Periodic Distribution Amount to be notified to each of the Trustee, the Bank, the Delegate and the Agents.

For the avoidance of doubt, the Calculation Agent shall not be responsible to the Trustee, the Bank, the Certificateholders or to any third party (except in the event of wilful default, gross negligence or fraud of the Calculation Agent) as a result of the Calculation Agent having acted on any quotation, information or ratio provided to it by any bank for the purposes of making any determination hereunder and which subsequently may be found to be incorrect or inaccurate in any way or for any loss or damage arising in relation thereto.

In the case of a Non-Viability Event Write-down, Periodic Distribution Amounts will be distributed on the Certificates:

- (i) if the Certificates are written-down in full, on the date of the Non-Viability Event Write-down Date and in respect of:
  - (A) the period from (and including) the Periodic Distribution Date immediately preceding the Non-Viability Event Write-down Date to (but excluding) the Non-Viability Event Write-down Date; and
  - (B) the aggregate face amount of the outstanding Certificates during that period; and
- (ii) if the Certificates are written-down in part only, on the Periodic Distribution Date immediately following such Non-Viability Event Write-down (the "**Partial Non-Viability Event Write-down Periodic Distribution Date**") and calculated as the sum of the Periodic Distribution Amount payable in respect of:
  - (A) the period from (and including) the Periodic Distribution Date immediately preceding the Non-Viability Event Write-down Date to (but excluding) the Non-Viability Event Write-down Date; and
  - (B) the period from (and including) the Non-Viability Event Write-down Date to (but excluding) the Partial Non-Viability Event Write-down Periodic Distribution Date,

and, in each case, in respect of the aggregate face amount of the outstanding Certificates during those respective periods.

In the case of a Trigger Event Write-down, Periodic Distribution Amounts will be distributed on the Certificates on the Periodic Distribution Date immediately following such Trigger Event Write-down (the "**Trigger Event Write-down Periodic Distribution Date**") and calculated as the sum of the Periodic Distribution Amount payable in respect of:

- (i) the period from (and including) the Periodic Distribution Date immediately preceding the Trigger Event Write-down Date to (but excluding) the Trigger Event Write-down Date; and
- (ii) the period from (and including) the Trigger Event Write-down Date to (but excluding) the Trigger Event Write-down Periodic Distribution Date,

and, in each case, in respect of the aggregate face amount of the outstanding Certificates during those respective periods.

Following a Trigger Event Write-down, if the Bank exercises its sole and absolute discretion to effect a Reinstatement in accordance with Condition 12.3, with effect from the relevant Reinstatement Date, Periodic Distribution Amounts shall accrue in respect of the reinstated outstanding face amount of each Certificate and, with effect from such date, references in these Conditions to "face amount" or "outstanding face amount" shall be construed accordingly.

(b) **Calculation Agent**

With effect from the First Call Date, and so long as any Certificates remain outstanding thereafter, the Bank will maintain a Calculation Agent. The name of the initial Calculation Agent and its initial specified office is set out at the end of a Definitive Certificate.

The Bank may (in accordance with the Agency Agreement and these Conditions) from time to time replace the Calculation Agent with another leading investment, merchant or commercial bank or financial institution in London. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or (without prejudice to Condition 7.4(c) (*Determinations of Calculation Agent or Trustee Binding*)) fails duly to determine the Profit Rate in respect of any Reset Period as provided in Condition 7.4(a) (*Periodic Distribution Rate*), the Bank shall forthwith appoint another

leading investment, merchant or commercial bank or financial institution in London (in accordance with the Agency Agreement and these Conditions) to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

(c) **Determinations of Calculation Agent or Trustee Binding**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Periodic Distributions*), whether by the Calculation Agent or the Trustee (or its agent), shall (in the absence of manifest error) be binding on the Trustee, the Bank, the Calculation Agent, the Paying Agents, the Delegate and all Certificateholders and (in the absence of wilful default, gross negligence or fraud) no liability to the Trustee, the Bank, any Agent, the Delegate and the Certificateholders shall attach to the Calculation Agent, or the Trustee (or its agent) in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

8. **Periodic Distribution Restrictions**

8.1 **Non-Payment Event**

Notwithstanding Condition 7.4 (*Periodic Distributions*), if any of the following events occur (each, a "**Non-Payment Event**"), the Bank (as Mudareb) shall not pay Mudaraba Profit (and, as a result, Rab-al-Maal Mudaraba Profit) or Final Mudaraba Profit (and, as a result, Rab-al-Maal Final Mudaraba Profit) on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), and as a result thereof the Trustee shall not pay Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

- (i) the amount equal to the then applicable Periodic Distribution Amount to be paid by the Bank out of the Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as applicable (the "**Relevant Rab-al-Maal Mudaraba Profit Amount**"), when aggregated with any distributions payable by the Bank (in its capacity as Mudareb or otherwise) in respect of any Pari Passu Obligations on the same date as payment of the Relevant Rab-al-Maal Mudaraba Profit Amount exceeds, on such date, Distributable Funds; or
- (ii) the Bank (in its capacity as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of the Applicable Regulatory Capital Requirements (including any applicable capital buffers imposed on the Bank by the Regulator) or such payment of the Relevant Rab-al-Maal Mudaraba Profit Amount would cause it to be in breach thereof; or
- (iii) the Regulator requires: (a) the Bank not to pay the Relevant Rab-al-Maal Mudaraba Profit Amount to the Trustee on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be); or (b) the Trustee not to pay the relevant Periodic Distribution Amount on that Periodic Distribution Date; or
- (iv) there is any distribution of the assets of the Bank on a dissolution, winding-up or liquidation of the Bank whether in bankruptcy, insolvency, receivership, voluntary or mandatory reorganisation or indebtedness (*konkordato*) or any analogous proceedings referred to in the Banking Law (Law No. 5411), the Turkish Commercial Code (Law No. 6102) or the Turkish Execution and Bankruptcy Code (Law No. 2004).

8.2 **Non-Payment Election**

Notwithstanding Condition 7.4 (*Periodic Distributions*), the Bank may in its sole discretion elect (any such election being a "**Non-Payment Election**") that Rab-al-Maal Mudaraba Profit (in whole or in part) will not be paid to the Trustee (in its capacity as Rab-al-Maal) on any Mudaraba Profit Distribution Date, and the Bank shall, in each case, instruct the Trustee not to make payment of a Periodic Distribution Amount (in whole or in part) to Certificateholders on such Periodic Distribution Date, provided that the foregoing in this Condition 8.2 (*Non-Payment Election*) shall not apply: (i) in respect of Rab-al-Maal Final Mudaraba Profit payable on the Mudaraba End Date; or (ii) once the Trustee has given notice to Certificateholders that the Certificates will be redeemed in whole in accordance with Condition 11 (*Redemption and Variation*).

### 8.3 **Effect of Non-Payment Event or Non-Payment Election**

- (i) If the Bank makes a Non-Payment Election or a Non-Payment Event occurs, then the Bank shall, in accordance with the Mudaraba Agreement: (a) in the case of a Non-Payment Election, no later than 14 calendar days prior to such election; and (b) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case, and only where possible, no later than one Business Day prior to the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, give notice to the Trustee, the Principal Paying Agent and the Delegate, and the Trustee shall give such notice to the Certificateholders in accordance with Condition 19 (*Notices*), in each case providing details of the Non-Payment Election or Non-Payment Event, as the case may be.
- (ii) Certificateholders shall have no claim in respect of any Periodic Distribution Amount (or any part thereof, as applicable) not paid as a result of either a Non-Payment Election or a Non-Payment Event and any such non-payment in whole or in part, as applicable, of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit (in the case of a Non-Payment Event only) or a Periodic Distribution Amount in such circumstance shall not constitute a Dissolution Event. The Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (or any part thereof, as applicable) (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee shall not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts (or any part thereof, as applicable).

### 8.4 **Dividend and Redemption Restrictions**

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Election or a Non-Payment Event pursuant to Condition 8.1 (*Non-Payment Event*) or 8.2 (*Non-Payment Election*) (as the case may be), then, from the date of such Non-Payment Election or Non-Payment Event (the "**Dividend Stopper Date**"), the Bank will not, so long as any of the Certificates are outstanding:

- (i) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, Ordinary Shares (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or
- (ii) pay profit or any other distribution on, or in respect of: (A) any of its securities issued directly or indirectly by the Bank ranking, as to the right of payment of dividend, distributions or similar payments, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which do not at the relevant time enable the Bank to defer or otherwise not to make such payment); or (B) any payment obligation ranking, as to the right of distributions or similar payments, junior to or *pari passu* with the Relevant Obligations (excluding payment obligations the terms of which do not at the relevant time enable the Bank to defer or otherwise not to make such payment) in each case, only to the extent such restrictions on payment or distribution are permitted under the Applicable Regulatory Capital Requirements; or
- (iii) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any Ordinary Shares; or
- (iv) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any securities issued directly or indirectly by the Bank ranking, as to the right of repayment of capital, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which stipulate a mandatory redemption, write-down of principal or conversion into equity), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the Applicable Regulatory Capital Requirements,

in each case unless or until: (a) the next following payment of Rab-al-Maal Mudaraba Profit; or (b) payment of the Rab-al-Maal Final Mudaraba Profit following the Dividend Stopper Date, as the case may be, has been made in full (or an amount equal to the same

has been duly set aside or provided for in full for the benefit of the Trustee in accordance with the Mudaraba Agreement).

9. **Payments**

9.1 **Payments in respect of the Certificates**

Subject to Condition 9.2 (*Payments subject to applicable laws*), payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by or on behalf of the Trustee in U.S. dollars by wire transfer in same day funds to the Registered Account (as defined below) of the Certificateholder. Payments of the Dissolution Distribution Amount will only be made against presentation and surrender of the relevant Definitive Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the Certificateholder shown on the Register at the close of business on the relevant Record Date.

For the purposes of this Condition 9 (*Payments*), a Certificateholder's "**Registered Account**" means the U.S. dollar account maintained by or on behalf of such Certificateholder 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.

9.2 **Payments subject to applicable laws**

All payments are subject in all cases to any applicable laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 15 (*Taxation*).

9.3 **No Commissions**

No commissions or expenses shall be charged to the Certificateholders in respect of any payments made in accordance with this Condition 9 (*Payments*).

9.4 **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 (as defined below), for value the first following day which is a Payment Business Day) will be initiated by the Principal Paying Agent on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Payment Business Day on which the relevant Definitive Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

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

If the amount of the Dissolution Distribution Amount or, subject to Conditions 8.1 (*Non-Payment Event*) and 8.2 (*Non-Payment Election*), any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

In these Conditions, "**Payment Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in New York City and London settle payments and are open for general business and, in the case of presentation of a Definitive Certificate, in the place in which the Definitive Certificate is presented.

10. **Agents**

The names of the initial Agents and their initial specified offices are set out at the end of a Definitive Certificate. The Trustee reserves the right at any time to terminate the appointment of any Agent and to appoint additional or other Agents provided that: (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity); and (b) so long as any Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, it will at all times maintain a Paying Agent, Registrar 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. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Trustee in accordance with Condition 19 (*Notices*).

## 11. **Redemption and Variation**

### 11.1 **Redemption and Variation**

#### (a) **No Fixed Redemption Date and Conditions for Redemption and Variation**

The Certificates are perpetual securities in respect of which there is no fixed redemption date and the Trustee shall (subject to the provisions of Condition 4.2 (*Subordination*), Condition 12 (*Loss Absorption upon the occurrence of a Trigger Event*), Condition 13 (*Loss Absorption upon the occurrence of a Non-Viability Event*) and Condition 14.3 (*Winding-up, Dissolution or Liquidation*) and without prejudice to the provisions of Condition 16 (*Prescription*)) only have the right to redeem the Certificates or vary these Conditions in accordance with the following provisions of this Condition 11 (*Redemption and Variation*).

The redemption of the Certificates or variation of these Conditions, in each case pursuant to this Condition 11 (*Redemption and Variation*), is subject to the following conditions (in addition to those set out elsewhere in this Condition 11.1 (*Redemption and Variation*)):

- (i) (except to the extent that the Regulator no longer so requires) the Bank having obtained the prior approval of the Regulator;
- (ii) (except to the extent that the Regulator no longer so requires) the requirement that both at the time when the relevant notice of redemption or variation is given and immediately following any redemption or variation (as applicable), the Bank is or will be (as the case may be) in compliance with the Applicable Regulatory Capital Requirements; and
- (iii) (in the case of a redemption or variation pursuant to Condition 11.1(c) (*Redemption or Variation due to Taxation*) or Condition 11.1(d) (*Redemption or Variation for Capital Event*) only) the requirement that the circumstance that entitles the Bank to instruct the Trustee to exercise its right of redemption or variation is a change in or amendment to the laws, published practices or regulations (including, in the case of Condition 11.1(d) (*Redemption or Variation for Capital Event*), Applicable Regulatory Capital Requirements) of Turkey or, in the case of Condition 11.1(c) (*Redemption or Variation due to Taxation*), of a Relevant Jurisdiction or a change in the application or interpretation of such laws, published practices or regulations by any court or authority entitled to do so which change or amendment becomes, or would become, effective (or, in the case of application or interpretation, is announced) on or after the Issue Date; and
- (iv) (in the case of a variation only pursuant to Condition 11.1(d) (*Redemption or Variation for Capital Event*) only) the Bank having obtained the prior approval of the Certificateholders by way of an Extraordinary Resolution in accordance with the requirements set out in Condition 20 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*) and the Declaration of Trust;

#### (b) **Trustee's Call Option**

Subject to Condition 11.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), the Bank may (acting in its sole and absolute discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 19 (*Notices*) and to the Delegate in accordance with clause 22 of the Declaration of Trust, which notice shall be irrevocable and shall specify the date fixed for redemption, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

Redemption of the Certificates pursuant to this Condition 11.1(b) (*Trustee's Call Option*) may only occur on the First Call Date or any Periodic Distribution Date thereafter.

Prior to the publication of any notice of redemption pursuant to this Condition 11.1(b) (*Trustee's Call Option*), the Bank shall give to the Trustee and the Delegate a certificate signed by two Authorised Signatories stating that all conditions precedent to the redemption of the Certificates pursuant to this Condition 11.1(b) (*Trustee's Call Option*) (other than the notice to Certificateholders described in this Condition 11.1(b) (*Trustee's Call Option*)) have been satisfied (upon which the Delegate may rely without liability to any person), and the Delegate shall accept the certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Certificateholders.

(c) **Redemption or Variation due to Taxation**

- (i) Subject to Condition 11.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) and the provisions of this Condition 11.1(c) (*Redemption or Variation due to Taxation*), if a Tax Event occurs, the Bank may (acting in its sole and absolute discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 19 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable) and the applicable Record Date: (a) redeem all, but not some only, of the Certificates at the Tax Redemption Amount; or (b) in order to ensure that (as applicable) the Bank is not obliged to pay additional amounts under clause 5.11 of the Mudaraba Agreement or that the Trustee is not obliged to pay Additional Amounts, vary the terms of the Mudaraba Agreement, subject to the approval of the Kuveyt Türk Katılım Bankası A.Ş. *Shari'a* Advisory Board, and the Certificates such that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the Certificateholders, and in the case of (b) only provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its rights or protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee and the Delegate. No such notice shall be given earlier than 90 days prior to the earliest date on which the Trustee or the Bank would be obliged to pay Additional Amounts or additional amounts under clause 5.11 of the Mudaraba Agreement. If the Bank does not instruct the Trustee to so redeem or vary in respect of such Tax Event in accordance with this Condition 11.1(c)(i) (*Redemption or Variation due to Taxation*) then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 12 (*Loss Absorption upon the occurrence of a Trigger Event*), Condition 13 (*Loss Absorption upon the occurrence of a Non-Viability Event*) and Condition 14.3 (*Winding-up, Dissolution or Liquidation*) and without prejudice to the provisions of Condition 16 (*Prescription*)) redeem the Certificates or vary the terms thereof in accordance with the provisions of this Condition 11 (*Redemption and Variation*).
- (ii) Redemption of the Certificates, or variation of these Conditions and the terms of the Mudaraba Agreement, pursuant to this Condition 11.1(c) (*Redemption or Variation due to Taxation*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).
- (iii) Prior to the delivery of any notice of redemption or variation, as the case may be, pursuant to this Condition 11.1(c) (*Redemption or Variation due to Taxation*), the Bank shall give to the Trustee and the Delegate: (i) a certificate signed by two Authorised Signatories (upon which the Delegate shall rely without liability to any person) stating that: (A) the conditions set out in Condition 11.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Tax Event has occurred; and (C) in the case of a variation only, the Certificates, as so varied, are Qualifying Tier 1 Instruments and that the Regulator has confirmed that they satisfy limb (i) of the definition of Qualifying Tier 1 Instruments; and (ii) an opinion of independent legal advisers or independent tax advisers, as the case may be, in each case, of recognised standing (upon which the Delegate may rely without liability to any person) to the effect that a Tax Event has occurred. Such certificate and opinions shall be conclusive and binding evidence of



the satisfaction of the conditions precedent set out above in this Condition 11.1(c)(iii) (*Redemption or Variation due to Taxation*) and the Delegate shall be entitled to accept and rely on such certificate and opinions as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice, the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

(d) **Redemption or Variation for Capital Event**

- (i) Subject to Condition 11.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) and the provisions of this Condition 11.1(d) (*Redemption or Variation for Capital Event*), if a Capital Event occurs and is continuing, the Bank may (acting in its sole and absolute discretion) (a) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 19 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable and shall specify the date fixed for redemption and the applicable Record Date, redeem all, but not some only, of the Certificates at the Capital Event Amount; or (b) solely for the purpose of ensuring compliance with the Applicable Regulatory Capital Requirements, vary the terms of the Mudaraba Agreement and the Certificates, subject to the approval of the Kuveyt Türk Katılım Bankası A.Ş. *Shari'a* Advisory Board, such that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments the case of (a) without any requirement for consent or approval of the Certificateholders, and, in the case of (b) provided that such modifications are approved by way of an Extraordinary Resolution of the Certificateholders and provided further that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its rights or protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee and the Delegate. If the Bank does not instruct the Trustee to so redeem or vary in respect of such Capital Event in accordance with this Condition 11.1(d)(i) (*Redemption or Variation for Capital Event*), then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 12 (*Loss Absorption upon the occurrence of a Trigger Event*), Condition 13 (*Loss Absorption upon the occurrence of a Non-Viability Event*) and Condition 14.3 (*Winding-up, Dissolution or Liquidation*) and without prejudice to the provisions of Condition 16 (*Prescription*)) redeem the Certificates or vary the terms thereof in accordance with the provisions of this Condition 11 (*Redemption and Variation*).
- (ii) Redemption of the Certificates, or variation of these Conditions and the terms of the Mudaraba Agreement, pursuant to this Condition 11.1(d) (*Redemption or Variation for Capital Event*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).
- (iii) Prior to the delivery of any notice of redemption or any variation of the terms of the Mudaraba Agreement and the Certificates becoming effective, as the case may be, pursuant to this Condition 11.1(d) (*Redemption or Variation for Capital Event*), the Bank shall give to the Trustee and the Delegate a certificate signed by two Authorised Signatories (upon which the Delegate shall rely without liability to any person) stating that: (A) the conditions set out in Condition 11.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Capital Event has occurred and is continuing as at the date of the certificate; and (C) in the case of a variation only, the Certificates, as so varied, would be Qualifying Tier 1 Instruments and the Regulator has confirmed that they would satisfy limb (i) of the definition of Qualifying Tier 1 Instruments. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 11.1(d)(iii) (*Redemption or Variation for Capital Event*) and the Delegate shall be entitled to accept and rely on such certificate as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice, the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

(e) **Taxes upon Variation**

In the event of a variation in accordance with Condition 11.1(c) (*Redemption or Variation due to Taxation*) or 11.1(d) (*Redemption or Variation for Capital Event*), none of the Trustee, the Delegate or the Bank will be obliged to pay, or compensate any Certificateholder for, and the Trustee, the Delegate and the Bank will not pay any liability of, any Certificateholder to corporation tax, corporate income tax or tax on profits or gains or any similar tax arising in respect of the variation of these Conditions or the Mudaraba Agreement, provided that (in the case of a Tax Event) or so that (in the case of a Capital Event) the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments, and further will not be liable for any stamp duty or similar other taxes arising on any subsequent transfer, disposal or deemed disposal of the Qualifying Tier 1 Instruments by such Certificateholder.

11.2 **Purchase**

Subject to the Bank: (A) obtaining the prior approval of the Regulator (except to the extent that the Regulator no longer so requires); and (B) being in compliance with the Applicable Regulatory Capital Requirements, the Bank or any of its Subsidiaries may at any time purchase the Certificates at any price in the open market or otherwise. Such Certificates may be held, reissued, resold or, at the option of the Bank or, as the case may be, its Subsidiaries, surrendered to any Paying Agent for cancellation.

11.3 **Cancellation**

All Certificates that are redeemed, and all Certificates that are purchased pursuant to Condition 11.2 (*Purchase*) and which the Bank delivers for cancellation in accordance with Condition 11.2 (*Purchase*), will forthwith be cancelled and accordingly may not be held, reissued or resold. Upon such cancellation, the Mudaraba Capital shall be reduced by the face amount of the Certificates so cancelled.

12. **Loss Absorption upon the occurrence of a Trigger Event**

12.1 **Trigger Event Write-down**

If a Trigger Event occurs at any time, a Trigger Event Write-down will take place in the amount of the Trigger Event Write-down Amount on the Trigger Event Write-down Date in accordance with this Condition 12.1 (*Trigger Event Write-down*). Upon the occurrence of a Trigger Event, the Bank shall immediately inform the Regulator of such occurrence.

Such a Trigger Event Write-down shall only take place in conjunction with a corresponding concurrent (or substantially concurrent) *pro rata* utilisation, conversion or write-down (as the case may be) of: (i) the Mudaraba Capital; and (ii) of any other Loss Absorbing Instrument that is, or represents, a *Pari Passu* Obligation, as provided in the terms of such Loss Absorbing Instrument.

The Bank may determine that a Trigger Event has occurred on more than one occasion and the outstanding face amount of each Certificate may be written-down, together with the concurrent (or substantially concurrent) and *pro rata* write-down of the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital, on more than one occasion, provided that the outstanding face amount of a Certificate and, as applicable, the Mudaraba Capital, may never be reduced to below U.S.\$0.01.

Any Certificate, and the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital, which is (or are) the subject of a Trigger Event Write-down may be subsequently reinstated, at the sole and absolute discretion of the Bank, in accordance with Condition 12.3 (*Reinstatement*) (and then only to the extent of any Reinstatement (as defined in Condition 12.3 (*Reinstatement*))).

Any such Trigger Event Write-down shall not constitute a Dissolution Event and shall not, of itself, entitle Certificateholders to petition for the insolvency or dissolution of the Bank or otherwise.

## 12.2 **Trigger Event Notice**

On the fifth Business Day following the date on which such Trigger Event occurs (or on such earlier date as the Regulator may determine): (a) the Mudareb will notify the Trustee and the Delegate thereof (including in respect of the Trigger Event Write-down Amount) in accordance with the Mudaraba Agreement and the Declaration of Trust; and (b) the Trustee will then notify the Certificateholders and the Principal Paying Agent: (i) that a Trigger Event has occurred; (ii) the Trigger Event Write-down Date or expected Trigger Event Write-down Date; and (iii) the Trigger Event Write-down Amount, in accordance with Condition 19 (*Notices*) (a "**Trigger Event Notice**"). The Trigger Event Notice shall be sufficient evidence of the occurrence of such Trigger Event and will be conclusive and binding on the Certificateholders.

Upon the provision of such Trigger Event Notice, a Trigger Event Write-down will occur at the Trigger Event Write-down Amount on the Trigger Event Write-down Date and, with effect from such date, other than in the case of a Reinstatement (and then only to the extent of any Reinstatement, at the sole and absolute discretion of the Bank): (i) the Mudaraba Capital shall be reduced in proportion to the face amount of each Certificate that is to be written-down and Periodic Distribution Amounts shall continue to accrue only in respect of the outstanding face amount of a Certificate that has not been so written-down and references in these Conditions to "face amount" or "outstanding face amount" shall be construed accordingly; and (ii) the Trustee and the Certificateholders shall not be entitled to claim for any amounts in connection with the Mudaraba Assets that relate to the proportion of the Mudaraba Capital that has been reduced or the Periodic Distribution Amounts that would have been payable on the face amount of a Certificate that has been written-down. Any amounts so written-down may not be restored.

Simultaneously with the delivery by the Trustee of the Trigger Event Notice to the Certificateholders, or as soon as possible thereafter, the Bank shall procure that a similar notice is, or has been, given in respect of any Loss Absorbing Instruments (in accordance with their terms) which are to be utilised and converted or utilised and written-down (on a temporary or permanent basis in accordance with their terms), concurrently (or substantially concurrently) on a *pro rata* basis with the Trigger Event Write-down in respect of the Certificates.

## 12.3 **Reinstatement**

If positive Distributable Net Period Income of the Bank is recorded at any time while the outstanding face amount of a Certificate is less than the Original Face Amount of such Certificate, the Bank may, at its sole and absolute discretion: (i) instruct the Trustee to reinstate and write-up the outstanding face amount of each Certificate in whole or in part; and (ii) reinstate and write-up the Mudaraba Capital, in each case in accordance with this Condition 12.3 (*Reinstatement*) (a "**Reinstatement**").

Such a Reinstatement shall only take place in conjunction with a corresponding concurrent (or substantially concurrent) reinstatement of any other Loss Absorbing Instrument that is, or represents, a *Pari Passu* Obligation, and that has previously been the subject of a previous write-down, as provided in the terms of such Loss Absorbing Instrument.

If the Bank exercises its sole and absolute discretion to effect a Reinstatement: (i) it shall give notice thereof to the Regulator; (ii) the Mudareb will notify the Trustee and the Delegate thereof (including in respect of the Reinstatement Amount) in accordance with the Mudaraba Agreement and the Declaration of Trust; and (iii) the Trustee will then notify the Certificateholders and the Principal Paying Agent thereof in accordance with Condition 19 (*Notices*), specifying the Reinstatement Amount and the Reinstatement Date (the "**Reinstatement Notice**").

Upon the provision of such Reinstatement Notice, a Reinstatement will occur at the Reinstatement Amount on the Reinstatement Date and, with effect from such date and subject to the prior consent of the Regulator (to the extent such consent is required by the Applicable Regulatory Capital Requirements): (i) the Bank shall instruct the Trustee to cause the outstanding face amount of each Certificate to be reinstated and written-up on a *pro rata* basis with each Certificate and with each Loss Absorbing Instrument which is, or represents, a *Pari Passu* Obligation; and (ii) the Mudaraba Capital shall be written-up in proportion to the face amount of each Certificate that is to be reinstated and written-up, in each case, by an amount equal to the relevant Reinstatement Amount.

With effect from the Reinstatement Date, Periodic Distribution Amounts shall accrue in respect of the reinstated outstanding face amount of each Certificate and, with effect from such date, references in these Conditions to "face amount" or "outstanding face amount" shall be construed accordingly.

A Reinstatement may occur on more than one occasion provided that the outstanding face amount of a Certificate may never exceed its Original Face Amount.

No Reinstatement may take place if: (i) a Trigger Event has occurred in respect of which the Trigger Event Write-down has not yet occurred; (ii) a Trigger Event has occurred in respect of which the Trigger Event Write-down has occurred but the CET 1 Capital Ratio of the Bank has not been restored to at least, or above, 5.125 per cent.; (iii) the Reinstatement (either alone or together with all simultaneous reinstatements of other Loss Absorbing Instruments that are, or that represent, *Pari Passu* Obligations) would cause a Trigger Event to occur; (iv) a Non-Viability Event has occurred at any time subsequent to a Trigger Event; or (v) a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 14.1 (*Bank Events*).

#### 12.4 **Liability of Delegate and Agents**

Neither the Delegate nor the Agents shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Trigger Event, any consequent Trigger Event Write-down in respect of any Certificates or any proportionate reduction of the Mudaraba Capital or any subsequent Reinstatement thereof, or any claims in respect thereof, and the Delegate and the Agents shall not be responsible for any calculation, determination or the verification of any calculation or determination in connection with the foregoing.

#### 13. **Loss Absorption upon the occurrence of a Non-Viability Event**

##### 13.1 **Non-Viability Event**

If a Non-Viability Event occurs at any time, a Non-Viability Event Write-down (in whole or in part, as applicable) will take place on the Non-Viability Event Write-down Date in accordance with this Condition 13.1 (*Non-Viability Event*).

Such a Non-Viability Event Write-down shall only take place in conjunction with:

- (a) the maximum possible reduction in the principal amount and/or corresponding conversion into equity being made in respect of any Loss-Absorbing Instrument that is, or represents, a Junior Obligation, as provided in the terms of such Loss-Absorbing Instrument;
- (b) a corresponding concurrent (or substantially concurrent) *pro rata* utilisation, conversion or write-down (as the case may be) of any other Loss Absorbing Instrument that is, or represents, a *Pari Passu* Obligation, as provided in the terms of such Loss Absorbing Instrument; and
- (c) the implementation of Statutory Loss-Absorption Measures, involving the absorption by all other Junior Obligations to the maximum extent allowed by law of the relevant loss(es) giving rise to the occurrence of a Non-Viability Event within the framework of the procedures and other measures by which the relevant loss(es) giving rise to the Non-Viability Event may be absorbed by such Junior Obligations pursuant to Article 71 of Banking Law (No. 5411) and/or otherwise under Turkish law and regulations.

Any such Non-Viability Event Write-down shall not constitute a Dissolution Event and shall not, of itself, entitle Certificateholders to petition for the insolvency or dissolution of the Bank or otherwise. Certificateholders acknowledge that there shall be no recourse to the Regulator in respect of any determination made by it with respect to the occurrence of a Non-Viability Event.

*As of the date of these Listing Particulars, a number of corrective, rehabilitative and restrictive measures may be taken by the Regulator under Articles 68 to 70 of the Banking Law (No. 5411) prior to any determination of Non-Viability of the Bank. In conjunction with any such determination, the relevant loss(es) of the Bank may be absorbed by shareholders of the Bank*

*pursuant to Article 71 of the Banking Law (No. 5411) upon: (a) the transfer of shareholders' rights and the management and supervision of the Bank to the SDIF; or (b) the revocation of the Bank's operating licence and its liquidation. However, the Non-Viability Event Write-down of the Certificates under the Capital Regulations may take place before any such transfer or liquidation.*

### 13.2 **Non-Viability Notice**

On the fifth Business Day following the date on which such Non-Viability Event occurs (or on such earlier date as the Regulator may determine): (a) the Mudareb will notify the Trustee and the Delegate thereof in accordance with the Mudaraba Agreement and the Declaration of Trust; and (b) the Trustee will then notify the Certificateholders and the Principal Paying Agent: (i) that a Non-Viability Event has occurred; and (ii) the Non-Viability Event Write-down Date or expected Non-Viability Event Write-down Date, in accordance with Condition 19 (*Notices*) (a "**Non-Viability Notice**"). The Non-Viability Notice shall be sufficient evidence of the occurrence of such Non-Viability Event and will be conclusive and binding on the Certificateholders.

Upon the provision of such Non-Viability Notice, a Non-Viability Event Write-down will occur on the Non-Viability Event Write-down Date and, with effect from such date: (i) in the case of a Non-Viability Event Write-down in whole only, the Mudaraba Agreement will be automatically terminated; and (ii) in the case of a Non-Viability Event Write-down in part only, the Mudaraba Capital shall be reduced in proportion to the face amount of each Certificate that is to be written-down and Periodic Distribution Amounts shall continue to accrue only in respect of the outstanding face amount of a Certificate that has not been written-down and references in these Conditions to "face amount" or "outstanding face amount" shall be construed accordingly. In the case of (i) above, the Trustee and Certificateholders shall not be entitled to claim for any amounts in connection with the Mudaraba Assets or the Certificates, respectively. In the case of (ii) above, the Trustee and Certificateholders shall not be entitled to claim for any amounts in connection with the Mudaraba Assets that relate to the proportion of the Mudaraba Capital that has been reduced or the Periodic Distribution Amounts that would have been payable on the face amount of a Certificate that has been written-down. Any amounts so written-down may not be restored.

### 13.3 **Liability of Delegate and Agents**

Neither the Delegate nor the Agents shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Non-Viability Event (or its disapplication, if applicable) or any consequent Non-Viability Event Write-down and/or cancellation of any Certificates or any proportionate reduction in the Mudaraba Capital or termination of the Mudaraba Agreement or any claims in respect thereof, and the Delegate and the Agents shall not be responsible for any calculation, determination or the verification of any calculation or determination in connection with the foregoing.

## 14. **Dissolution Events and Winding-up**

*The Declaration of Trust contains provisions entitling the Delegate to claim from the Trustee and the Bank, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Declaration of Trust. The restrictions on commencing proceedings described below will not apply to any such claim.*

### 14.1 **Bank Events**

If a Bank Event occurs, the Delegate (provided it shall have been given notice in writing thereof by the Trustee or the Bank or otherwise upon having actual knowledge of the Bank Event) shall promptly give notice of the occurrence of such Bank Event to the Certificateholders in accordance with Condition 19 (*Notices*) with a request (a "**Dissolution Request**") to such Certificateholders to indicate to the Trustee and the Delegate in writing if they wish the Certificates to be redeemed in whole and the Trust to be dissolved. The Delegate may and, if so requested in writing by the holders of at least 25 per cent. of the aggregate face amount of the Certificates then outstanding or if so directed by an Extraordinary Resolution of Certificateholders, shall (but in each case subject to Condition 14.3(e)(i) (*Realisation of Trust Assets*)) give notice (a "**Dissolution Notice**") to the Trustee that the Certificates are immediately due and payable at their aggregate outstanding face amount together with any Outstanding Payments, whereupon the aggregate face amount of the

outstanding Certificates together with any Outstanding Payments shall become immediately due and payable without presentation, demand, protest or other notice of any kind. A Dissolution Notice may be given whether or not a Dissolution Request has been given to Certificateholders.

#### 14.2 **Trustee Events**

- (a) The Bank has undertaken in the Declaration of Trust that, as soon as practicable following the occurrence of a Trustee Event, it will procure, subject to such amendment of the Declaration of Trust and such other conditions as the Delegate may require and subject to the consent of the Regulator, without the consent of the Certificateholders, the substitution of any newly formed special purpose company in a form substantially the same as that of the Trustee, in place of the Trustee (the "**Substituted Trustee**"), or of any previous substituted company, as trustee and issuer under the Declaration of Trust and the Certificates provided that:
- (i) a deed is executed or undertaking given by the Substituted Trustee to the Delegate, in form and manner satisfactory to the Delegate (acting in accordance with the Declaration of Trust and these Conditions), agreeing to be bound by the Declaration of Trust, the Certificates and the Transaction Documents (with consequential amendments as the Delegate may deem appropriate) as if the Substituted Trustee had been named in the Declaration of Trust, the Certificates and the other Transaction Documents as trustee and issuer in place of the Trustee;
  - (ii) if the Substituted Trustee is subject generally to the taxing jurisdiction of a territory or any political sub-division or authority thereof or therein with power to tax (the "**Substituted Territory**") other than the territory of the taxing jurisdiction to which (or to any such authority of or in which) the Trustee is subject generally (the "**Trustee's Territory**"), the Substituted Trustee shall give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to Condition 15 (*Taxation*) with the substitution for or the addition to the references in that Condition to the Trustee's Territory of references to the Substituted Territory whereupon the Declaration of Trust and the Certificates shall be read accordingly (and the Bank shall also be required to give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to the last paragraph of Condition 15 (*Taxation*), extending its obligations thereunder to the Substituted Territory);
  - (iii) if any two directors of the Substituted Trustee certify that it will be solvent immediately after such substitution, the Delegate need not have regard to the Substituted Trustee's financial condition, profits or prospects or compare them with those of the Trustee; and
  - (iv) the Trustee, the Substituted Trustee and the Bank comply with such other requirements as the Delegate may direct in the interests of the Certificateholders.
- (b) Subject to this Condition 14.2 (*Trustee Events*), the Delegate may agree to the substitution of the Substituted Trustee without obtaining the consent or approval of the Certificateholders (it being acknowledged that each Certificateholder has by virtue of the last paragraph of the preamble to these Conditions authorised each Substituted Trustee to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf).
- (c) If the Bank fails to comply with the foregoing provisions of this Condition 14.2 (*Trustee Events*) within 60 days of the occurrence of the relevant Trustee Event, Conditions 14.1 (*Bank Events*) and 14.3 (*Winding-up, Dissolution or Liquidation*) shall apply to the relevant Trustee Event as if it was a Bank Event.

#### 14.3 **Winding-up, Dissolution or Liquidation**

##### (a) **Proceedings for Winding-up**

If a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 14.1 (*Bank Events*) the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba

Agreement and, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 14.1 (*Bank Events*), either the Trustee or the Delegate may at its discretion, and the Delegate shall, if it shall have been so requested by an Extraordinary Resolution of the Certificateholders or so requested in writing by the Certificateholders holding at least 25 per cent. of the then aggregate face amount of the Certificates outstanding, in each case subject to Condition 14.3(e)(i) (*Realisation of Trust Assets*): (i) institute any steps, actions or proceedings for the winding-up of the Bank; and/or (ii) prove in the winding-up of the Bank; and/or (iii) institute any steps, actions or proceedings for the bankruptcy of the Bank; and/or (iv) claim in the liquidation of the Bank; and/or (v) take such other steps, actions or proceedings which, under the laws of Turkey, have an analogous effect to the actions referred to in (i) to (iv) above, in each case, for (subject as set out below) all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due (if any) to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents, provided, however, that the Trustee or the Delegate may only take any such steps, actions or proceedings as described in this Condition 14.3(a) (*Proceedings for Winding-up*), but may take no further or other steps, actions or proceedings to enforce, prove or claim for any payment and provided further that neither the Trustee nor the Delegate may take any steps, actions or proceedings against the Bank with respect to any sum that the Bank has paid into the Transaction Account in accordance with the Transaction Documents in circumstances where the Trustee has failed to pay that amount to Certificateholders in accordance with these Conditions. No payment in respect of the Transaction Documents may be made by the Bank as a result of any steps, actions or proceedings taken pursuant to Condition 14.1 (*Bank Events*), nor will the Trustee or the Delegate accept the same, otherwise than during or after a winding-up (or analogous event) of the Bank, unless the Bank has given prior written notice (with a copy to the Trustee and the Delegate) to, and received no objection from, the Regulator (which the Bank shall confirm in writing to the Trustee and the Delegate).

(b) **Enforcement**

Without prejudice to Condition 14.1 (*Bank Events*) and the remaining provisions of this Condition 14.3 (*Winding-up, Dissolution or Liquidation*), the Trustee (or the Delegate) may at its discretion and the Delegate shall, if so requested in writing by the Certificateholders holding at least 25 per cent. of the then aggregate face amount of the Certificates outstanding and without further notice, in each case subject to Condition 14.3(e)(i) (*Realisation of Trust Assets*), institute such steps, actions or proceedings against the Bank or against the Trustee, as it may think fit to enforce any term or condition binding on the Bank or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of the Bank under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations), including, without limitation, any failure by the Bank to procure the substitution of the Trustee in the circumstances described in Condition 14.2 (*Trustee Events*). However, in no event shall the Bank, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents. Nothing in this Condition 14.3 (*Winding-up, Dissolution or Liquidation*) shall, however, prevent the Trustee (or the Delegate) from taking such steps, actions or proceedings as described in Condition 14.3(a) (*Proceedings for Winding-up*) in respect of any payment obligations of the Bank arising from the Mudaraba Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

(c) **Non-Viability Event or Trigger Event**

All claims by the Delegate and/or the Certificateholders against the Trustee under the Certificates and all claims by the Trustee (or the Delegate) against the Bank under the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of the Trustee and/or the Bank under the Certificates or the Transaction Documents, as the case may be) shall be subject to, and shall be superseded by the provisions of Condition 12 (*Loss Absorption upon the occurrence of a Trigger Event*) and Condition 13 (*Loss Absorption upon the occurrence of a Non-Viability Event*), irrespective of whether the relevant Non-Viability Event or, as the case may be, Trigger Event, occurs prior to or after the event which is the subject matter of the claim, provided that nothing in these Conditions shall affect or prejudice the payment of the costs,

charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

(d) **Extent of Certificateholder Remedy**

No remedy against the Bank, other than as referred to in this Condition 14 (*Dissolution Events and Winding-up*), shall be available to the Delegate, the Trustee or the Certificateholders, whether for the recovery of amounts owing in respect of the Transaction Documents or in respect of any breach by the Bank of any of its other obligations under or in respect of the Transaction Documents.

(e) **Realisation of Trust Assets**

- (i) Neither the Trustee nor the Delegate shall be bound to take any steps, actions or proceedings to enforce or to realise the Trust Assets or any of the actions, steps or proceedings referred to in these Conditions in respect of the Bank or, in the case of the Delegate only, the Trustee to enforce the terms of the Transaction Documents or give a Dissolution Notice (including, without limitation, pursuant to this Condition 14 (*Dissolution Events and Winding-up*)), unless: (A) it shall have been so requested by an Extraordinary Resolution of the Certificateholders or in writing by Certificateholders holding at least 25 per cent. of the then aggregate face amount of the Certificates outstanding; and (B) the Delegate shall have been indemnified and/or secured and/or pre-funded to its satisfaction.
- (ii) No Certificateholder shall be entitled to proceed directly against the Trustee or to direct the Trustee to proceed against the Bank or to take the actions, steps or proceedings referred to in Conditions 14.3(a) (*Proceedings for Winding-up*) and 14.3(b) (*Enforcement*), unless: (i) the Trustee or the Delegate, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing; and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Trustee or the Bank, as the case may be) holds at least 25 per cent. of the then outstanding aggregate face amount of the Certificates, in which case the Certificateholders shall have only such rights against the Bank as those which the Trustee or the Delegate is entitled to exercise as set out in Condition 14.1 (*Bank Events*) and this Condition 14.3 (*Winding-up, Dissolution or Liquidation*).
- (iii) Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Bank shall be to enforce their respective obligations under the Transaction Documents.
- (iv) The foregoing paragraphs in this Condition 14.3(e) (*Realisation of Trust Assets*) are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the net proceeds thereof in accordance with Condition 5.3 (*The Trust – Order of Priority for Payments*), the obligations of the Trustee and the Delegate in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums remaining 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 Trustee.

15. **Taxation**

All payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed, 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 Trustee will pay additional amounts ("**Additional Amounts**") so that the full amount which otherwise would have



been due and payable under the Certificates in the absence of any such deduction or withholding is received by the parties entitled thereto, except that no such Additional Amount shall be payable in relation to any payment in respect of any Certificate:

- (a) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or
- (b) presented for payment (where presentation is required) more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on such 30<sup>th</sup> day assuming that day to have been a Payment Business Day; or
- (c) held by or on behalf of a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying, or procuring that any third party complies with, any statutory requirements or by making, or procuring that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Definitive Certificate is presented for payment.

Notwithstanding any other provision of these Conditions, any amounts to be paid on the Certificates by or on behalf of the Trustee, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Trustee nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

In these Conditions, references to the Dissolution Distribution Amount or any Periodic Distribution Amounts (and related expressions including, without limitation, the "**face amount**" of the Certificates and "**Outstanding Payments**") shall be deemed to include any Additional Amounts payable under this Condition 15 or any undertaking given in addition to or in substitution for it under the Declaration of Trust.

Neither the Delegate nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 15 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Trustee, the Bank, any Certificateholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Delegate or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), additional amount or other amount under or in respect of the Certificates without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

*The Mudaraba Agreement provides that payments made thereunder by the Bank (in its capacity as the Mudareb) to the Trustee shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future Taxes, unless such withholding or deduction is required by law. In such event, and/or if Additional Amounts are payable by the Trustee in respect of the Certificates in accordance with this Condition 15, the Mudaraba Agreement provides for the payment by the Bank of such additional amounts by payment to the Transaction Account in U.S. dollars by wire transfer for same day value so that the net amounts received by the Certificateholders shall equal the respective amounts that would have been received in the absence of such withholding or deduction and in the absence of the withholding or deduction to which this Condition 15 applies.*

## 16. **Prescription**

The right to receive any amount in respect of the Certificates will be forfeited unless claimed within a period of ten years (in the case of principal) and five years (in the case of distributions) from the Relevant Date in respect thereof.

## 17. **Delegate**

### 17.1 **Delegation of Powers**

- (a) The Trustee will in the Declaration of Trust irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future duties, powers (including the power to sub-delegate), rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Declaration of Trust, that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction: (i) exercise all of the rights of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents; and (ii) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust (together the "**Delegation**" of the "**Relevant Powers**"), provided that: (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust the Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or to determine the remuneration of the Delegate. The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.
- (b) In addition to the Delegation of the Relevant Powers under the Declaration of Trust, the Delegate also has certain powers which are vested solely in it from the date of the Declaration of Trust.
- (c) The appointment of a delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

### 17.2 **Indemnification**

The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or pre-funded to its satisfaction. In particular, but without limitation, in connection with the exercise of any of its rights in respect of the Trust Assets or any other right it may have pursuant to the Declaration of Trust or the other Transaction Documents, the Delegate shall in no circumstances be bound to take any action, step or proceeding unless directed to do so in accordance with Condition 14 (*Dissolution Events and Winding-up*), and then only if it shall also have been indemnified and/or secured and/or pre-funded to its satisfaction. The Declaration of Trust provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Delegate shall be entitled: (i) to evaluate its risk in any given circumstance by considering the worst-case scenario; and (ii) to require that any indemnity or security given to it by the Certificateholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

### 17.3 **No Liability**

- (a) The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Bank or the Trustee under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been paid by the Bank or the Trustee but are not so paid and shall not in any circumstances

have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.

- (b) Each of the Trustee and the Delegate is exempted from: (i) any liability in respect of any loss or theft of the Trust Assets or any cash; (ii) any obligation to monitor or insure the Trust Assets or any cash; and (iii) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depository or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of fraud, wilful default or gross negligence by the Trustee or the Delegate, as the case may be.

#### 17.4 **Reliance on Opinions, Certificates, Reports and/or Information**

The Delegate may rely on any opinion, certificate, report or information of the auditors or insolvency officials (as applicable) of the Trustee or the Bank or any other expert or other person called for by or provided to the Delegate (whether or not addressed to the Delegate) in accordance with or for the purposes of the Declaration of Trust or the other Transaction Documents and such opinion, certificate, report or information may be relied upon by the Delegate (without liability to any person) as sufficient evidence of the facts stated therein notwithstanding that such opinion, certificate, report, information and/or any engagement letter or other document contains a monetary or other limit on the liability of the auditors or insolvency officials of the Trustee or the Bank or such other expert or other person in respect thereof and notwithstanding that the scope and/or basis of such opinion, certificate, report or information may be limited by an engagement or similar letter or by the terms of the opinion, certificate, report or information itself and the Delegate shall not be bound in any such case to call for further evidence or be responsible for any liability, delay or inconvenience that may be occasioned by its failure to do so.

#### 17.5 **Proper Performance of Duties**

Nothing shall, in the case of the Trustee (having regard to the provisions of the Declaration of Trust conferring on it any trusts, powers, authorities or discretions) or as donee and delegate, in the case of the Delegate (having regard to the powers, authorities and discretions conferred on it by the Declaration of Trust and to the Relevant Powers delegated to it), respectively, exempt the Trustee or the Delegate from or indemnify either of them against any Liability for gross negligence, wilful default or fraud of which either of them may be guilty in relation to their duties under the Declaration of Trust.

#### 17.6 **Illegality**

The Delegate may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion, be contrary to any law of that jurisdiction. Furthermore, the Delegate may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

#### 17.7 **Delegate not Precluded from Conducting Business with the Trustee and the Bank**

The Delegate is entitled, *inter alia*: (i) to enter into business transactions with the Trustee, the Bank and/or any entity related to the Trustee and/or the Bank and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Trustee and/or any entity related to the Trustee and/or the Bank; (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Certificateholders; and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

#### 17.8 **Notice of Events**

The Delegate shall not be responsible for monitoring or ascertaining whether or not a Non-Payment Event, Capital Event, Tax Event, Non-Viability Event, Trigger Event or Dissolution Event has occurred or exists or is continuing or will occur or exist and, unless and until it shall have received

express written notice to the contrary, it will be entitled to assume that no such event or circumstance exists or has occurred or is continuing (without any liability to the Certificateholders or any other person for so doing).

18. **Replacement of Certificates**

If a Definitive Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar and if the Certificates are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system, subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee, the Bank, the Registrar, the Paying Agent or the Transfer Agent may require. Mutilated or defaced Definitive Certificates must be surrendered before replacements will be issued.

19. **Notices**

Notices to Certificateholders will be deemed to be validly given if mailed to Certificateholders by pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses in the Register. The Trustee shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) on which the Certificates are for the time being admitted to listing, trading and/or quotation including publication on the website of the relevant stock exchange or relevant authority if required by those rules. Any notices shall be deemed to have been given on the day (being a day other than a Saturday or a Sunday) after being so mailed (or on the date of publication or, if so published more than once or on different dates, on the date of the first publication).

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with evidence of entitlement to the relevant Certificates, with the Principal Paying Agent.

*So long as the Certificates are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, or any other clearing system, notices to the Certificateholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for such mailing. Any such notice shall be deemed to have been given to the Certificateholders on the day on which such notice was given to Euroclear and/or Clearstream, Luxembourg and/or such other clearing system.*

20. **Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination**

- 20.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Declaration of Trust. Such a meeting may be convened by Certificateholders holding not less than 10 per cent. in face amount of the Certificates for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more Eligible Persons (as defined in the Declaration of Trust) present holding or representing in aggregate more than 50 per cent. in face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more Eligible Persons whatever the face amount of the Certificates held or represented, except that any meeting the business of which includes consideration of proposals, *inter alia*: (i) to modify any date for payment in respect of the Certificates; (ii) to reduce or cancel or vary the method for calculating the amount of any payment due in respect of the Certificates; (iii) to change any of the Trustee's and the Bank's covenants set out in the Transaction Documents; (iv) to alter the currency of payment or denomination of the Certificates; (v) to modify the provisions concerning the quorum required at any meeting of Certificateholders or the majority required to pass an Extraordinary Resolution; (vi) to sanction any such scheme or proposal or substitution as is described in paragraphs 5.9(i) and 5.9(j) of Schedule 4 to the Declaration of Trust; or (vii) to amend the above list or the proviso to paragraph 4.6 of Schedule 4 to the Declaration of Trust, in which case the quorum shall be one or more Eligible Persons holding or representing in aggregate not

less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., in face amount of the Certificates for the time being outstanding. To be passed, an Extraordinary Resolution requires: (i) a majority in favour consisting of not less than 75 per cent. of the votes cast; (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (a "**Written Resolution**"); or (iii) where the Certificates are held by or on behalf of a clearing system or clearing systems, approval given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures (in a form satisfactory to the Delegate) by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (an "**Electronic Consent**"). Any Extraordinary Resolution, if duly passed, will be binding on all Certificateholders, whether or not they were present at the meeting at which such resolution was passed and whether or not they voted.

- 20.2 The Declaration of Trust provides that a Written Resolution or an Electronic Consent shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. Such a Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Certificateholders. Such a Written Resolution and/or Electronic Consent will be binding on all Certificateholders whether or not they participated in such Written Resolution or Electronic Consent.
- 20.3 The Delegate may (but shall not be obliged to), without the consent or approval of the Certificateholders: (i) agree to any modification to these Conditions, any provisions of the Transaction Documents or to the Trustee's memorandum and articles of association which, in the sole opinion of the Delegate, is of a formal, minor or technical nature or is made to correct a manifest error; (ii) agree to any modification (other than in respect of a Reserved Matter) of these Conditions, any provisions of the Transaction Documents or the Trustee's memorandum and articles of association, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust or the other Transaction Documents; or (iii) determine that any Dissolution Event shall not be treated as such, provided in the case of paragraphs (ii) and (iii) that such modification, waiver, authorisation or determination is not, in the sole opinion of the Delegate, materially prejudicial to the interests of Certificateholders and that such waiver, authorisation or determination is not in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least 25 per cent. of the outstanding aggregate face amount of the Certificates.
- 20.4 In connection with the exercise by it of any of its powers, authorities and discretions (including, without limitation, those referred to in this Condition 20 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*)), the Delegate shall have regard to the interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent provided in Condition 15 (*Taxation*).
- 20.5 Any modification, waiver, authorisation or determination shall be binding on all of the Certificateholders and shall be notified by the Trustee to the Certificateholders as soon as practicable thereafter in accordance with Condition 19 (*Notices*).

This Condition 20 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*) is without prejudice to Condition 11.1(c) (*Redemption or Variation due to Taxation*).

## 21. **Currency Indemnity**

If any sum due from the Trustee in respect of the Certificates or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the

same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of: (a) making or filing a claim or proof against the Trustee; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation to the Certificates, the Trustee shall indemnify each Certificateholder, on the written demand of such Certificateholder addressed to the Trustee and delivered to the Trustee or to the specified office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between: (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which such Certificateholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Trustee and shall give rise to a separate and independent cause of action. In no circumstances will the Delegate incur any liability by virtue of this Condition 21 (*Currency Indemnity*).

22. **Contracts (Rights of Third Parties) Act 1999**

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

23. **Governing Law and Dispute Resolution**

23.1 The Declaration of Trust (including these Conditions), the Agency Agreement, the Mudaraba Agreement (except for clause 2.4 thereof) and the Certificates (except for Condition 4.2 (*Status, Subordination and Limited Recourse – Subordination*), Condition 12 (*Loss Absorption upon the occurrence of a Trigger Event*) and Condition 13 (*Loss Absorption upon the occurrence of a Non-Viability Event*)) and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. Each of Condition 4.2 (*Status, Subordination and Limited Recourse – Subordination*), Condition 12 (*Loss Absorption upon the occurrence of a Trigger Event*) and Condition 13 (*Loss Absorption upon the occurrence of a Non-Viability Event*) and clause 2.4 of the Mudaraba Agreement is governed by, and shall be construed in accordance with, Turkish law.

23.2 Each of the Trustee and the Bank have in the Declaration of Trust irrevocably agreed for the benefit of the Trustee, the Delegate and the Certificateholders that the courts of England and Wales, sitting in London, shall have exclusive jurisdiction to settle any dispute, controversy or claim arising from or connected with the Declaration of Trust and the Certificates or the consequences of their nullity or any non-contractual or other dispute (a "**Dispute**") and have accordingly submitted to the exclusive jurisdiction of the English courts.

23.3 Each of the Trustee and the Bank have also agreed that the courts of England and Wales, sitting in London, are the most appropriate and convenient courts to settle any Dispute and, accordingly, it will not argue to the contrary.

23.4 The documents which start any proceedings and any other documents required to be served in relation to those proceedings may (without limiting any other means available) be served on the Trustee or the Bank by being delivered to Maples and Calder at its registered office at 11th Floor, 200 Aldersgate Street, London, EC1A 4HD (marked for the attention of Process Agency) or, if different, its registered office for the time being, or at any address of the relevant party in England 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 relevant party, such party shall appoint a further person in England to accept service of process on its behalf and failing such appointment within 15 days, the Delegate shall be entitled to appoint such a person by notice addressed to the Trustee or (as appropriate) the Bank and delivered to the Trustee or the Bank pursuant to the Declaration of Trust. Nothing in this Condition 23.4 shall affect the right of any party to serve process in any other manner permitted by law. This Condition 23.4 applies to proceedings in England.

23.5 Each of the Trustee and the Bank agree, without limitation to the generality of any of the foregoing and without prejudice to the enforcement of a judgment obtained in the courts of England and

Wales, sitting in London, pursuant to the provisions of Article 54 of the Act on International Private Law and Procedural Law (Law No. 5718) of Turkey, that if a judgment is obtained against the Bank and/or the Trustee in the courts of England, such judgment shall constitute conclusive evidence of the existence and amount of the claim against the Bank and/or the Trustee, pursuant to Article 193 and Article 199 of the Civil Procedure Code of Turkey (Law No.6100) (published in the Official Gazette dated 4 February 2011, No. 27836) and Article 59 of the Act on International Private Law and Procedural Law (Law No. 5718) of Turkey.

- 23.6 Each of the Trustee, the Delegate and the Bank has irrevocably agreed in the Declaration of Trust that if any Dispute is brought by or on behalf of a party under the Declaration of Trust, it will: (i) not claim interest under, or in connection with, such Dispute; and (ii) to the fullest extent permitted by law, waive all and any entitlement it may have to interest awarded in its favour by a court as a result of such Dispute.

For the avoidance of doubt, nothing in this Condition 23.6 shall be construed as a waiver of rights in respect of Mudaraba Profit, Final Mudaraba Profit, Periodic Distribution Amounts, Outstanding Payments or profit of any kind howsoever described payable by the Bank or the Trustee pursuant to the Transaction Documents and/or these Conditions, howsoever such amounts may be described or re-characterised by any court.

## GLOBAL CERTIFICATE

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

### Form of the Certificates

The Certificates will be in registered form and will be issued outside the United States to persons who are not U.S. persons in reliance on Regulation S.

The Certificates will be represented by a global certificate in registered form (the "**Global Certificate**"). The Global Certificate will be deposited with a common depository for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee for the common depository. Persons holding ownership interests in the Global Certificate 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 the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the registered holder of the Global Certificate shall, except as ordered by a court of competent jurisdiction or as required by law, be treated as the owner thereof (the "**Registered Holder**"). Each of the persons (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular aggregate face amount of such Certificates (the "**Accountholders**") (in which regard any certificate or other document issued by a clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates standing to its account in the records of Euroclear or Clearstream, Luxembourg, as the case may be, other than for the purpose of payments in respect thereof, the right to which shall be vested solely in the Registered Holder, as against the Trustee and an Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Registered Holder, and the expressions "**Certificateholder**" and "**holder of Certificates**" and related expressions shall be construed accordingly. In addition, holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

### Cancellation

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

### Payments

Payments of any amount in respect of the Global Certificate will, in the absence of any provision to the contrary, be made to or to the order of the person shown on the Register as the registered holder of the Global Certificate at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the due date for payment (where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January). Upon payment of any amount in respect of the Certificates represented by the Global Certificate, the details of such payment shall be entered by the Registrar in the Register.

None of the Bank, the Trustee, the Delegate, any Paying Agent or the Registrar will have any responsibility or liability for any aspects of the clearing system records relating to or payments made on account of ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Payments of the Dissolution Distribution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate at the specified office of the Registrar or such other office as may be specified by the Registrar subject to and in accordance with the Conditions and the Declaration of Trust. Distributions of amounts with respect to book-entry interests in



the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures. A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.

### **Notices**

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

Whilst any of the Certificates held by a Certificateholder are represented by the Global Certificate, notices to be given by such Certificateholder may be given (where applicable) through Euroclear and/ or Clearstream, Luxembourg and otherwise in such manner as the Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

### **Registration of Title**

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

Record dates will be determined in accordance with the standard practices of Euroclear and Clearstream, Luxembourg.

### **Transfers**

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

### **Write-Down/Write-Up of the Certificates**

While all the Certificates are represented by one or more Global Certificates and such Global Certificates are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, any write-down or reinstatement of the prevailing outstanding amount, being, for each Certificate, its notional amount outstanding at any given time, adjusted for any reduction pursuant to a write-down or any increase pursuant to a reinstatement of the Certificates, shall be treated on a pro rata basis which, for the avoidance of doubt, shall be effected as a reduction or increase, as the case may be, to the pool factor.

### **Exchange for Definitive Certificates**

Interests in the Global Certificate will be exchangeable (free of charge), in whole but not in part, for Definitive Certificates only upon the occurrence of an Exchange Event. The Trustee will promptly give notice to Certificateholders in accordance with Condition 19 (*Notices*) if an Exchange Event occurs. For these purposes, "**Exchange Event**" means that: (i) a Bank Event (as defined in the Conditions) has occurred; or (ii) the Certificates represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, and any such clearing system has been closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so. In the event of the occurrence of an Exchange Event, any of the Trustee or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Certificate) may give notice to the Registrar requesting exchange.

In such circumstances, the Global Certificate shall be exchanged in full for Definitive Certificates and the Trustee will, at the cost of the Trustee (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed

in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar within ten days following the request for exchange for completion and dispatch to the Certificateholders. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions (and such other information as the Trustee and the Registrar may require) to complete, execute and deliver such Definitive Certificates.

In these Listing Particulars, "**Definitive Certificate**" means a trust certificate in definitive registered form issued by the Trustee in accordance with the provisions of the Declaration of Trust in exchange for the Global Certificate, and substantially in the form set out in Part 2 of Schedule 1 to the Declaration of Trust.

### **USE OF PROCEEDS**

The net proceeds of the Certificates will be paid by the Trustee (as Rab-al-Maal) to the Bank (as Mudareb) as contribution of the Mudaraba Capital pursuant to the terms of the Mudaraba Agreement. The estimated amount of proceeds will be U.S.\$50,000,000.

## DESCRIPTION OF THE TRUSTEE

### General

KT AT One Company Limited, a Cayman Islands exempted company with limited liability, was incorporated on 21 August 2020 under the Companies Law (2020 Revision) of the Cayman Islands with company registration number 365379. The Trustee has been established as a special purpose vehicle for the sole purpose of issuing the Certificates and entering into the transactions contemplated by the Transaction Documents. The registered office of the Trustee is at c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands and its telephone number is +1 345 945 7099.

The authorised share capital of the Trustee is U.S.\$50,000 consisting of 50,000 ordinary shares of U.S.\$1.00 par value each, of which 250 shares are fully paid up and issued. All of the issued shares (the "**Shares**") are fully-paid and are held by MaplesFS Limited as share trustee (in such capacity, the "**Share Trustee**") under the terms of a trust deed (the "**Share Trust Deed**") dated 10 September 2020 under which the Share Trustee holds the Shares in trust until the termination of the period commencing on 10 September 2020 and ending 149 years from such date or such earlier date as the trustees of the Share Trust Deed may determine (the "**Termination Date**"). Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power to benefit Qualified Charities (as defined in the Share Trust Deed). It is not anticipated that any distribution will be made whilst any Certificate is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

### Business of the Trustee

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

The objects for which the Trustee is established are set out in clause 3 of its Memorandum of Association (the "**Memorandum**") as registered or adopted on 21 August 2020.

### Financial Statements

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

### Directors of the Trustee

The Directors of the Trustee are as follows:

<b>Name:</b>	<b>Principal Occupation:</b>
Sedef Kufrevi .....	Vice President, Fiduciary, Maples Fund Services (Middle East) Limited
Linval Stewart .....	Senior Vice President at MaplesFS Limited

The business address of Sedef Kufrevi is c/o Maples Fund Services (Middle East) Limited, Unit C1407, Level 14, Burj Daman, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates. The business address of Linval Stewart is c/o MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman KY1-1102, Cayman Islands.

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

### The Administrator

MaplesFS Limited acts as the administrator of the Trustee (in such capacity, the "**Trustee Administrator**"). The office of the Trustee Administrator serves as the general business office of the Trustee. Through the office, and pursuant to the terms of the Corporate Services Agreement, the Trustee Administrator has agreed

to perform in the Cayman Islands or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Trustee and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Trustee Administrator will also provide registered office facilities to the Trustee in accordance with its standard terms and conditions for the provision of registered office services as published at <http://www.maples.com/terms> (the "**Registered Office Terms**"). In consideration of the foregoing, the Trustee Administrator receives various fees payable by the Trustee at rates agreed upon from time to time, plus expenses. The terms of the Corporate Services Agreement and the Registered Office Terms provide that either the Trustee or the Trustee Administrator may terminate such agreements upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Terms provide that either party shall be entitled to terminate such agreements by giving at least three months' notice in writing to the other party with a copy to any applicable rating agency.

The Trustee Administrator is subject to the overview of the Trustee's Board of Directors.

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

The Directors of the Trustee are all employees or officers of the Trustee Administrator (or an affiliate thereof). The Trustee has no employees and is not expected to have any employees in the future.

### **Cayman Islands Data Protection**

The Cayman Islands Government enacted the Data Protection Law, 2017 of the Cayman Islands (the "**DPL**") on 18 May 2017. The DPL introduces legal requirements for the Trustee based on internationally accepted principles of data privacy.

Prospective investors should note that, by virtue of making investments in the Certificates and the associated interactions with the Trustee and its affiliates and/or delegates, or by virtue of providing the Trustee with personal information on individuals connected with the investor (for example directors, trustees, employees, representatives, shareholders, investors, clients, beneficial owners or agents) such individuals will be providing the Trustee and its affiliates and/or delegates (including, without limitation, the Trustee Administrator) with certain personal information which constitutes personal data within the meaning of the DPL. The Trustee shall act as a data controller in respect of this personal data and its affiliates and/or delegates, such as the Trustee Administrator, may act as data processors (or data controllers in their own right in some circumstances). For further information on the application of the DPL to the Trustee, please refer to the Privacy Notice (a copy of which may be requested from the Trustee Administrator by email at [dubai@maples.com](mailto:dubai@maples.com)), which provides an outline of investors' data protection rights and obligations as they relate to the investment in the Certificates.

Oversight of the DPL is the responsibility of the Ombudsman's office of the Cayman Islands. Breach of the DPL by the Trustee could lead to enforcement action by the Ombudsman, including the imposition of remediation orders, monetary penalties or referral for criminal prosecution.

### **Summary of Memorandum and Articles of Association**

#### ***Memorandum of Association***

The Memorandum comprises the constitution of the Trustee and provides that the Trustee's objects are unrestricted. The objects of the Trustee are set out in full in clause 3 of the Memorandum.

The Memorandum also describes the authorised share capital of the Trustee, being US\$50,000 made up of 50,000 ordinary shares of US\$1.00 par value each (the "**Shares**"). 250 Shares have been allotted and issued to the Share Trustee at par and are fully paid.

#### ***Articles of Association***

The Articles of Association of the Trustee (the "**Articles**") provide, *inter alia*, as follows:

### *Share Capital*

The Trustee may by Ordinary Resolution (as defined below) increase its share capital, consolidate its Shares or subdivide any of them into Shares of a smaller amount or cancel authorised but unissued Shares.

Subject to the provisions of Cayman Islands law and the rights of any holders of any class of Shares, the Trustee may by Special Resolution (as defined below) reduce its share capital or any capital redemption reserve or share premium account.

The Articles provide that any unissued Shares are at the disposal of the directors of the Trustee (the "**Directors**") who may offer, allot, issue, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as the Directors think fit.

### *Winding up*

The Trustee may be wound up by Special Resolution. On a winding up, the Shares carry a right to share, *pari passu inter se*, in any surplus assets remaining after payment of any and all creditors' claims.

### *Quorum and Voting Rights*

The Shares carry the right to vote at all general meetings of the Trustee. As the Trustee has only one shareholder, the quorum for all general meetings shall be that one shareholder present in person or by proxy or (in the case of a corporation or other non-natural person) by a duly authorised representative.

At any general meeting on a show of hands every holder of a share who is present in person shall have one vote and on a poll every member who is present in person or by proxy shall have one vote for every share held by him.

### *Dividends*

Dividends shall only be payable to the holders of Shares out of the funds of the Trustee lawfully available therefor including the share premium account. The Directors may resolve that any dividend or other distribution be paid in whole or in part by the distribution of specific assets of the Trustee. Any dividend unclaimed after a period of six years from the date of declaration of such dividend shall be forfeited and shall revert to the Trustee.

### *Directors*

The Trustee may by Ordinary Resolution appoint any person to be a Director or may by Ordinary Resolution remove any Director.

The Directors may appoint any person to be a Director, either to fill a vacancy or as an additional Director **provided that** the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with the Articles as the maximum number of Directors.

Subject to the provisions of Cayman Islands law, the Memorandum and the Articles and to any directions given by Special Resolution, the business of the Trustee shall be managed by the Directors who may exercise all the powers of the Trustee. No alteration of the Memorandum or Articles and no such direction shall invalidate any prior act of the Directors which would have been valid if that alteration had not been made or that direction had not been given. A duly convened meeting of Directors at which a quorum is present may exercise all powers exercisable by the Directors.

The chairman of a Directors' meeting shall have a casting vote at any meetings of the Directors. The Directors may exercise the Trustee's powers to borrow and to charge its assets.

### *Transfer of Shares*

Shares are transferable subject to the approval of the Directors by resolution who may, in their absolute discretion, decline to register any transfer of Shares without giving any reason. The instrument of transfer of any Share shall be in writing and shall be executed by or on behalf of the transferor (and if the Directors so require, signed by or on behalf of the transferee). The transferor shall be deemed to remain the holder of a Share until the name of the transferee is entered in the Register of Members of the Trustee.

*Alteration of the Memorandum and Articles*

The Memorandum and Articles may at any time be altered or added to by Special Resolution of the Trustee, subject to variation of class rights.

*Redemption and Repurchase of Shares*

Subject to the provisions of the Cayman Islands' Companies Law:

- (a) the Trustee may issue Shares that are to be redeemed or are liable to be redeemed at the option of the shareholder or of the Trustee. The redemption of such Shares shall be effected in such manner and upon such other terms as the Trustee may, by Special Resolution, determine before the issue of the Shares; and
- (b) the Trustee may purchase its own Shares (including any redeemable Shares) in such manner and on such other terms as the Directors may agree with the relevant shareholder.

*Definitions*

For these purposes:

**"Ordinary Resolution"** means a resolution passed by a simple majority of the shareholders of the Trustee as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting, and includes a unanimous written resolution. In computing the majority when a poll is demanded regard shall be had to the number of votes to which each shareholder is entitled by the Articles; and

**"Special Resolution"** has the same meaning as in the Cayman Islands' Companies Law (being, essentially, a resolution passed by a majority of at least two-thirds of such shareholders as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, and includes a unanimous written resolution).

## SELECTED FINANCIAL OVERVIEW

The following tables set forth, for the periods indicated, selected consolidated financial information of Kuveyt Türk derived from the BRSA Accounts (in the case of the income statement data and balance sheet data for the year ended 31 December 2018 below) and the 2019 Restated Financial Information (in the case of the income statement data and balance sheet data for the year ended 31 December 2019 below, in respect of which the balance sheet data is included in, and derived from, the Interim BRSA Accounts and the income statement is derived from Kuveyt Türk's own assessment of the required restatements attributable to the acquisition of Neova in accordance with BRSA Principles; see "*Presentation of Financial and Other Information*" and "*Financial Review - Acquisition of Neova Sigorta A.Ş.*"). Prospective investors should read the following information in conjunction with the "*Financial Review*" section, the BRSA Accounts and the Interim BRSA Accounts.

### Income Statement Data

The table below sets out selected consolidated income statement data for Kuveyt Türk and its consolidated subsidiaries (together, the "**Group**") for the periods indicated.

	Twelve months ended 31 December 2019 (restated)	Twelve months ended 31 December 2018
	(TL thousands)	(TL thousands)
<b>Profit share income</b>	<b>7,745,856</b>	<b>6,043,165</b>
Profit share on loans	6,077,584	5,091,408
Profit share on reserve deposits	86,722	92,411
Profit share on banks	348,009	172,954
Profit share on money market placements	0	-
Profit share on marketable securities portfolio	907,934	418,770
Fair value through profit or loss	96,194	27,920
Fair value through other comprehensive income	665,164	390,850
Measured at amortised cost	146,576	-
Finance lease income	259,612	229,320
Other profit share income	65,995	38,302
<b>Profit share expense</b>	<b>3,932,137</b>	<b>2,857,709</b>
Expense on profit sharing accounts	3,013,663	2,000,908
Profit share expense on funds borrowed	272,103	260,715
Profit share expense on money market borrowings	2,514	35,789
Expense on securities issued	581,094	560,283
Profit share expense on lease	62,763	14
Other profit share expense	0	-
<b>Net profit share income</b>	<b>3,813,719</b>	<b>3,185,456</b>
<b>Net fees and commission income/expenses</b>	<b>368,932</b>	<b>367,871</b>
Fees and commissions received	818,966	571,696
Non-cash loans	175,096	145,665
Other	643,870	426,031
Fees and commissions paid	450,034	203,825
Non-cash loans	8,633	27
Other	441,401	203,798
<b>Dividend income</b>	<b>2841</b>	<b>1,273</b>
<b>Net trading income/loss</b>	<b>1,328,159</b>	<b>539,144</b>
Capital market transaction gains/losses	32,116	10,241
Gains/losses from derivative financial instruments	464,803	136,774
Foreign exchange gains/losses	831,240	392,129
<b>Other operating income</b>	<b>1,930,377</b>	<b>540,934</b>
<b>Net operating income/loss</b>	<b>7,444,028</b>	<b>4,634,678</b>
<b>Expected loss provisions (-)</b>	<b>2,640,410</b>	<b>1,949,975</b>
<b>Other provisions (-)</b>	<b>68,562</b>	<b>29,589</b>
<b>Personnel expenses (-)</b>	<b>1,132,226</b>	<b>842,182</b>
<b>Other operating expenses (-)</b>	<b>1,992,008</b>	<b>766,241</b>
<b>Net operating income/(loss)</b>	<b>1,610,822</b>	<b>1,046,691</b>
Excess amount recorded as income after merger	0	-
<b>Income / (loss) from investments in subsidiaries consolidated based on equity method</b>	<b>13,727</b>	<b>7,715</b>
<b>Income / (loss) on net monetary position</b>	<b>0</b>	<b>-</b>
<b>Profit / (loss) from continued operations before taxes</b>	<b>1,624,549</b>	<b>1,054,406</b>
<b>Tax provisions for continued operations (±)</b>	<b>(348,156)</b>	<b>(243,699)</b>



Current tax provision	(451,634)	(454,233)
Deferred tax income effect (+)	205,627	46,249
Deferred tax expense effect (-)	309,105	256,783
<b>Current period profit/(loss) from continued operations</b>	<b>1,276,393</b>	<b>810,707</b>
<b>Income from discontinued operations</b>	-	-
Income on non-current assets held for sale	-	-
Income on sale of associates, subsidiaries and jointly controlled entities (joint vent.)	-	-
Income on other discontinued operations	-	-
<b>Expenses from discontinued operations (-)</b>	-	-
Expenses from non-current assets held for sale	-	-
Expenses from sale of associates, subsidiaries and jointly controlled entities (joint vent.)	-	-
Expenses from other discontinued operations	-	-
<b>Profit / (loss) before tax from discontinued operations</b>	-	-
<b>Tax provision for discontinued operations (±)</b>	-	-
Current tax provision	-	-
Deferred tax expense effect (+)	-	-
Deferred tax income effect (-)	-	-
<b>Current period profit/loss from discontinued operations</b>	-	-
<b>Net profit/loss</b>	<b>1,276,393</b>	<b>810,707</b>
Group's income/loss	1,273,941	809,543
Minority interest income/loss (-)	2,452	1,164
Earnings per share income/loss	-	-

	Twelve months ended 31 December 2019 (restated) (TL thousands)	Twelve months ended 31 December 2018  (TL thousands)
<b>Current profit (loss)</b>	<b>1,276,393</b>	<b>810,707</b>
<b>Other comprehensive income</b>	<b>281,715</b>	<b>(31,385)</b>
<b>Other comprehensive income not reclassified through profit or loss</b>	<b>(5,786)</b>	<b>13,651</b>
Property and equipment revaluation increase/decrease	-	-
Intangible assets revaluation increase/decrease	-	-
Defined benefit pension plan remeasurement gain/loss	(7,233)	17,064
Other comprehensive income items not reclassified through profit or loss	-	-
Taxes related to other comprehensive income items not reclassified through profit or loss	1,447	(3,413)
<b>Other comprehensive income reclassified through profit or loss</b>	<b>287,501</b>	<b>(45,036)</b>
Foreign currency translation difference	52,280	89,577
Valuation and/or reclassification income/expense of the financial assets at fair value through other comprehensive income	389,097	(142,495)
Cash flow hedge income/loss	(21,235)	50,973
Foreign net investment hedge income/loss	(51,447)	(86,930)
Other comprehensive income items reclassified through profit or losses	-	-
Taxes related other comprehensive income items reclassified through profit or loss	(81,194)	43,839
<b>Total comprehensive income</b>	<b>1,558,108</b>	<b>779,322</b>

## Balance Sheet Data

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

	31 December 2019 (TL thousands) (restated)	31 December 2018 (TL thousands)
<b>Assets</b>		
<b>Financial assets (Net)</b>	<b>44,542,146</b>	<b>23,757,096</b>
<b>Cash and cash equivalents</b>	<b>27,645,215</b>	<b>17,407,571</b>

Cash and balances with central bank	19,216,292	10,611,921
Banks	8,431,928	6,896,927
Money markets	-	-
Expected credit loss (-)	3,005	101,277
<b>Financial assets at fair value through profit or loss</b>	<b>4,259,671</b>	<b>103,094</b>
Government debt securities	3,941,594	30,097
Equity instruments	-	-
Other financial assets	318,077	72,997
<b>Financial assets at fair value through other Comprehensive income</b>	<b>12,455,254</b>	<b>6,204,420</b>
Government debt securities	12,106,518	5,869,940
Equity instruments	33,077	27,548
Other financial assets	315,659	306,932
<b>Derivative financial assets</b>	<b>182,006</b>	<b>42,011</b>
Derivative financial assets at fair value through profit or loss	182,006	42,011
Derivative financial assets at fair value through other comprehensive income	-	-
<b>Financial assets measured with amortised costs (net)</b>	<b>60,136,019</b>	<b>46,974,574</b>
<b>Loans</b>	<b>57,258,648</b>	<b>46,459,051</b>
<b>Leasing receivables</b>	<b>2,707,520</b>	<b>2,450,699</b>
<b>Other financial assets measured at amortized cost</b>	<b>3,212,924</b>	<b>37,156</b>
Government debt securities	2,902,939	37,156
Other financial assets	309,985	-
<b>Expected credit loss (-)</b>	<b>3,043,073</b>	<b>1,972,332</b>
<b>Property and equipment held for sale purpose and related to the discontinued operations (net)</b>	<b>473,326</b>	<b>270,382</b>
Held for sale	473,326	270,382
Related to discontinued operations	-	-
<b>Investments in associates, subsidiaries and joint ventures</b>	<b>64,061</b>	<b>52,200</b>
<b>Investments in associates (net)</b>	<b>-</b>	<b>-</b>
Associates valued based on equity method	-	-
Unconsolidated associates	-	-
<b>Investment in subsidiaries (net)</b>	<b>23,680</b>	<b>23,680</b>
Unconsolidated financial subsidiaries	-	-
Unconsolidated non-financial subsidiaries	23,680	23,680
<b>Investment in joint ventures (net)</b>	<b>40,381</b>	<b>28,520</b>
Joint ventures valued based on equity method	40,381	28,520
Unconsolidated joint ventures	-	-
<b>Tangible assets (net)</b>	<b>846,343</b>	<b>457,187</b>
<b>Intangible assets (net)</b>	<b>201,999</b>	<b>200,765</b>
Goodwill	-	-
Other	201,999	200,765
<b>Investment properties (net)</b>	<b>37,646</b>	<b>29,671</b>
<b>Current tax assets</b>	<b>-</b>	<b>-</b>
<b>Deferred tax assets</b>	<b>416,853</b>	<b>380,683</b>
<b>Other assets</b>	<b>2,283,185</b>	<b>2,890,428</b>
<b>Total assets</b>	<b>109,001,578</b>	<b>75,012,986</b>

	31 December 2019 (TL thousands) (restated)	31 December 2018 (TL thousands)
<b>Liabilities</b>		
<b>Funds collected</b>	<b>87,996,135</b>	<b>55,230,018</b>
<b>Funds borrowed</b>	<b>447,225</b>	<b>1,995,296</b>
<b>Money markets</b>	<b>-</b>	<b>188,003</b>
<b>Securities issued (net)</b>	<b>4,642,165</b>	<b>7,792,870</b>
<b>Financial liabilities at fair value through profit or loss</b>	<b>-</b>	<b>-</b>
<b>Derivative financial liabilities</b>	<b>424,137</b>	<b>170,163</b>
Derivative financial liabilities at fair value through Profit or loss	294,409	63,811
Derivative financial liabilities at fair value through Other comprehensive income	129,728	106,352

<b>Lease payables</b>	<u>354,051</u>	<u>-</u>
<b>Provisions</b>	<u>2,809,372</u>	<u>800,522</u>
Restructuring provision	-	-
Reserves for employee benefits	317,322	229,078
Insurance for technical provision (net)	1,693,153	-
Other provisions	798,897	571,444
<b>Current tax liabilities</b>	<u>255,397</u>	<u>177,652</u>
<b>Deferred tax liabilities</b>	-	-
<b>Liabilities for property and equipment held for sale and related to discontinued operations (net)</b>	-	-
Held for sale	-	-
Related to discontinued operations	-	-
<b>Subordinated debt instruments</b>	<u>3,380,983</u>	<u>1,901,210</u>
Loans	-	-
Other debt instruments	3,380,983	1,901,210
<b>Other liabilities</b>	<u>1,499,240</u>	<u>1,337,718</u>
<b>Shareholders' equity</b>	<u>7,192,873</u>	<u>5,419,534</u>
Paid-in capital	3,995,766	3,497,322
Capital reserves	25,764	24,208
Share premiums	24,525	24,208
Share cancellation profits	1,239	-
Other capital reserves	-	-
Other accumulated comprehensive income or loss that will not be reclassified through profit or loss	(19,082)	(13,296)
Other accumulated comprehensive income or loss that will be reclassified through profit or loss	254,771	(32,730)
Profit reserves	1,494,059	1,110,535
Legal reserves	253,156	187,583
Statutory reserves	-	-
Extraordinary reserves	1,170,797	923,536
Other profit reserves	70,106	(584)
Profit or loss	1,413,134	808,383
Prior years' profits or losses	139,193	(1,160)
Current period net profit or loss	1,273,941	809,543
Minority shares	28,461	25,112
<b>Total liabilities and equity</b>	<u>109,001,578</u>	<u>75,012,986</u>

## FINANCIAL REVIEW

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

*As used herein, all references to 2018 and 2019 are references to the years ended 31 December 2018 and 31 December 2019, respectively.*

*This discussion of Kuveyt Türk's financial condition and results of operations is based on the BRSA Accounts and the Interim BRSA Accounts, and, unless otherwise specified, the financial information presented in this discussion has been extracted or derived without material adjustment from the BRSA Accounts or the Interim BRSA Accounts; see "Presentation of Financial and Other Information"*

*This discussion contains forward-looking statements that involve risks and uncertainties. Kuveyt Türk's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in these Listing Particulars, particularly under the headings "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors".*

### Overview

Kuveyt Türk's core business segments are Retail Banking, Small Business Banking, Commercial Banking, Corporate and Treasury International and Investment Banking. Kuveyt Türk operates primarily in Turkey but also has an international presence in Bahrain and Germany. However, BRSA regulations prescribe a common segment reporting requirement with respect to financial statements by all banks in Turkey. Accordingly, Kuveyt Türk reports its financial statements on the basis of BRSA segments which are Retail Banking, Corporate and Commercial Banking and International and Investment Banking and Treasury.

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

Despite challenging global economic conditions, Turkey has continued to demonstrate growth with GDP increasing by 0.9 per cent. in 2019, 2.8 per cent. in 2018, 7.4 per cent. in 2017, 3.2 per cent. in 2016 and 6.1 per cent. in 2015 (*source: TürkStat*). This economic growth has stimulated demand for banking services and led to increased competition in the banking sector from both private sector and public sector banks in Turkey as well as greater participation of foreign banks.

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

### Significant Factors Affecting Results of Operations

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

#### *Turkey's Economic Condition*

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

In 2015, Turkey's economy experienced real GDP growth of 6.1 per cent. The inflation rate in 2015 was 8.81 per cent. and the CBT's one week repo rate at the end of the year was 7.5 per cent., a decrease from 8.25 per cent. at the start of that year. According to BRSA data, loans in the Turkish banking sector increased by 19.7 per cent. and the NPL ratio was 3.10 per cent. The CBT's one week repo rate increased slightly during 2016 and stood at 8.0 per cent. at the end of the year. According to BRSA data, loans in the Turkish banking sector increased by 16.8 per cent. and the NPL ratio was 3.24 per cent.

In 2016, Turkish economic growth rebounded strongly with annual real GDP growth of 11.92 per cent. and inflation at 8.53 per cent. According to BRSA data, loans in the Turkish banking sector increased by 17 per cent. during 2016 and the NPL for the banking sector was 3.24 per cent.

In 2017, Turkey's annual real GDP growth was 7.4 per cent. and inflation stood at 11.92 per cent. The CBT's one week repo rate at the year end remained at 8.0 per cent., the same as the start of the year. According to BRSA data, loans in the Turkish banking sector increased by 21 per cent and the NPL ratio was 2.96 per cent.

In 2018, real GDP growth was 2.8 per cent. with inflation increasing to 20.30 per cent. CBT's one week repo rate at the end of the year stood at 24.00 per cent. compared to 16.50 per cent. at the start of the year. According to BRSA data, loans in the Turkish banking sector increased by 14.1 per cent. during 2018 and the NPL for the banking sector was 3.88 per cent.

In 2019, real GDP growth was 0.9 per cent. with inflation decreasing to 11.84 per cent. CBT's one week repo rate at the end of the year stood at 12.00 per cent. compared to 24.00 per cent. at the start of the year. According to BRSA data, loans in the Turkish banking sector increased by 4.88 per cent. during 2019 and the NPL for the banking sector was 5.37 per cent.

The Central Bank decreased the one-week repo rate to 19.75 per cent. in July 2019. Further, the Central Bank cut the one-week repo rate to 16.50 per cent. in September 2019, to 14.00 per cent. in October 2019, to 12.00 per cent. in December 2019, to 11.25 per cent. in January 2020 and to 10.75 per cent. in February 2020. Economic activity started to weaken in mid-March due to the ongoing adverse impact of the COVID-19 outbreak. In response, the Central Bank cut the one-week repo rate to 9.75 per cent. in March 2020, to 8.75 per cent. in April 2020 and to 8.25 per cent. in May 2020. The Central Bank decided to retain the one week repo-rate at 8.25 per cent. in June 2020.

In line with the wider global position, and due to the ongoing adverse impact of the COVID-19 pandemic, economic activity in Turkey slowed down in the first quarter of 2020 as compared to 2019. However, the strong capital structure of the banking sector, which is among the most important sectors of the Turkish economy, reduces the fragility in the face of these economic fluctuations. Due to the economic stabilisation and the revival in the demand for commercial financings, it was expected that the increase in the banking sector's financing volume would be accelerated during 2020, but any such increase is uncertain in light of the adverse impact of the COVID-19 pandemic. By effectively managing risks and opportunities and providing robust financial support to the real economy in line with participation banking principles, Kuveyt Türk has not only maintained its asset quality but also sustained its profitability-oriented growth in the second quarter of 2020.

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

	For the year ending 31 December	
	2019	2018
Nominal GDP at current prices (in million Turkish Lira).....	4,280,381	3,724,388
Real GDP growth (%) .....	0.9	2.8
GDP per capita (in U.S. dollars).....	9,127	9,693
Unemployment (%).....	13.30	11.0
Turkish Central Bank policy rate (year-end) (%) .....	12.00	24.00
Inflation.....	11.84	20.30
Exports (in billion U.S. dollars) (2).....	180.7	176.8
Imports (in billion U.S. dollars) (2).....	210.3	231.1
Foreign trade deficit (in billion U.S. dollars).....	(29.5)	(54.3)
Current account deficit (in billion U.S. Dollars).....	8.7	(20.7)
Budget deficit (in billion Turkish Lira) .....	(123.7)	(72.8)

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

(2) Foreign trade by years according to the general trade system.

Kuveyt Türk's cash loans increased from TRY48,909.75 million as at 31 December 2018 to TRY59,966.17 million as at 31 December 2019 representing an increase of 22.61 per cent. Whilst the Turkish economy recovered rapidly from the global economic crisis, more recently the economy has witnessed some challenging macro-economic conditions; for example, the unemployment rate has been increasing year on year from 2012 to 2019.

## Declining Interest Rate Environment in Turkey

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

The table below sets out Kuveyt Türk's total income from financing activities, expense from profit sharing accounts and the resulting net profit margin for the periods indicated.

	<b>For the year ending 31 December 2019</b>
	<i>(TRY in thousands)</i>
<b>Profit share income</b> .....	<b>7,745,856</b>
<b>Profit share expense</b>	3,932,137
Expense on Profit Sharing Accounts	3,013,663
Profit Share Expense on Funds Borrowed	272,103
Profit Share Expense on Money Market Borrowings	2,514
Expense on Securities Issued	581,094
Profit Share Expense on Lease	62,763
Other Profit Share Expense	-
<b>Net financing income</b> .....	<b>3,813,719</b>
Average net cash loans <sup>(1)</sup> .....	51,930,640
<b>Net profit margin (per cent)</b> <sup>(2)</sup> .....	<b>7.34%</b>

- (1) Kuveyt Türk considers that average net cash loans is an alternative performance measure within the meaning of guidelines issued by the European Securities and Markets Authority on the use of APMs by issuers when publishing regulated information or prospectuses on or after 3 July 2016 ("APM").

Average net cash loans is not a financial measure established by BRSA Principles. However, Kuveyt Türk considers that average net cash loans allows Kuveyt Türk's to assess the size of its net cash loan portfolio on a median basis for a particular period, and can be used to compare the size of its current period cash loan portfolio against previous periods.

- (2) Kuveyt Türk considers that net profit margin is an APM. Net profit margin is calculated as net financing income (as stated in the BRSA Accounts) divided by average net cash loans (which is calculated as set out in the footnote above).

Net profit margin is not a financial measure established by BRSA Principles. However, Kuveyt Türk considers that net profit margin represents an accurate indicator of how efficiently Kuveyt Türk generates net profit from its top-line revenues, effectively allowing Kuveyt Türk's performance to be measured by analysing the percentage of its net cash loans which are converted into net profit. Net profit margin is also used to compare current period operating performance to operating performance from previous periods.

On 23 May 2018, following the Turkish Lira reaching its then-lowest level against the U.S. dollar (exceeding TRY 4.85 against the U.S. dollar), an emergency meeting of the Central Bank's Monetary Policy Committee increased the late liquidity window lending rate by 300 basis points to 16.5 per cent. while keeping constant its one-week repo rate at 8.00 per cent., the upper bound of its interest rate corridor at 9.25 per cent. and its overnight borrowing rate at 7.25 per cent. On 28 May 2018, the Central Bank announced its decision to simplify its monetary policy, with the one-week repo rate to be the policy rate and the overnight borrowing and lending rates to be determined at 150 basis points below and above the one-week repo rate as of 1 June 2018. On 7 June 2018, the Monetary Policy Committee increased the one-week repo rate (policy rate) by 125 basis points to 17.75 per cent. and, as of 8 June 2018, the overnight borrowing rate, the overnight lending rate and the late liquidity window lending rate increased to 16.25 per cent., 19.25 per cent. and 20.75 per cent., respectively. Following the significant decline in the value of the Turkish Lira in the second half of 2018, which fell to a record low (exceeding TRY 7.2 per U.S. Dollar in the week ended on 12 August 2018), the Central Bank (on 13 September 2018) increased its benchmark lending rate by 6.25 per cent., which increased the one week repo rate from 17.75 per cent. to 24.00 per cent. On 6

March 2019, the Central Bank decided to keep the policy rate constant at 24.00 per cent. However, since then, the policy rates have been steadily and consistently decreasing; as at the date of these Listing Particulars, the one-week repo rate is 8.25 per cent., the overnight borrowing rate is 6.75 per cent. and the overnight lending rate is 9.75 per cent.

The recent higher interest rate environment contributed to an increase in total deposits to TRY55,230.02 million in 2018 and, notwithstanding the more recent decline in rates, such total deposits have continued to grow to TRY87,996.14 million in 2019, representing an increase of 59.33 per cent in 2019 compared to 2018. This was principally achieved due to Kuveyt Türk's flexibility in being able to offer attractive profit share rates to its depositors which resulted in a substantial increase in Kuveyt Türk's deposits for the period ended 31 December 2019 compared to the same period in 2018.

#### *Exchange Rates*

A portion of Kuveyt Türk's assets and liabilities are denominated in foreign currencies. As at 31 December 2019, 61.41 per cent. of Kuveyt Türk's total assets and 56.15 per cent. of Kuveyt Türk's total liabilities were denominated in foreign currencies. Kuveyt Türk follows a square foreign exchange position policy (which is designed to ensure that foreign exchange assets are matched by foreign exchange liabilities denominated in the same currency after taking into account the effect of derivative instruments) to minimise its currency risk. Nevertheless, the overall effect of exchange rate movements on Kuveyt Türk's results of operations depends on the rate of depreciation or appreciation of the Turkish lira against its principal trading and financing currencies, as well as the successful implementation of Kuveyt Türk's exchange rate risk mitigation policy.

#### *Significant Accounting Policies, Judgments and Estimates*

For a discussion of the accounting policies applied by Kuveyt Türk generally in preparing its BRSA Accounts, see note 1.2 to the BRSA Accounts for the year ended 31 December 2019.

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

#### **Results of operations for the years ended 31 December 2019 and 2018**

##### *Profit share income*

The following table sets out the principal components of Kuveyt Türk's profit share income for the years ended 31 December 2019 and 2018.

	<b>For the year ending 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>(restated)</b>	
	<i>(TRY in thousands)</i>	
<b>Profit share income:</b>		
Profit share income on loans .....	6,077,584	5,091,408
Profit share income received from reserve deposits .....	86,722	92,411
Profit share income received from banks .....	348,009	172,954
Profit share income from securities portfolio .....	907,934	418,770
Finance lease income .....	259,612	229,320
Other profit share income.....	65,995	38,302
<b>Total profit share income.....</b>	<b><u>7,745,856</u></b>	<b><u>6,043,165</u></b>

Kuveyt Türk's profit share income consists of returns earned by Kuveyt Türk on: (a) loans originated by it; (b) reserve deposits held by it; (c) deposits held by it with other banks and financial institutions; and (d) its

securities portfolio; (e) its investments in its associates and subsidiaries; (f) its finance lease portfolio; and (g) certain other ancillary items.

*2019 and 2018 compared*

Kuveyt Türk's primary sources of profit share income are returns on loans originated by it, income received on deposits held with other banks and financial institutions, income received on its securities portfolio and income on its finance leases.

Income from loans originated by Kuveyt Türk increased by 19.37 per cent. in 2019 from TRY5,091.41 million in 2018 to TRY 6,077.58 million in 2019. This increase was a direct result of a 10.71 per cent. increase in transaction volume size and a 8.66 per cent. increase in profit rates.

Profit share income on deposits with other banks and financial institutions increased by 101.21 per cent., from TRY172.95 million in 2018 to TRY348.01 million in 2019. This increase was due to a 56.85 per cent. increase in transaction volume size on deposits with other banks and financial institutions.

Profit share income from Kuveyt Türk's securities portfolio also increased significantly by 116.81 per cent., from TRY418.77 million in 2018 to TRY907.93 million in 2019. This increase was due to a 134.11 per cent. increase in transaction volume size on Kuveyt Türk's securities portfolio.

Profit share income from Kuveyt Türk's finance lease portfolio also increased by 13.21 per cent., from TRY229.32 million in 2018 to TRY259.61 million in 2019. This increase was due to a 14.79 per cent. increase in transaction volume size on Kuveyt Türk's finance lease portfolio.

***Profit share expense***

Kuveyt Türk's profit share expense comprises amounts paid by it in respect of: (a) deposits by customers in participation accounts; (b) its borrowings and deposits from other banks and financial institutions; (c) its money market borrowings; (d) securities issued by it; and (e) its leases.

The following table sets out the components of Kuveyt Türk's profit share expense for the years ended 31 December 2019 and 2018.

	<b>For the year ending 31 December</b>	
	<b>2019 (restated)</b>	<b>2018</b>
	<i>(TRY in thousands)</i>	
Expense on profit sharing accounts .....	(3,013,663)	(2,000,908)
Profit share expense on funds borrowed.....	(272,103)	(260,715)
Profit shares expense on money market borrowings.....	(2,514)	(35,789)
Expense on securities issued .....	(581,094)	(560,283)
Profit share expense on lease.....	(62,763)	(14)
<b>Total profit share expense .....</b>	<b>3,932,137</b>	<b>2,857,709</b>

*2019 and 2018 compared*

Kuveyt Türk's primary profit share expenses are its expenses on profit sharing accounts, expenses on funds borrowed and expenses on securities issued.

Expenses on profit sharing accounts increased by 50.61 per cent. in 2019 from TRY2,000.91 million in 2018 to TRY3,013.66 million in 2019. This increase was a direct result of a 46.87 per cent. increase in transaction volume size and a 5.59 per cent. increase in profit share rates.

Profit share expenses on funds borrowed increased by 4.37 per cent. from TRY260.72 million in 2018 to TRY272.10 million in 2019. This increase was due to a 36.04 per cent. increase in profit share rates on funds borrowed.

Profit share expense on securities issued increased by 3.71 per cent., from TRY560.28 million in 2018 to TRY581.09 million in 2019. This increase was due to a 13.69 per cent. increase in profit share rates on securities issued.



### ***Net fees and commission income***

Kuveyt Türk generates fees and commission income from both its cash and non-cash businesses.

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

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

#### ***2019 and 2018 compared***

Net fees and commissions received increased by 0.29 per cent. in 2019 from TRY367.87 million in 2018 to TRY368.93 million in 2019. This increase was a direct result of an increase in fees and commissions received during the period.

Fees and commissions received increased by 43.25 per cent. in 2019 from TRY571.70 million in 2018 to TRY818.97 million in 2019. This increase was due to the increase in credit card and POS clearing rates and volumes.

The increase in fees and commissions was offset in part by an increase in fees and commissions paid which also increased by 120.79 per cent. in 2019 from TRY203.83 million in 2018 to TRY450.03 million in 2019. This increase was a result of the increase in credit card and POS clearing rates and volumes.

### ***Net trading income/loss***

Kuveyt Türk generates net trading income from its ordinary course trading activities, comprising gains from capital markets transactions, derivative financial instruments and foreign exchange profit, offset by losses from the same.

#### ***2019 and 2018 compared***

Net trading income received increased by 146.35 per cent. in 2019 from TRY539.14 million in 2018 to TRY1,328.16 million in 2019. This increase was a direct result of an increase in trading income received during the period and reduced trading losses.

Trading income received increased by 2.84 cent. in 2019 from TRY36,464.91 million in 2018 to TRY37,499.39 million in 2019. There were no significant changes to account for this increase.

Trading losses incurred increased by 0.68 per cent. in 2019 from TRY35,925.77 million in 2018 to TRY 36,171.23 million in 2019. There were no significant changes to account for this increase.

### ***Other operating income***

Kuveyt Türk's other operating income is principally derived from: (a) any reversal of prior period provisions; (b) income from sales of assets; and (c) other income.

#### ***2019 and 2018 compared***

Other operating income received increased by 256.86 per cent. in 2019 from TRY540.93 million in 2018 to TRY 1,930.38 million in 2019. This increase was a direct result of a significant increase in reversals of prior period provisions.

### ***Provision for Loan Losses***

Kuveyt Türk's makes provisions for its expected loan losses in the ordinary course.

#### *2019 and 2018 compared*

Kuveyt Türk's provisions for loan losses increased by 35.41 per cent. to TRY 2,640.41 million in 2019 from TRY 1,949.98 million in 2018, primarily due to an increase in Kuveyt Türk's loan portfolio.

#### ***Other operating expenses***

Kuveyt Türk's other operating expenses include rent expense, depreciation and amortisation expense and other expenses.

#### *2019 and 2018 compared*

Kuveyt Türk's other operating expenses increased by 159.97 per cent. to TRY1,992.01 million in 2019 from TRY766.24 million in 2018, primarily because, as a result of certain accounting changes in 2019, vehicle and branch rents were capitalised and depreciated. A large number of vehicles were purchased and depreciated. In addition, rent increases and new branch openings played a role in the increase in operating expenses.

#### ***Personnel expenses***

Kuveyt Türk's other operating expenses include comprise its staff costs.

#### *2019 and 2018 compared*

Kuveyt Türk's personnel expenses increased by 34.44 per cent. to TRY1,132.23 million in 2019 from TRY842.18 million in 2018, primarily due to an increase in inflation rate. At the end of 2018, the inflation rate was over 20 per cent. due to increases in wages and the promotion of a number of employees.

#### ***Tax provisions for continued operations***

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

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

The statutory corporate tax rate in Turkey for the years ended 2019 and 2018 was 22 per cent. Advance tax returns are filed on a quarterly basis in Turkey.

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

#### *2019 and 2018 compared*

Kuveyt Türk's tax provisions for continued operations increased from TRY243.70 million in 2018 to TRY348.16 million in 2019 reflecting an increase of 42.86 per cent. This increase was primarily due to Kuveyt Türk's tax provisions changing depending on an increase in income before taxation.

#### ***Net profit/loss***

Reflecting the various factors discussed above, Kuveyt Türk's net profit for 2019 was TRY1,276.39 million compared to TRY810.71 million in 2018, reflecting an increase of 57.44 per cent.

#### **Financial Condition**

##### ***Total Assets***

Kuveyt Türk's total assets grew in 2019 by 45.31 per cent. from TRY75,012.99 million in 2018 to TRY109,001.58 million in 2019.

### ***Financial assets (net)***

As at 31 December 2019, financial assets (net) accounted for 40.86 per cent. of Kuveyt Türk's total assets compared to 31.67 per cent. as at 31 December 2018. Financial assets (net) increased from TRY23,757.10 million as at 31 December 2018 to TRY44,542.15 million as at 31 December 2019, representing an increase of 87.49 per cent. These increases were primarily as a result of increased deposits, increased volumes of Sukuk held by Kuveyt Türk and an increased volume in financings extended by Kuveyt Türk, in conjunction with Kuveyt Türk's branch growth.

### ***Cash and balances with the CBT***

As at 31 December 2019, cash and balances with the CBT was TRY19,216.29 million compared to TRY10,611.92 million as at 31 December 2018, representing an increase of 81.08 per cent., primarily as a result of an increase in funds placed as reserve balances with the CBT.

### ***Minimum finance lease payments receivable, net***

As at 31 December 2019, minimum finance lease payments receivables, net contributed 2.48 per cent. of Kuveyt Türk's total assets compared to 3.27 per cent. of total assets as at 31 December 2018. Net minimum finance lease payments receivables increased by 10.48 per cent. to TRY2,707.52 million as at 31 December 2019 from TRY2,450.70 million as at 31 December 2018. The increase was as a result of the volume of Kuveyt Türk's finance lease transactions as well as an increase in the number of branches.

### ***Financial assets***

Kuveyt Türk classifies its financial assets in the following categories: (i) at fair value through profit or loss; (ii) at fair value through another comprehensive income; and (iii) valued at amortised cost.

### ***Financial assets at fair value through profit or loss***

Certain financial assets are recognised at fair value through profit or loss, comprising: (i) government debt securities; and (iii) other financial assets.

Financial assets at fair value through profit or loss increased by 4031.83 per cent. from TRY103.09 million as at 31 December 2018 to TRY4,259.67 million as at 31 December 2019.

Government debt securities attributable to financial assets at fair value through profit or loss increased by 12,996.30 per cent. in 2019 from TRY30.10 million in 2018 to TRY3,941.59 million in 2019. This increase was a result of a purchase by Kuveyt Türk of 12,935 kg gold-backed Government Sukuk.

Other financial assets attributable to financial assets at fair value through profit or loss increased by 335.74 per cent. in 2019 from TRY73.00 million in 2018 to TRY318.08 million in 2019. This increase was a result of a sharp increase in the balance of Government debt securities held by Kuveyt Türk which were classified as financial assets at fair value through profit or loss.

### ***Financial assets at fair value through comprehensive income***

Certain other financial assets are recognised at fair value through comprehensive income, comprising: (i) government debt securities; (ii) equity instruments; and (iii) other financial assets.

Financial assets at fair value through comprehensive income increased by 100.75 per cent. from TRY6,204.42 million as at 31 December 2018 to TRY12,455.25 million as at 31 December 2019.

Government debt securities attributable to financial assets at fair value through comprehensive income increased by 106.25 per cent. in 2019 from TRY5,869.94 million in 2018 to TRY12,106.52 in 2019. This increase was a result of profits from Sukuk trading transactions conducted by Kuveyt Türk and Kuveyt Türk benefitting from the volatility in the markets.

Equity instruments attributable to financial assets at fair value through comprehensive income increased by 20.07 per cent. in 2019 from TRY27.55 million in 2018 to TRY33.08 million in 2019. This increase was a result of an increase in Kuveyt Türk's shareholdings in other entities, including Neova.

Other financial assets attributable to financial assets at fair value through comprehensive income increased by 2.84 per cent. in 2019 from TRY306.93 million in 2018 to TRY315.66 million in 2019. This increase was a result of an increase in Sukuk held.

**Financial assets measured at amortised cost (net)**

Financial assets measured at amortised cost (net), which consist of Sukuk, increased by 28.02 per cent. in 2019 to TRY60,136.02 million from TRY46,974.57 in 2018.

**Funding and Liquidity**

Kuveyt Türk's principal sources of funding are described under "Risk Management - Funding". The table below summarises Kuveyt Türk's cash flows for each of 2019 and 2018.

	<b>For the year ending 31 December</b>	
	<b>2019 (restated)</b>	<b>2018</b>
	<i>(TRY in millions)</i>	
Net cash provided from banking operations.....	17,605.25	4,662.52
Net cash used in investing activities.....	(4,071.56)	(1,762.34)
Net cash provided from / (used in) financing activities.....	(2,039.74)	404.17
Net foreign exchange difference on cash and cash equivalents.....	1,704.24	3,237.73
Cash and cash equivalents at 1 January.....	7,214.01	3,472.73
Cash and cash equivalents at period end.....	20,412.20	6,710.46

The principal factor impacting Kuveyt Türk's operating cash flows between 2018 and 2019 was changes in cash provided from banking operations, which was due to a net increase in deposit accounts of approximately TRY 33 billion.

The principal factor impacting Kuveyt Türk's investing cash flows between 2018 and 2019 was the purchase of new Sukuk in 2019.

Kuveyt Türk's cash flow from financing activities reflects the fact that net cash inflows were higher than cash outflows, primarily as a result of funds collected, which resulted in an increase of TRY2,039.74 million in cash and cash equivalents in 2019.

**Off-balance sheet commitments**

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

The following table analyses Kuveyt Türk's significant contingencies and commitments as at 31 December 2019.

	<b>31 December 2019 (restated)</b>
	<i>(TRY in thousands)</i>
Letters of Guarantee issued by Kuveyt Turk.....	9,708,470
Bills of Exchange and Bank Acceptances.....	55,035
Letters of Credit.....	1,374,009
Other Guarantees.....	465,592
Pre-Financings Given as Guarantees.....	147
<b>Total.....</b>	<b>11,603,253</b>

## Related Party Transactions

Kuveyt Türk entered into various banking transactions with related parties in its normal course of business including balances with financial institutions due from financing activities, due to other financial institutions and banks and profit/loss sharing investors' and current accounts.

### Acquisition of Neova Sigorta A.Ş.

On 5 May 2020, Kuveyt Türk completed the acquisition of Neova by way of a share transfer. As a result of this acquisition, Kuveyt Türk increased its previous minority stake ownership in Neova from 7 per cent. to 100 per cent. On account of BRSA Principles, and due to the acquisition of Neova, Kuveyt Türk has been required to restate substantially all of its financial information as at and for the year ended 31 December 2019. The effect of the restatement of such financial information is presented in further detail below.

The effect of the above restatement on Kuveyt Türk's balance sheet as of 1 January 2019 is as follows:

Assets	Reported as at 31 December 2018	Restatement Effects, Including Elimination Effects	Restated as at 1 January 2019
<b>Financial Assets (Net)</b>	<b>23,757,096</b>	<b>394,196</b>	<b>24,151,292</b>
<b>Cash And Cash Equivalents</b>	<b>17,407,571</b>	<b>290,505</b>	<b>17,698,076</b>
Banks	6,896,927	290,505	7,187,432
<b>Financial Assets At Fair Value Through Profit Or Loss</b>	<b>103,094</b>	<b>108,462</b>	<b>211,556</b>
Other Financial Assets	72,997	108,462	181,459
<b>Financial Assets At Fair Value Through Other Comprehensive Income</b>	<b>6,204,420</b>	<b>(4,771)</b>	<b>6,199,649</b>
Equity Instruments	27,548	(4,771)	22,777
<b>Financial Assets Measured With Amortised Costs (Net)</b>	<b>46,974,574</b>	<b>447,912</b>	<b>47,422,486</b>
<b>Other Financial Assets Measured At Amortized Cost</b>	<b>37,156</b>	<b>447,912</b>	<b>485,068</b>
Government Debt Securities	37,156	176,891	214,047
Other Financial Assets	-	271,021	271,021
<b>Tangible Assets (Net)</b>	<b>457,187</b>	<b>8,656</b>	<b>465,843</b>
<b>Intangible Assets (Net)</b>	<b>200,765</b>	<b>2,496</b>	<b>203,261</b>
Other	200,765	2,496	203,261
<b>Deferred Tax Assets</b>	<b>380,683</b>	<b>12,439</b>	<b>393,122</b>
<b>Other Assets</b>	<b>2,890,428</b>	<b>557,963</b>	<b>3,448,391</b>
<b>Total Assets</b>	<b>75,012,986</b>	<b>1,423,662</b>	<b>76,436,648</b>
Liabilities	Reported as at 31 December 2018	Restatement Effects, Including Elimination Effects	Restated as at 1 January 2019
<b>Funds Collected</b>	<b>55,230,018</b>	<b>(238,365)</b>	<b>54,991,653</b>
<b>Securities Issued (Net)</b>	<b>7,792,870</b>	<b>(147,565)</b>	<b>7,645,305</b>
<b>Provisions</b>	<b>800,522</b>	<b>1,288,762</b>	<b>2,089,284</b>
Reserves For Employee Benefits	229,078	10,211	239,289
Insurance For Technical Provision (Net)	-	1,274,777	1,274,777
Other Provisions	571,444	3,774	575,218
<b>Current Tax Liabilities</b>	<b>177,652</b>	<b>28,901</b>	<b>206,553</b>
<b>Other Liabilities</b>	<b>1,337,718</b>	<b>225,530</b>	<b>1,563,248</b>
<b>Equity</b>	<b>5,419,534</b>	<b>266,399</b>	<b>5,685,933</b>
Profit Reserves	1,110,535	13,041	1,123,576
Legal Reserves	187,583	13,186	200,769
Other Profit Reserves	(584)	(145)	(729)
Profit Or Loss	808,383	253,358	1,061,741
Retained Earnings	(1,160)	154,865	153,705
Net Profit Of The Period	809,543	98,493	908,036

<b>Total Liabilities</b>	<b>75,012,986</b>	<b>1,423,662</b>	<b>76,436,648</b>
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The effect of the restatement on Kuveyt Türk's balance sheet as of 31 December 2019 is as follows:

<b>Assets</b>	<b>Reported as at 31 December 2019</b>	<b>Restatement Effects, Including Elimination Effects</b>	<b>Restated as at 31 December 2019</b>
<b>Financial Assets (Net)</b>	<b>43,374,329</b>	<b>1,167,817</b>	<b>44,542,146</b>
<b>Cash And Cash Equivalents</b>	<b>26,730,059</b>	<b>915,156</b>	<b>27,645,215</b>
Banks	7,516,772	915,156	8,431,928
<b>Financial Assets At Fair Value Through Profit Or Loss</b>	<b>4,001,504</b>	<b>258,167</b>	<b>4,259,671</b>
Other Financial Assets	59,910	258,167	318,077
<b>Financial Assets At Fair Value Through Other Comprehensive Income</b>	<b>12,460,760</b>	<b>(5,506)</b>	<b>12,455,254</b>
Equity Instruments	38,583	(5,506)	33,077
<b>Financial Assets Measured With Amortised Costs (Net)</b>	<b>59,782,476</b>	<b>353,543</b>	<b>60,136,019</b>
<b>Other Financial Assets Measured At Amortized Cost</b>	<b>2,859,381</b>	<b>353,543</b>	<b>3,212,924</b>
Government Debt Securities	2,725,997	176,942	2,902,939
Other Financial Assets	133,384	176,601	309,985
<b>Tangible Assets (Net)</b>	<b>834,101</b>	<b>12,242</b>	<b>846,343</b>
<b>Intangible Assets (Net)</b>	<b>198,760</b>	<b>3,239</b>	<b>201,999</b>
Other	198,760	3,239	201,999
<b>Deferred Tax Assets</b>	<b>401,782</b>	<b>15,071</b>	<b>416,853</b>
<b>Other Assets</b>	<b>1,698,669</b>	<b>584,516</b>	<b>2,283,185</b>
<b>Total Assets</b>	<b>106,865,150</b>	<b>2,136,428</b>	<b>109,001,578</b>

<b>Liabilities</b>	<b>Reported as at 31 December 2019</b>	<b>Restatement Effects, Including Elimination Effects</b>	<b>Restated as at 31 December 2019</b>
<b>Funds Collected</b>	<b>88,249,772</b>	<b>(253,637)</b>	<b>87,996,135</b>
<b>Securities Issued (Net)</b>	<b>350,955</b>	<b>3,096</b>	<b>354,051</b>
<b>Provisions</b>	<b>1,099,254</b>	<b>1,710,118</b>	<b>2,809,372</b>
Reserves For Employee Benefits	302,820	14,502	317,322
Insurance For Technical Provision (Net)	-	1,693,153	1,693,153
Other Provisions	796,434	2,463	798,897
<b>Current Tax Liabilities</b>	<b>226,221</b>	<b>29,176</b>	<b>255,397</b>
<b>Other Liabilities</b>	<b>1,257,502</b>	<b>241,738</b>	<b>1,499,240</b>
<b>Equity</b>	<b>6,786,936</b>	<b>405,937</b>	<b>7,192,873</b>
Profit Reserves	1,472,776	21,283	1,494,059
Legal Reserves	231,728	21,428	253,156
Other Profit Reserves	70,251	(145)	70,106
Profit Or Loss	1,028,480	384,654	1,413,134
Retained Earnings	(89,157)	228,350	139,193
Net Profit Of The Period	1,117,637	156,304	1,273,941
<b>Total Liabilities</b>	<b>106,865,150</b>	<b>2,136,428</b>	<b>109,001,578</b>

The effect of the restatement on Kuveyt Türk's consolidated statement of offsetting accounts as of 1 January 2019 and 31 December 2018 is as follows:

	<b>Reported as at 31 December 2018</b>	<b>Restatement Effects, Including Elimination Effects</b>	<b>Restated as at 1 January 2019</b>
<b>A. Commitments And Contingencies</b>	<b>86,759,151</b>	<b>(299,101)</b>	<b>86,460,050</b>
<b>Guarantees And Warranties</b>	<b>11,876,080</b>	<b>(299,101)</b>	<b>11,576,979</b>

Letters Of Guarantee	10,391,279	(299,101)	10,092,178
Other Letters Of Guarantee	9,460,501	(299,101)	9,161,400
<b>Total Off-Balance Sheet Accounts</b>	<b>545,744,255</b>	<b>(299,101)</b>	<b>545,445,154</b>

	Reported as at 31 December 2019	Restatement Effects, Including Elimination Effects	Restated as at 31 December 2019
<b>A. Commitments And Contingencies</b>	<b>123,656,675</b>	<b>(299,101)</b>	<b>123,357,574</b>
<b>Guarantees And Warranties</b>	<b>11,902,354</b>	<b>(299,101)</b>	<b>11,603,253</b>
Letters Of Guarantee	10,007,571	(299,101)	9,708,470
Other Letters Of Guarantee	9,272,139	(299,101)	8,973,038
<b>Total Off-Balance Sheet Accounts</b>	<b>670,736,952</b>	<b>(299,101)</b>	<b>670,437,851</b>

The effect of the restatement on Kuveyt Türk's consolidated statement of income for the year ended 31 December 2019 is as follows:

	Reported as at 31 December 2019	Restatement Effects, Including Elimination Effects	Restated as at 31 December 2019
<b>Profit Share Income</b>	<b>7,558,226</b>	<b>187,630</b>	<b>7,745,856</b>
Profit Share on Loans	6,077,584	0	6,077,584
Profit Share on Reserve Deposits	86,722	0	86,722
Profit Share On Banks	257,954	90,055	348,009
Profit Share On Marketable Securities Portfolio	810,359	97,575	907,934
Finance Lease Income	259,612	0	259,612
Other Profit Share Income	65,995	0	65,995
<b>Profit Share Expense (-)</b>	<b>3,991,466</b>	<b>- 59,329</b>	<b>3,932,137</b>
Expense on Profit Sharing Accounts	3,050,658	-36,995	3,013,663
Profit Share Expense on Funds Borrowed	272,103	0	272,103
Profit Share Expense on Money Market Borrowings	2,514	0	2,514
Expense on Securities Issued	604,045	-22,951	581,094
Profit Share Expense on Lease	62,146	617	62,763
<b>Net Profit Share Income (I - II)</b>	<b>3,566,760</b>	<b>246,959</b>	<b>3,813,719</b>
<b>Net Fees And Commissions Income/Expense</b>	<b>490,868</b>	<b>-121,936</b>	<b>368,932</b>
Fees And Commissions Received	800,292	18,674	818,966
Non-Cash Loans	175,096	0	175,096
Other	625,196	18,674	643,870
Fees And Commissions Paid	309,424	140,610	450,034
Non-Cash Loans	8,633	0	8,633
Other	300,791	140,610	441,401
<b>Dividend Income</b>	<b>2,841</b>	<b>0</b>	<b>2,841</b>
<b>Net Trading Income / Loss</b>	<b>1,324,855</b>	<b>3,304</b>	<b>1,328,159</b>
Capital Market Transaction Gains/Losses	32,116	0	32,116
Gains/Losses From Derivative Financial Instruments	464,803	0	464,803
Foreign Exchange Gains/Losses	827,936	3,304	831,240
<b>Other Operating Income</b>	<b>789,578</b>	<b>1,140,799</b>	<b>1,930,377</b>
<b>Gross Operating Income / Loss</b>	<b>6,174,902</b>	<b>1,269,126</b>	<b>7,444,028</b>
<b>Expected Loss Provisions (-)</b>	<b>2,640,410</b>	<b>0</b>	<b>2,640,410</b>
<b>Other Provisions (-)</b>	<b>59,711</b>	<b>8,851</b>	<b>68,562</b>
<b>Personnel Expenses (-)</b>	<b>1,086,890</b>	<b>45,336</b>	<b>1,132,226</b>
<b>Other Operating Expenses (-)</b>	<b>979,920</b>	<b>1,012,088</b>	<b>1,992,008</b>
<b>Net Operating Income/(Loss)</b>	<b>1,407,971</b>	<b>202,851</b>	<b>1,610,822</b>
<b>Income / (Loss) From Investments In Subsidiaries Consolidated Based On Equity Method</b>	<b>13,727</b>	<b>0</b>	<b>13,727</b>
<b>Profit/(Loss) From Continued Operations Before Taxes</b>	<b>1,421,698</b>	<b>202,851</b>	<b>1,624,549</b>
<b>Tax Provision For Continued Operations (±)</b>	<b>-300,733</b>	<b>-47,423</b>	<b>-348,156</b>
Current Tax Provision	-401,579	-50,055	-451,634
Deferred Tax Income Effect (+)	205,627	0	205,627
Deferred Tax Expense Effect (-)	306,473	2,632	309,105

<b>Current Period Profit/(Loss) From Continued Operations</b>	<b>1,120,965</b>	<b>155,428</b>	<b>1,276,393</b>
<b>Net Profit/Loss</b>	<b>1,120,965</b>	<b>155,428</b>	<b>1,276,393</b>
Group's Income/Loss	1,117,637	156,304	1,273,941
Minority Interest Income/Loss (-)	3,328	-876	2,452

## Recent Developments

Notwithstanding the on-going COVID-19 pandemic (see "*Risk Factors—The outbreak of COVID-19 has negatively affected the global and Turkish economy and financial markets and might continue to disrupt and/or otherwise negatively impact the operations of Kuveyt Türk and/or its clients*") and other macroeconomic conditions, Kuveyt Türk's financial performance in the six months ended 30 June 2020 was not materially adversely affected as a result; its profit share income increased by 10.46 per cent. in the six months ended 30 June 2020 from TRY3,799.47 million in the six months ended 30 June 2019 to TRY4,196.93 million in the six months ended 30 June 2020, which, notwithstanding a 30.17 per cent. decrease in profit rates in the six months ended 30 June 2020, was the result of a 40.63 per cent. increase in transaction volume size. Conversely, its profit share expense decreased by 28.28 per cent. in the six months ended 30 June 2020 from TRY2,005.06 million in the six months ended 30 June 2019 to TRY1,437.94 million in the six months ended 30 June 2020, which was principally the result of a 44.62 per cent. decrease in profit share rates (notwithstanding a 16.33 per cent. increase in volume size in the six months ended 30 June 2020). This led to Kuveyt Türk's net profit share income increasing by 53.75 per cent. in the six months ended 30 June 2020 compared to the corresponding period in the previous year. Kuveyt Türk's net profit from continued operations also increased by 41.31 per cent. in the six months ended 30 June 2020 compared to the corresponding period in the previous year, principally on account of the increase in its net profit share income, as well as an increase in its net trading income.

From a balance sheet perspective, Kuveyt Türk's net financial assets also grew by 30.89 per cent. in the six months ended 30 June 2020 from TRY44,542.15 million as at 31 December 2019 to TRY58,300.52 million as at 30 June 2020 (principally on account of a 129 per cent. increase in Kuveyt Türk's marketable securities, which increase was driven in part by the introduction of the asset ratio requirement of the BRSA; see "*Overview of the Turkish Banking Sector and Regulations-Asset Ratio*" for further details). In addition, Kuveyt Türk's funds collected grew by 22.18 per cent. in the six months ended 30 June 2020 from TRY 87,996.135 million as at 31 December 2019 to TRY107,513.27 million as at 30 June 2020.

As at 30 June 2020, Kuveyt Türk's NPL ratio and liquidity coverage ratio were 3.10 per cent. and 312.56 per cent, respectively, compared with 3.52 per cent. and 369.77 per cent, respectively, as at 31 December 2019. As at 30 June 2020, following the introduction of the asset ratio requirement of the BRSA (see "*Overview of the Turkish Banking Sector and Regulations-Asset Ratio*"), Kuveyt Türk's asset ratio was 82.87 per cent.

From a regulatory capital perspective, as at 30 June 2020, Kuveyt Türk's Tier 1 capital ratio and total capital adequacy ratio were 15.90 per cent. and 20.97 per cent., respectively, whilst the required Tier 1 capital ratio and required total capital ratio was 6.00 per cent. and 12.00 per cent, respectively.

In addition to the above, another material development in the six months ended 30 June 2020 was the acquisition by Kuveyt Türk of Neova on 5 May 2020, which required the financial information of Kuveyt Türk as at and for the year ended 31 December 2019 to be restated in accordance with BRSA Principles; see "*Financial Review - Acquisition of Neova Sigorta A.Ş.*".



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

### Overview

Kuveyt Türk Katılım Bankası Anonim Şirketi (which translates to Kuveyt Türk Participation Bank Inc.) ("**Kuveyt Türk**") is a full service bank operating primarily in the Republic of Turkey ("**Turkey**") and is a subsidiary of Kuwait Finance House K.S.C. ("**KFH**"), a financial institution incorporated in the State of Kuwait ("**Kuwait**") (see "*—Shareholders and Capital Structure—Shareholders—KFH*" for further details). Kuveyt Türk's business is undertaken in compliance with the principles of interest-free banking, known as participation banking in Turkey. Kuveyt Türk's commercial registration number is 250489. Its registered address is Büyükdere Cad. No. 129, 34394 Esentepe-Sisli, İstanbul and its telephone number is +90 21254 11 11. As at the date of these Listing Particulars, Kuveyt Türk is regulated by the BRSA and in accordance with Banking Law No. 5411, dated 1 November 2005 ("**Banking Law**").

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

For management purposes, Kuveyt Türk is organised into three main business segments with six sub-segments:

- **Retail Banking:** which principally focuses on handling individual customers' current, saving and investment accounts and providing loans, consumer loans, credit cards facilities and funds transfer facilities. The Retail Banking Group comprises the following two sub-segments:
  - *Retail Segment portfolio* which encompasses all individual Turkish customers with deposits or sukuk and investment funds of under TRY2 million, real estate loans that are less than TRY750,000 the Istanbul region or TRY500,000 in the Anatolian region, vehicle loans that are less than TRY150,000 in all regions and all individual foreign national customers with real estate loans of less than TRY500,000; and
  - *Private segment portfolio* which consists of all individual Turkish customers with deposits or sukuk and investment funds of under TRY2 million, real estate loans that are less than TRY750,000 the Istanbul region or TRY500,000 in the Anatolian region, vehicle loans that are less than TRY150,000 in all regions and all individual foreign national customers with real estate loans of less than TRY500,000;
- **Small and Medium Business Banking:** which focuses on deposit taking (current and participation accounts), the granting of loans, credit facilities and current, saving and investment accounts for institutional customers ("**SMEs**"). The SME Banking Group comprises the following two sub-segments:
  - *Small business segment portfolio* which encompasses all businesses that have an annual sales turnover of between TRY5 million and TRY 50 million and their individual owners; and
  - *Micro segment portfolio* which consists of all businesses that have annual sales turnover below TRY5 million and their individual owners (see "*—Business Activities—Small Business Banking*" for further details);
- **Commercial Banking:** which focuses on the granting of loans, other credit facilities and banking services to institutional customers. The Commercial Banking Group is made of the following two sub-segments:

- *Commercial segment portfolio* which encompasses all businesses that have an annual sales turnover in excess of TRY50 million and their individual owners excluding customers of corporate branches; and
- *Corporate segment portfolio* which consists of all businesses which are customers of corporate branches.

As at 31 December 2019, Kuveyt Türk had approximately 3,500,000 individual customers, 4,500 private customers, 4,110 corporate customers, 350,419 small business banking clients (comprising both Small Business and Micro Business) and 48,666 commercial clients, over 85 per cent. of which originated from Turkey, to which it provided retail, small business, commercial, corporate and international banking services. Kuveyt Türk expanded its branch network in Turkey by opening 41 branches in 2012, 47 branches in 2013, 40 branches in 2014, 52 branches in 2015, 27 branches in 2016, 40 branches in 2017 and 17 branches in 2018. In 2019, Kuveyt Türk added 16 new branches bringing the total number of branches in Turkey to 430. Approximately 42 per cent. of Kuveyt Türk's branches are in Istanbul, with the rest spread across the country.

In addition to its head office in İstanbul and its branches spread across Turkey, Kuveyt Türk provides banking services to international customers through its wholesale banking branch in Bahrain and its financial services branches in Frankfurt, Berlin, Mannheim and Cologne in Germany (see "*Group Structure, Subsidiaries, International Branches and Strategic Relationships*" for further details).

## History

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

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

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

In 2002, Kuveyt Türk turned its focus to international opportunities particularly within the GCC countries (comprising the UAE, Kingdom of Saudi Arabia, State of Qatar, the Sultanate of Oman, Bahrain and Kuwait) and accordingly opened an offshore branch in Bahrain. The branch was established in December 2002 and was granted a wholesale banking licence issued by the Central Bank of Bahrain (see "*Group Structure, Subsidiaries, International Branches and Strategic Relationships*" for further details).

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

## Shareholders and Capital Structure

### Shareholders

As at the date of these Listing Particulars, Kuveyt Türk's principal shareholders and their shareholdings were as follows:

<b>Shareholders</b>	<b>Per cent.</b>
KFH.....	62.24
General Directorate for Foundations—Turkey (" <b>GDF</b> ") .....	18.72
Wafra International Investment Company—Kuwait (" <b>Wafra</b> ").....	9.00
The Islamic Development Bank (" <b>IDB</b> ") .....	9.00
Others .....	1.04
<b>Total</b> .....	<b>100.0</b>

### KFH

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

### GDF

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

### Wafra

As at the date of these Listing Particulars, Wafra holds 9.00 per cent. of the share capital of Kuveyt Türk. Wafra was established in 1994 as a Kuwaiti shareholding closed company. Wafra manages different types of portfolios and investment funds, with assets under management of approximately KD 1.66 billion as of 31 December 2019.

### IDB

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

### Capital Structure

At the time of incorporation, Kuveyt Türk's initial share capital was TRY15,000. As at the date of these Listing Particulars, Kuveyt Türk's authorised and issued share capital was TRY4,600,000,000 and each share has a nominal value of TRY1. The shares of Kuveyt Türk are not listed. There are no different classes of shares or different privileges attached to any shares.

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

<b>Date of registration</b>	<b>Capital (TRY)</b>
5 May 2005 .....	200,188,000
2 May 2007 .....	213,500,000
30 June 2007 .....	260,000,000
30 May 2008 .....	500,000,000
14 April 2010 .....	550,000,000
8 August 2010 .....	850,000,000
1 May 2011 .....	950,000,000
19 April 2012 .....	1,100,000,000
29 May 2013 .....	1,460,000,000
24 June 2013 .....	1,700,000,000
4 April 2014 .....	1,930,000,000
28 May 2014 .....	2,290,000,000
6 April 2015 .....	2,530,000,000
5 April 2016 .....	2,790,000,000
28 March 2017 .....	3,100,000,000
3 April 2018 .....	3,500,000,000
3 April 2019 .....	4,000,000,000
30 March 2020 .....	4,600,000,000

In terms of recent capital increases, on 5 April 2016, Kuveyt Türk increased its share capital by TRY260,000,000 from retained earnings to TRY2,790,000,000. On 28 March 2017, Kuveyt Türk increased its share capital further by TRY310,000,000 from retained earnings bringing its total share capital to 3,097,322,000. On 3 April 2018, Kuveyt Türk increased its share capital by TRY400,000,000 from retained earnings to TRY3,500,000,000. This capital increase allowed Kuveyt Türk to extend additional cash loans, resulting in increased income from current accounts and equity. On 3 April 2019, Kuveyt Türk increased its share capital by TRY500,000,000 from retained earnings to TRY4,000,000,000. Most recently on 30 March 2020, Kuveyt Türk increased its share capital by TRY600,000,000 from retained earnings to TRY4,600,000,000.

As part of Kuveyt Türk's five year strategic plan to support its growth objectives, an additional share capital increase of TRY1,300 million is planned for 2019. While there is no guarantee that all Kuveyt Türk's shareholders will approve each capital increase, the shareholders have been supportive thus far of Kuveyt Türk's medium term growth plans and objectives and it is anticipated that they will continue to support capital increases or otherwise support alternative methods of funding Kuveyt Türk's growth objectives.

## **Strategy**

Kuveyt Türk's primary objectives are to be amongst the top 10 banks (in return on average equity) and top 5 banks (in service quality) in Turkey by 2023 and to have an asset size of over TRY170,000 million. Kuveyt Türk's strategy to achieve its objectives is set out below.

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

Kuveyt Türk intends to grow its local customer base by expanding its branch network throughout Turkey into under-banked areas which it considers represent high growth opportunities. Kuveyt Türk has expanded its branch network to 431 branches within Turkey as at 31 December 2019 and, in this regard, Kuveyt Türk's senior management ("**Senior Management**") have identified Anatolia as a key area which they believe is under-banked and provides opportunities for expansion of its branch network over the next few years.

Kuveyt Türk also aims to increase its customer base and decrease operational costs through the expansion of its alternative distribution channels including Extended Teller Machines ("**XTMs**"), ATMs, internet banking, Automated Teller Safes, call centres and mobile banking. XTMs are satellite branches with mostly automated banking services which link to customer service assistants located in the head office. The XTM project is unique to Kuveyt Türk and represents a cost efficient approach to providing banking services.

There are currently 43 XTM branches in operation. Initial indications show that these XTM branches have had a high uptake rate by customers. Based on this success Kuveyt Türk plans to open additional XTMs over the next couple of years. In addition, Kuveyt Türk aims to grow its international customer base by expanding its international geographical presence (see "*—Strategy—Strategic investments and international expansion*" for further details).

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

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

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

Kuveyt Türk aims to develop revenue opportunities by continuing to provide bespoke solutions and a variety of products to meet the evolving needs of customers. The approach involves continuously reviewing and developing products and service offerings to complement its core banking products as well as increasing operations geared towards small businesses. Kuveyt Türk opened its first corporate only branch in Istanbul in 2010, and, in 2011, opened its second corporate only branch in Ankara. As of 31 December 2019, Kuveyt Türk had 3 corporate only branches to target high-value Turkish corporates and provide bespoke Commercial Banking and Corporate and International Banking services. The branches are also designed to support and increase Kuveyt Türk's corporate loan portfolio and increase its market share in trade finance and various other related financial products and services.

Kuveyt Türk commenced gold banking services in 2007 and started organising Gold Days in 2011. As at 31 December 2019, Kuveyt Türk has delivered 2.5 tons of customer gold kept "under the mattress" to the Turkish economy. In addition to holding 12.9 per cent. of all precious metal accounts sector-wide and 55.2 per cent. of all such accounts held with participation banks. Kuveyt Türk has maintained its lead among banking institutions in the Borsa Istanbul (BIST) Precious Metals and Stones Market with its high gold trading volume since 2011. Kuveyt Türk is also the first and only Turkish bank to join the London Bullion Market Association (LBMA) as an associate and the SGEI (Shanghai Gold Exchange International) as a member.

The murabaha-based Supply Chain Finance Facility which Kuveyt Türk introduced in 2018 enables vendor and purchaser companies to conduct their transactions via internet banking or FTP systems without having to resort to factoring. The Supply Chain Finance Facility will provide vendors with regular cash flow through guaranteed payments and collections which has the benefit of enabling them to meet their cash requirements arising from receivables on pre-defined terms. Under the Supply Chain Finance Facility purchasers will have the advantage of extending their repayment terms and the opportunity to improve their relations with strategic suppliers as a result of the non-stop payment processes.

Kuveyt Türk achieved a breakthrough in the Turkish banking sector and developed a solution that enables smart phones to be converted into virtual POS devices that receive payments through the mPOS application. Customers who wish to collect payments can log into the Kuveyt Türk Mobile Branch via their mobile phones and process their collections through the sales menu options.

To further enhance Kuveyt Türk's product diversity and service quality, Kuveyt Türk is the only bank in Turkey to have two research and development centres ("**R&D Centre**") (see "*—Research and Development*" for further details).

#### ***Enhancing profitability through operational excellence and digital transformation***

Kuveyt Türk continued to be a pioneer in the participation banking sector through its investment in, and implementation of, major innovations for customers, including Senin Bankan, the interest-free digital banking platform, and the XTM Branches, which combine the functionality of call centres, branches and ATMs. As the only bank in Turkey to boast two R&D centres, Kuveyt Türk's investments in advanced technology kept pace with the most comprehensive API platform in the sector. Kuveyt Türk remains

committed to transferring as many of its banking transactions as possible to digital platforms to provide the best customer experience at a time of declining traffic in physical branches. In 2018, Kuveyt Türk also continued to develop its infrastructure to meet future needs in an increasingly competitive environment. The Bank is deeply engaged in the digital transformation of its business processes and procedures.

In December 2017, Kuveyt Türk launched the most comprehensive API market platform in the Turkish banking sector to ramp up ecosystem collaborations while digitising its business processes. The platform enables entrepreneurs seeking to build a new system and companies operating in financial technology ("**FinTech**") to readily receive a range of services and information and start providing their services in less time with less investment. Through the introduction of new services over the next few years, Kuveyt Türk expects to further expand the size and scope of API market, which currently offers more than 50 APIs. A FinTech integration process was started in order to facilitate cooperation with FinTech enterprises, which were contacted via the API Market platform, Lonca Entrepreneurship Centre and various other channels. Kuveyt Türk intends to continue with its ongoing work with FinTechs, with the aim of providing them with new services in the near future.

Kuveyt Türk became an exporter of FinTech, via Architekt (its technology subsidiary,) by undertaking comprehensive IT projects in Turkey and abroad. Under an agreement that Architekt signed with Kuwait-based Information Turnkey Systems Group (ITS) (a company providing banking software that has development centres in Egypt), technologies developed by Kuveyt Türk will be rolled out in more than 60 banks in 20 countries after local market specific requirements are finalised— including Nigeria, Malaysia, Indonesia and Egypt – in 2019. Full installation of the system is expected to be completed in all the countries involved within three years.

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

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

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

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

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

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

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

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

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

### Commercial Banking

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

### Corporate Banking

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

### Treasury and International Banking

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

### Business Activities

BRSA regulations prescribe a common segment reporting requirement with respect to the financial statements of all banks in Turkey. These BRSA reporting segments are: (i) Retail and Enterprise Banking; (ii) Commercial Banking; and (iii) Corporate and International Banking. Accordingly, Kuveyt Türk reports its BRSA Accounts on the basis of these segments. However, Kuveyt Türk believes its business activities are more accurately reflected as: (i) Retail Banking; (ii) Small Business Banking; (iii) Commercial Banking; (iv) Corporate; and (v) Treasury and International Banking and therefore the description of Kuveyt Türk's business activities are described as such below. The Group's segments were reorganised from an internal management perspective into the business segments described below during 2014 to better reflect how Kuveyt Türk's business is managed, to provide greater efficiency across Kuveyt Türk's operations and to enhance customer service.

The following table sets out certain income, profit, asset and liability information for each of the business segments as reported in the BRSA Accounts for the year ended 31 December 2019 (see "*Business Activities*" for more details).

Twelve Months ended 31 December 2019 (restated)	Retail and enterprise Banking	Commercial banking	Corporate and international banking	Unallocated	Bank's total operation
Operating income	5,289,973	3,985,612	1,391,376	1,159,473	11,826,199
Operating expenses (-)	3,675,469	3,257,173	10,400	3,272,570	10,215,377
Transfers between segments	2,319,478	-462,292	-1,857,186	-	-
<b>Net operating income(loss)</b>	<b>3,933,982</b>	<b>266,147</b>	<b>-476,210</b>	<b>-2,113,097</b>	<b>1,610,822</b>
Income from associates	-	-	-	13,727	13,727
<b>Income (loss) before tax</b>	<b>3,933,982</b>	<b>266,147</b>	<b>-476,210</b>	<b>-2,099,370</b>	<b>1,624,549</b>
Provision for taxation (-)	-	-	-	348,156	348,156
<b>Net income for the period</b>	<b>3,933,982</b>	<b>266,147</b>	<b>-476,210</b>	<b>-2,447,526</b>	<b>1,276,393</b>
<b>Current Period</b>					
<b>31 December 2019 (restated)</b>					
Segment assets	19,680,015	35,203,430	50,268,046	-	105,151,491
Associates, subsidiaries and joint ventures	-	-	-	64,061	64,061
Undistributed assets	-	-	-	3,786,026	3,786,026

<b>Total assets</b>	<b>19,680,015</b>	<b>35,203,430</b>	<b>50,268,046</b>	<b>3,850,087</b>	<b>109,001,578</b>
Segment liabilities	73,909,898	14,083,077	9,251,721	-	97,244,696
Undistributed liabilities	-	-	-	4,564,009	4,564,009
Shareholders' equity	-	-	-	7,192,873	7,192,873
<b>Total liabilities</b>	<b>73,909,898</b>	<b>14,083,077</b>	<b>9,251,721</b>	<b>11,756,882</b>	<b>109,001,578</b>

The following table sets out certain income, profit, asset and liability information for each of the business segments as reported in the BRSA Accounts for the year ended 31 December 2018 (see "*Business Activities*" for more details).

<b>Twelve months ended 31 December 2018</b>	<b>Retail and enterprise Banking</b>	<b>Commercial banking</b>	<b>Corporate and international banking</b>	<b>Unallocated</b>	<b>Bank's total Operation</b>
Operating income	4,352,694	2,843,746	499,772	-	7,696,212
Operating expenses (-)	3,186,982	1,367,772	490,173	1,604,594	6,649,521
Transfers between segments	2,305,206	(305,654)	(1,999,552)	-	-
<b>Net operating income(loss)</b>	<b>3,470,918</b>	<b>1,170,320</b>	<b>(1,989,953)</b>	<b>(1,604,594)</b>	<b>1,046,691</b>
Income from associates	-	-	-	7,715	7,715
<b>Income (loss) before tax</b>	<b>3,470,918</b>	<b>1,170,320</b>	<b>(1,989,953)</b>	<b>(1,596,879)</b>	<b>1,054,406</b>
Provision for taxation (-)	-	-	-	243,699	243,699
<b>Net income for the period</b>	<b>3,470,918</b>	<b>1,170,20</b>	<b>(1,989,953)</b>	<b>(1,840,578)</b>	<b>810,707</b>
<b>Prior Period</b>					
<b>31 December 2018</b>					
Segment assets	18,471,406	27,461,414	25,069,232	-	71,002,052
Associates, subsidiaries and joint ventures	-	-	-	52,200	52,200
Undistributed assets	-	-	-	3,958,734	3,958,734
<b>Total assets</b>	<b>18,471,406</b>	<b>27,461,414</b>	<b>25,069,232</b>	<b>4,010,934</b>	<b>75,012,986</b>
<b>Prior Period</b>					
<b>31 December 2018</b>					
Segment liabilities	43,086,534	11,972,999	12,218,027	-	67,277,560
Undistributed liabilities	-	-	-	2,315,892	2,315,892
Shareholders' equity	-	-	-	5,419,534	5,419,534
<b>Total liabilities</b>	<b>43,086,534</b>	<b>11,972,999</b>	<b>12,218,027</b>	<b>7,735,426</b>	<b>75,012,986</b>

## **Retail Banking**

### *Overview*

The Retail Banking Department was established in 2000. Kuveyt Türk was the first participation bank in Turkey to offer retail banking services to customers. Kuveyt Türk provides a wide range of retail banking services and products to individuals with a primary focus on middle-to-high-income individuals. Kuveyt Türk conducts its retail banking operations through its 432 branches as at 31 December 2019 located throughout Turkey, as well as through its alternative distribution channels including XTMs, ATMs, internet banking, 24-hour telephone banking, and POS terminal payment locations. As at 31 December 2019, Retail Banking accounted for 18.41 per cent. of Kuveyt Türk's total assets, and 69.39 per cent. of Kuveyt Türk's



total liabilities. For the year ended 31 December 2018, Retail Banking accounted for 24.62 per cent. of Kuveyt Türk's total assets, and 57.43 per cent. of Kuveyt Türk's total liabilities.

#### *Retail Banking in Participation Banks*

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

As at 31 December 2019, Kuveyt Türk had approximately 1,914,000 active retail customers (including individuals and Small Business) with outstanding cash or non-cash loan balances (as compared to 1,473,000 active retail customers for the same period in 2018). The customers of Kuveyt Türk's Retail Banking Department had total cash loans outstanding as at 31 December 2019 of TRY8,962 million, as compared to TRY7,189 million as at 31 December 2018. Kuveyt Türk's deposits from customers are primarily denominated in Turkish lira, Euro and U.S. dollars.

#### *Retail Products*

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

- *Deposit taking:* Kuveyt Türk provides customers with deposit taking services categorised under two types of accounts (set out below). The majority of Kuveyt Türk's deposits are short-term deposits averaging between one and two months. The majority of these deposits are typically rolled over on maturity.
- *Current Accounts:* These are accounts which may be opened in Turkish lira or foreign currency in return for a Special Current Account Deposit Book in the name of the customer. The funds deposited may be withdrawn at any time, either partially or completely (as preferred by the customer). The accounts allow customers to pay invoices via automatic payment instructions, carry out electronic fund transfers ("**EFTs**"), collect cheques/bonds and make credit payments. As at 31 December 2019, Kuveyt Türk had 597,845 current accounts opened for customers compared to 473,233 current accounts opened for customers as at 31 December 2018. Customers do not receive any mark-ups (i.e. profit share) on their deposits.
- *Participation Accounts:* These are high-revenue accounts that may be opened in one of three currencies (Turkish lira, U.S. dollars or Euro). These accounts offer customers the option of participating in the profit and loss of Kuveyt Türk which arises through the investment of the deposited funds by Kuveyt Türk. The funds are accumulated in participation accounts which are used in the financing of the real sector (in order to be compliant with the principles of interest-free banking). Kuveyt Türk has five types of participation accounts: the Classical Account, the Silver Account, the Gold Account, the Platinum Account and the Platinum+ Account, each of which differs according to minimum deposit requirements. In participation accounts, customers forfeit any accrued profits if amounts on deposit are withdrawn prior to maturity. As at 31 December 2019, Kuveyt Türk had 287,975 participation accounts opened for customers compared to 246,319 participation accounts as at 31 December 2018.

- *Gold savings and trading products:* Kuveyt Türk has introduced a number of products based on, and related to, gold, including the following:
  - *Gold Storage Account:* These accounts enable customers to invest in gold (buy or sell). Through the Gold Storage Account, accountholders have the added benefit of minimising risk as the government (through a separate scheme) guarantees the amount of gold up to the value of U.S.\$48,000. In addition, these accounts can have varying maturity dates, providing greater flexibility to customers and enabling them to convert their gold savings into TRY or U.S. dollars at market value on demand.
  - *Participation Accounts (denominated in gold):* This type of participation account can be opened with 10 grams of gold and provides customers with the ability to save in gold and generate returns on their savings. Each gram of gold deposited in this account is used in the physical gold trading sector and profits from that are returned to the customer in the form of more gold. The participation account has different maturity options ranging between three months and one year and can be opened at Kuveyt Türk branches or via the internet.
  - *Kuveyt Türk Gram Altın—Physical Gold:* Kuveyt Türk has commenced purchasing and selling physical gold denominated in 1, 1.5, 2.5, 5, 10, 20, 50 and 100 grams certified and coined by the İstanbul Gold Refinery. This is an alternative product offered to customers who prefer to have physical gold rather than cash accounts. Kuveyt Türk gold purchased from Kuveyt Türk branches and other gold products carrying the certificate of the İstanbul Gold Refinery can be resold to all branches after the necessary security checks have been undertaken.
  - *Gold Transfer and Delivery:* Kuveyt Türk also provides its customers with the ability to transfer their gold to other accounts as well as the delivery of gold. This is undertaken for a set fee.
  - *Physical Gold Deposit:* Kuveyt Türk introduced a new product whereby its customers are able to deposit their physical gold savings into their current and/or participation accounts electronically without the need to convert the gold into physical cash.
- *Silver and platinum trading:* In addition to providing its customers the opportunity to trade in gold, Kuveyt Türk has established additional products which allow customers to invest in silver and platinum at market prices (a first of its kind product to be provided by a participation bank). These products allow customers to buy silver or platinum for investment purposes, which Kuveyt Türk then holds at the İstanbul Gold Exchange on their behalf.
- *Car financing:* Kuveyt Türk provides finance for vehicle purchases by individuals and businesses pursuant to a Murabaha structure by purchasing approved vehicles and selling them to the relevant customer at a pre-determined mark-up price, paid back to Kuveyt Türk by the individuals/businesses in instalments. Leasing is also widely used for car financing.
- *Property finance:* Kuveyt Türk provides financing to customers to purchase land, properties which have been, or are being, built by an approved developer, and properties on the secondary market. Kuveyt Türk also provides financing for self-construction. In each instance, evaluation and approval is determined on a case-by-case basis. Property financing is provided on a fixed rate basis.
- *Consumer loans:* Kuveyt Türk provides general purpose financing to customers including study, travel, home appliance purchases and boat financing. Collateral taken when providing such financings is dependent upon credit capability of each customer and is evaluated on a case by case basis.
- *Credit and debit cards:* Kuveyt Türk was the first participation bank to introduce interest-free debit cards and credit cards to its customers in 2001 and 2002, respectively. As at 31 December 2019, Kuveyt Türk has issued a total of approximately 2,653,921 debit cards and 726,986 credit cards. Debit cards permit customers to access their current accounts and conduct transactions, including ATM withdrawals, fund transfers, account activity and balance enquiries, retail purchases and credit card, utility and other payments. Kuveyt Türk intends to continue developing unique card

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

In addition to earning fees from the customers' use of credit cards, Kuveyt Türk has Point of Sale ("**POS**") terminals in stores throughout Turkey from which Kuveyt Türk earns a small fee from each transaction in which the cards are used (regardless of whether they are used by a customer of Kuveyt Türk or not). The number of Kuveyt Türk POS terminals through which transactions using Kuveyt Türk's own debit or credit cards and the credit cards of other banks are effected has slightly increased to 88.4 thousand as at 31 December 2019 compared to 60.16 thousand as at 31 December 2018. The volume of transactions has increased with TRY9,795 million for the year ended 31 December 2019 compared to TRY7,085 million for the same period in 2018.

As at 31 December 2019, Kuveyt Türk had TRY8,962 million in outstanding retail loans as compared to TRY7,189 million as at 31 December 2018. Home financings accounted for 74.88 per cent., or TRY6,710 million, of Kuveyt Türk's total retail loans, as at 31 December 2019 as compared to 82.35 per cent., or TRY5,920 million, as at 31 December 2018. Auto financings accounted for 11.24 per cent., or TRY1,007 million, of Kuveyt Türk's total retail loans as at 31 December 2019, as compared to 7 per cent., or TRY516 million, as at 31 December 2018. All of Kuveyt Türk's home and vehicle financings are collateralised by the property or vehicles purchased with the proceeds of such credits. Credit card financings accounted for 5 per cent., or TRY470 million, of Kuveyt Türk's total retail loans as at 31 December 2019, as compared to 5 per cent., or TRY355 million, as at 31 December 2018.

#### *Customers*

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

The individuals primarily targeted by Kuveyt Türk's Retail Banking Department comprise professionals and owners of businesses that use Kuveyt Türk's services primarily for their non-business related banking needs. For the year ended 31 December 2019, Kuveyt Türk provided retail banking services to approximately 4,700,000 individuals.

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

##### *Overview*

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

##### *Small Business Banking in Participation Banks*

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

As a participation bank, Kuveyt Türk does not provide credit to fund a business' general working capital which does not have any underlying assets. Instead, when credit is extended, the proceeds are given directly to the vendor or service provider subject to the transaction, rather than to the customer. In a typical Murabaha financing transaction, the small business customer applies for credit for the purpose of purchasing a product/service that it will use in its business. If the credit is granted, Kuveyt Türk buys the product directly from the vendor and sells this product/service for credit at a marked-up price to Kuveyt

Türk's small business customer. The customer repays the principal of the credit plus the fixed mark-up through instalment payments made over time. Kuveyt Türk also offers credits in *Istisna'a* transactions where the product being purchased by the customer does not yet exist at the time the credit is granted.

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

#### *Customers*

Kuveyt Türk's Small Business Banking Department provides a wide range of products and services to Small Business and Medium Business. As at 31 December 2019, the total amount of Kuveyt Türk's outstanding cash loans to Small and Medium Business customers represented 27.44 per cent. of the cash loans of its Small and Medium Business Banking Department, amounting to TRY15,312 million. As at 31 December 2018, the total amount represented 28.99 per cent. of the cash loans, amounting to TRY13,522 million.

### **Commercial Banking**

#### *Overview*

Kuveyt Türk's Commercial Banking Department designs and offers business solutions to large corporates (operating primarily in the manufacturing, construction, wholesale and trade industries) through dedicated teams. Operating within an interest-free banking framework, Kuveyt Türk's Commercial Banking Department seeks to provide innovative financing solutions for the specific requirements of the customers.

#### *Commercial Banking in Participation Banks*

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

As at 31 December 2019, Commercial Banking accounted for 22.13 per cent. of Kuveyt Türk's total assets (as compared to 31.36 per cent. as at 31 December 2018) and 7.6 per cent. of Kuveyt Türk's total liabilities (as compared to 8.0 per cent. as at 31 December 2018).

#### *Commercial Products and Services*

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

#### *Cash Loans*

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

Kuveyt Türk focuses on high volume, short-term financing provided for the purposes of production support and working capital requirements (described below) in order to mitigate any adverse effects caused by interest rate fluctuations. Kuveyt Türk also provides a broad range of financial leasing products. Through its leasing products, commercial customers are able to obtain machinery, equipment and other goods from both domestic and international vendors. Under Turkish law, conventional banks are not allowed to engage directly in leasing activities – they are only permitted to do so through leasing subsidiaries. Consequently, Kuveyt Türk (as a participation bank) can enter into leasing transactions more efficiently with its customers compared to conventional banks. Kuveyt Türk also has a basket loans product which allows customers who seek to reduce foreign exchange risk with foreign exchange indexed loans, to borrow in two or three different currencies for the same project. As at 31 December 2019, Kuveyt Türk had TRY2,707.52 million in net minimum finance lease payments receivable, as compared to TRY2,450.70 million as at 31 December 2018. Kuveyt Türk also provides commercial customers with a variety of credit card services.

### *Non-Cash Loans*

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

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

### *Customers*

As at 31 December 2019, Kuveyt Türk had over 44,639 commercial clients to whom designated commercial relationship managers provide a dedicated point of contact throughout, assessing their cash management, treasury, trade finance, working capital finance, asset and project finance requirements (as compared to over 41,380 commercial clients as at 31 December 2018). As at 31 December 2019, Kuveyt Türk's commercial customers had cash loans outstanding with Kuveyt Türk of TRY20.221 million and total non-cash loans (comprising of letters of credit and letters of guarantee) outstanding with Kuveyt Türk of TRY5.286 million (as compared to TRY19.392 million cash loans and TRY4.946 million non-cash loans as at 31 December 2018 outstanding with Kuveyt Türk).

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

### ***Corporate Banking***

#### *Overview*

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

#### *Corporate Banking in Participation Banks*

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

#### *Corporate Products and Services*

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

#### *Cash Loans*

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

Kuveyt Türk provides foreign cash loans to its corporate customers through its Bahrain branch, which not only provides maturity and cost opportunities but also provides tax benefits for the clients.

### *Non-Cash Loans*

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

### *Customers*

As at 31 December 2019, Kuveyt Türk had over 4,027 corporate clients to whom designated corporate relationship managers provide a dedicated point of contact for assessing their cash management, treasury, trade finance, working capital finance, asset and project finance requirements. As at 31 December 2019, Kuveyt Türk's corporate customers had cash loans outstanding with Kuveyt Türk of TRY5,067 million and total non-cash loans (comprising of letters of credit and letters of guarantee) outstanding with Kuveyt Türk of TRY2,925 million (as compared to TRY3,180 million cash loans and TRY3,696 million non-cash loans as at 31 December 2018 outstanding with Kuveyt Türk).

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

### ***Treasury and International Banking***

#### *Overview*

The Treasury and International Banking segment is divided into separate departments: the Asset and Liability Management Department, FX and Precious Metals Department, Treasury Marketing Department, and also the International Banking Department. Through this business segment, Kuveyt Türk aims to expand and improve its global correspondent banking network to meet intermediate foreign and international payments as well as to source low-cost funding.

As at 31 December 2019, the Treasury and International Banking Department accounted for 47.81 per cent. of total assets (excluding unallocated assets) (compared to 8.49 per cent. as at 31 December 2018).

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

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

#### *Treasury Department*

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

The Treasury Department is active in money market, currency trading and precious metals trading activities (see "*Risk Management*" for further details). The core strategy for Kuveyt Türk's Treasury Department is to focus on liquidity and market risk management. The Treasury Department does not carry out proprietary trading. As at 31 December 2019, Kuveyt Türk's foreign exchange trade volume was U.S.\$27.9 billion, compared to U.S.\$30.1 billion as at 31 December 2018.

The Treasury department is also responsible for the marketing of treasury products that Kuveyt Türk offers to customers. These products include currency spot trading, precious metals trading and currency forwards and swaps. Kuveyt Türk carries out a variety of operations related to gold, including import and export,

refining services, and contracts with international gold refiners and, in February 2013, Kuveyt Türk received authorisation for clearing transactions on the Istanbul Gold Exchange. Kuveyt Türk has also entered into a number of ISDA (International Swaps and Derivatives Association) agreements with international counterparties and has been ranked first in terms of gold trading volume in BIST Precious Metals Market. As at 31 December 2019, Kuveyt Türk's total Murabaha transactions volume was U.S.\$5.7 billion and swap volume transactions amounted to U.S.\$ 33 billion, as compared to U.S.\$2.4 billion and U.S.\$34 billion respectively in 2018.

#### *Project and Structured Finance*

In accordance with its strategic growth objectives, Kuveyt Türk established its Project and Structured Finance Department in 2017. The Project and Structured Finance Department has undertaken a number of intermediary and advisory roles in relation to project financing and has been offering variety of solutions for project financing transactions.

Although active in different sections of corporate finance, Kuveyt Türk intends to continue to focus on niche financing areas such as the Islamic tranches of internationally syndicated public private partnership infrastructure projects ("**PPP Projects**"). Kuveyt Türk was the first Islamic bank and Islamic facility provider to provide funding in relation to Turkish PPP Projects. In addition to providing funding to PPP Projects, as a result of its years of Islamic finance experience Kuveyt Türk has also taken to role of mandated lead arranger and Islamic facility agent in these transactions. In line with Kuveyt Türk's reputation of providing innovative financing solutions, the Project and Structured Finance Department introduced first "Parallel Istisna Structure" to the Turkish market in 2018 which was followed by EUR 520 million Istisna limit line on four mega PPP Projects. The Project and Structured Finance Department has also been involved in the issuance of a number of tailored corporate sukuks. As a market leader, Kuveyt Türk has acted as intermediary for the issuance of the first corporate sukuk in Turkey as well as the first sukuk in the telecoms industry which was awarded "Turkey Deal of the Year" by Islamic Finance News. In addition to its involvement with the financing of PPP Projects and sukuks, the Project and Structured Finance Department also participates in Renewable Energy financing. As at 31 December 2019, over U.S.\$578 million funding was allocated by the Project and Structured Finance Department to more than 150 long term renewable energy projects including hydroelectric power plants, solar power plants, biomass/biogas power plants and wind power plants.

The Project Unit for Buildings Under Construction initiative has been reformed and has sat within the Project and Structured Finance Department since its inception in 2017. The Projects Unit for Buildings Under Construction initiative is responsible for the evaluation of the constructors of real estate to be purchased. As at 31 December 2019, TRY6,710.49 billion funding has been provided by Kuveyt Türk for real estate purchase projects. Among them, 17.55 per cent. have been evaluated and utilised under the Projects Unit for Buildings Under Construction initiative.

In terms of the volume of transactions, Kuveyt Türk's main area of focus is financing arrangements for its corporate customers. The majority of these transactions are generated through Kuveyt Türk's branch network and relationship managers. The main products Kuveyt Türk offers are trade finance services, with transaction sizes typically ranging from U.S.\$500,000 to U.S.\$5 million and so called "club deals", with transaction sizes ranging typically from U.S.\$10 million to U.S.\$20 million. In addition, Kuveyt Türk arranges internationally syndicated facilities with transaction values of over U.S.\$20 million. Kuveyt Türk has arranged approximately U.S.\$1,052 million of syndications and club deals since 2004. Working through its Bahrain branch, Kuveyt Türk intends to continue to use its relationship with KFH to tap additional funding sources in the GCC (see "*—Group Structure, Subsidiaries, International Branches and Strategic Relationships*" for further details).

#### *International Banking Department*

The International Banking Department is responsible mainly for establishing, monitoring, managing and improving relationships with domestic and foreign banks (financial institutions) in terms of products and other business areas. International Banking covers all relationship management efforts of Kuveyt Türk. In order to increase the efficiency of Kuveyt Türk's existing correspondent network, the International Banking Department concentrates efforts on product and service diversification, reciprocity and relationship continuity. Undertaking and managing these efforts together with correspondent banks are crucial for Kuveyt Türk in terms of maintaining a good international reputation. In addition to improving efficiency, the International Banking Department is also responsible for expanding the existing international network.

It takes into consideration the foreign trade policies of countries and particularly the target regions and countries specified in the Turkish government's medium term plan. The International Banking Department takes into account Kuveyt Türk's growth targets, targeted foreign markets as well as the advice and suggestions from the Credit, Marketing and Risk Management Departments.

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

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

## **Competition**

As at 31 December 2019, according to the Banks Association of Turkey, there were 53 banks operating in Turkey, including 6 participation banks (see "*Overview of Turkish Banking Sector and Regulations—Participation Banks*"). The private commercial banks in Turkey can be divided into three groups: (i) large private banks (with a bank-only asset size between TRY1 billion and TRY20 billion); (ii) small private banks (with a bank-only asset size less than TRY1 billion); and (iii) banks under foreign control.

In addition to the 5 other participation banks in Turkey, Kuveyt Türk considers its main competitors to be the medium-sized commercial banks (in terms of asset size). Kuveyt Türk considers these banks to be its main competitors due to the level of their activities in certain areas of the Turkish banking sector and, in particular, retail and small business banking and import/export trade finance. However, the commercial banks do not have Islamic banking capabilities and do not operate in accordance with interest-free principles. This provides Kuveyt Türk with an advantage which, along with its reputation for the various innovative products which it has introduced, contributes to customer awareness of Kuveyt Türk's brand and services.

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

In addition to the establishment of Ziraat Participation Bank and Vakif Participation bank, Emlak Participation Bank commenced its operations in March 2019. These new entrants in the participation banking sector are likely to increase competition further.

Although the banking industry in Turkey is highly competitive, Senior Management believe that Kuveyt Türk is well positioned to compete in this environment due to its expanding branch network, international network and strong customer deposit base and expects the recent developments in the participation banking sector to lead to an overall growth in demand for interest-free products and banking services. Further, one of Kuveyt Türk's strategic objectives it is to retain its lead position amongst participation banks.

## ***Competitive Strengths***

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

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



support on business know-how and experience, the shareholders have supported Kuveyt Türk since its establishment to strengthen its capital structure and to leverage its financing opportunities and increase its market share. The shareholders provide periodic capital injections (see "*Shareholders and Capital Structure—Capital Structure*" for frequency of capital injections).

*Growing and attractive interest-free banking market:* The Turkish banking sector has been one of the fastest growing in the Middle East and North Africa region. Between 2003 and 2008, the Turkish banking sector grew by approximately 40 per cent. annually in terms of loan volume. With the global economic crisis, the growth slowed down to 7 per cent. in 2009, but returned to a similar level (34 per cent.) in 2010 and thereafter. Senior Management expect that the banking sector will continue to grow, driven by the expected strong economic growth in Turkey, which is supported by, among other factors, lower inflation, a relatively stable currency, positive demographics (for example, the third largest population in Europe (approximately 82 million) with a relatively low median age of 32 years), low interest rates and a relatively sophisticated regulatory environment which was tested in the final financial crises. Market data also indicates that the participation bank segment of the Turkish banking sector is growing at a faster rate than conventional banks in terms of assets, and Kuveyt Türk believes that the participation banking sector has significant growth potential given its current low share of total banking assets in Turkey (approximately 6.33 per cent. as at 31 December 2019).

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

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

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

Kuveyt Türk was the first participation bank to offer retail banking services in Turkey when it established its dedicated Retail Banking department in 2000. Senior Management believe that this "first mover" position has been an important factor behind Kuveyt Türk's growth. Kuveyt Türk had 47 per cent. share in consumer credits of total consumer credits issued by participation banks as at 31 December 2019.

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

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

Since early 2015, Senin Bankan has operated as Turkey's first and only digital participation banking platform, enabling customers to access banking services without having to visit a branch while still enjoying the best customer experience. Senin Bankan conveys the flexibility, agility and low cost nature of operating on a digital platform to its service offerings. To boost customer loyalty, efficient customers are rewarded through special promotional campaigns. Offering fee free cash withdrawals from all Bank ATMs, fee waivers on EFT and wire transfers from overseas, and products from Turkuaz Participation Accounts with high-yield profit shares, Senin Bankan provides a fee-free banking experience. The number of Senin Bankan customers has increased to 193,000 as at 31 December 2019.

As the first participation bank to position high net worth individuals in the Private Banking segment, Kuveyt Türk serves customers from 82 countries on six continents through its Private Banking and Wealth Management Group. Having achieved 11 per cent. growth year-on-year in 2019, as at 31 December 2019, the Private Banking Group manages customer assets totaling more than TRY14,000 million and serves some 7,600 clients, 43 per cent. of whom are foreign.

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

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

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

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

## **Group Structure, Subsidiaries, International Branches and Strategic Relationships**

Kuveyt Türk is headquartered in Istanbul, Turkey. Kuveyt Türk is the parent company of the group, which, at the date of these Listing Particulars, consists of six wholly-owned operating subsidiaries, three further subsidiaries that are not wholly-owned, one offshore branch and one financial services branch.

### ***Subsidiaries***

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

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

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

Körfez REIT developed a commercial and residential real estate project in the Kartal area located on the Anatolian side of Istanbul. Construction is completed and Körfez REIT owns 24 flats and 15 commercial units in the Kartal project. Sales related activities are being carried out by Körfez REIT.

Körfez REIT reconstructed the Güre Project, a thermal tourism facility in Edremit, Balıkesir, Turkey composed of 301 time sharing apartments (with 7,224 periods). Almost all periods in the summer season have been sold and sales related activities for periods in the other seasons are carried out by Körfez REIT.

Körfez REIT has accrued TRY2,688 net revenue for the year ended 31 December 2019 since the Kartal Project is still under construction.

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

Körfez Tatil was incorporated in 2001 in Edremit, Turkey. Körfez Tatil was established to operate the Güre Project, a thermal tourism facility developed by Körfez REIT in Edremit, Balıkesir, Turkey. The Güre Project was originally composed of 199 time-sharing apartment units and a hotel, both of which were demolished to develop a larger and modern project of 301 time-sharing apartments in line with the urban regeneration law. Körfez Tatil is a wholly-owned subsidiary of Kuveyt Türk.

Körfez Tatil's profit for the year ended 31 December 2019 was TRY2.71 million (in accordance with the relevant regulations on accounting framework and accounting standards as promulgated by the Turkish Commercial Code and relevant legislation) compared to a loss of TRY4.7 million for the year ended 31 December 2018.

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

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

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

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

#### ***KT Sukuk Company Limited ("KT Sukuk Cayman")- Independent SPV***

KT Sukuk Cayman was incorporated in 2015 in the Cayman Islands as an independent special purpose vehicle and was established to issue sukuk securities amounting to U.S.\$350,000,000.

*KT One Company Limited ("KT One Cayman")- Independent SPV*

KT One Cayman was incorporated in 2019 in the Cayman Islands as an independent special purpose vehicle and was established to issue sukuk securities amounting to U.S.\$200,000,000.

*Private Pension Company ("Katılım Emeklilik")*

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

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

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

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

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

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

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

*Neova - Wholly Owned Subsidiary*

Neova was incorporated in İstanbul in 2008 and commenced operations in the second half of 2010. As at the date of these Listing Particulars, Kuveyt Türk holds 100 per cent. of the shares in Neova. Neova is the first insurance company providing Sharia compliant insurance products in Turkey.

**International Branches**

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

**Associates**

*Islamic International Rating Agency ("IIRA")*

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

*Kredi Garanti Fonu A.Ş. ("KGF")*

KGF is a company recently incorporated in order to provide support to small businesses in Turkey and is predominantly owned by banks and associations in Turkey. As at the date of these Listing Particulars, Kuveyt Türk owns 1.49 per cent. of the shares of KGF.

## Borsa Istanbul A.Ş. ("**Borsa**")

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

### Capital Adequacy

Kuveyt Türk calculates its capital adequacy ratio in accordance with guidelines promulgated by the BRSA, which are based on the standards established for international settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposure. In accordance with these guidelines, Kuveyt Türk had to maintain a minimum capital adequacy ratio of 12 per cent. throughout 2019. Kuveyt Türk currently calculates its capital adequacy ratio requirements in accordance with Basel III.

As at 31 December 2019, Kuveyt Türk's total capital adequacy ratio was 18.96 per cent. (17.22 per cent. as at 31 December 2018) (in accordance with BRSA Accounts) (see "*Risk Factors—Risk factors relating to Kuveyt Türk's Business*" for further details).

The table below sets out Kuveyt Türk's regulatory capital as at 31 December 2019 and 2018.

	As of 31 December			
	2019		2018	
	(restated)			
		(TRY in thousands)		
Tier 1 capital .....	8,121,764		5,156,887	
Tier 2 capital .....	2,668,604		2,316,366	
Deductions from capital .....	(121,954)		(84,146)	
<b>Total capital</b> .....	<b>10,668,414</b>		<b>7,389,107</b>	
Risk weighted assets amount subject to market, operational and credit risk .....	56,262,955		42,921,666	
	<b>Actual</b>	<b>Required</b>	<b>Actual</b>	<b>Required</b>
Tier 1 capital ratio .....	14.44%	6%	12.01%	6%
Total capital ratio .....	18.96%	12%	17.22%	12%

### Information Technologies

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

The Core Banking Systems Transformation Project which Kuveyt Türk initiated in order to support its business strategies and continuous growth opportunities utilising the most recent technologies was completed in 2013 and included a complete transformation of all the banking systems.

Kuveyt Türk's core banking systems run on Microsoft Windows Systems infrastructure and core databases are hosted on Microsoft SQL 2017 servers. The core banking system used within Kuveyt Türk was developed in-house. The system includes modules to support all main functions of Kuveyt Türk, such as accounting, customer relations, money transfers, deposits, loans, trade finance, treasury, etc. Customers can reach the functions they need from several digital channels such as mobile applications, internet branch, etc. These systems also have the features to easily integrate with third party systems such as VISA, MasterCard, SWIFT and utility payment systems. Kuveyt Türk has also developed an API Banking Platform which enables FinTechs or other companies to use these features via APIs.

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

In 2010, the DRC was established at the Türk Telecom Data Centre in Ankara, approximately 450 kilometres from İstanbul. In 2018 a reserved room was arranged and new hardware are installed to this new

room. An online backup system is used to transfer system data to the DRC. All the application servers are designed to run as active. Maintaining online backup of this data at the DRC enables all clients at branches and other remote locations to divert their connections to the DRC from the main system in headquarters with minimum loss of service time in case main IT systems in İstanbul become inoperable. In order to ensure full functionality of the DRC, the systems are fully tested once a year in accordance with a disaster scenario.

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

Kuveyt Türk has recently undertaken a project to ensure compliance with the Regulation on Information Systems of Banks and Electronic Banking Services which was published on 15 March 2020 and which entered into force on 1 July 2020, and which makes provision for, among other things, the transmission and security of personal and sensitive data.

### **Intellectual Property**

Kuveyt Türk's operations are not, to any significant extent (other than for the purposes of brand recognition and value), dependent on any specific intellectual property right. Kuveyt Türk seeks to protect the trademarks and trade names that it deems necessary for its operations and it takes necessary measures to ensure that these rights are adequately protected. Kuveyt Türk owns a total of 131 trademarks in Turkey, including those relating to the "Kuveyt Türk Sağlam Bankacılık", "Senin Bankan" "Kuveyt Türk Katılım Bankası A.S. Bankacılıkta Çözüm Ortagingiz", "Kuveyt Türk aile", "Kuveyt Türk Altın", "Kuveyt Türk Duyarlı Kazanç", "Kuveyt Türk Duyunet", "Kuveyt Türk Evkaf", "Kuveyt Türk Gold", "Gold Plus" and "Kuveyt Türk Gümü?" brands. In addition, Kuveyt Türk licences the "Visa®" mark from Visa International Service Association and the "MasterCard®", "Maestro®" and "Cirrus®" marks from MasterCard International Incorporated.

### **Research and Development**

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

### **Insurance**

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

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

### **Legal Proceedings**

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

## RISK MANAGEMENT

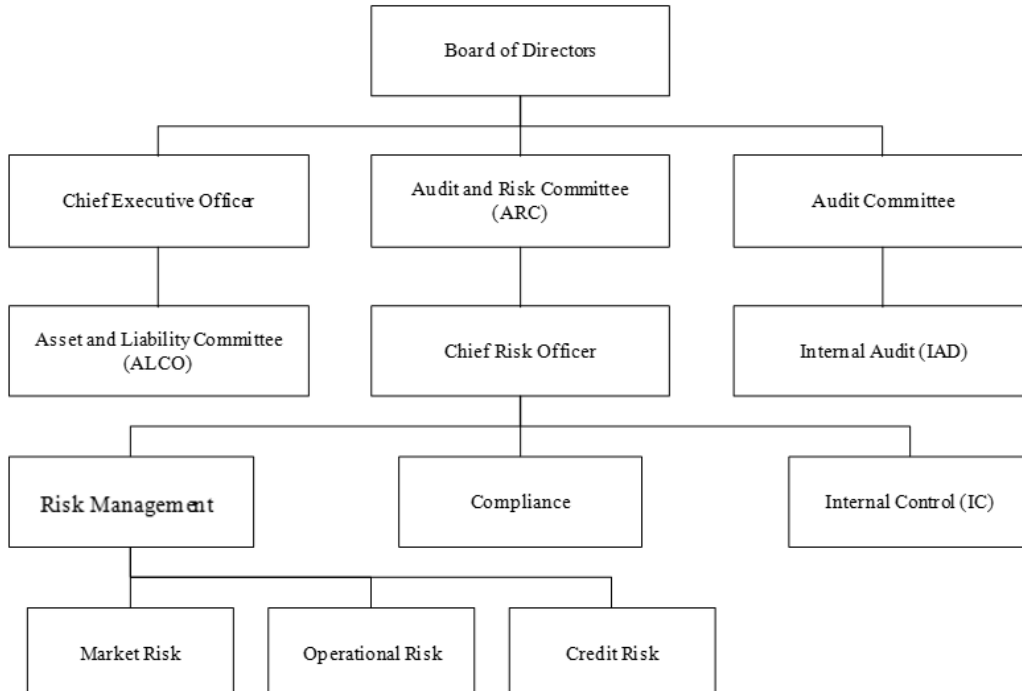
Kuveyt Türk's risk management philosophy is focused on identifying, measuring, monitoring, mitigating and managing various dimensions of business risks. It also aims to ensure that the key risks inherent in its business are minimised and asset values and income streams are protected so that the interests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

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

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

### Risk Management Structure

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



## **Risk Committees**

### ***Audit Committee***

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

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

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

The ALCO's responsibilities also include:

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

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

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

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



The ISC is responsible for the following four departments:

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

Kuveyt Türk established the IC Department to design, implement, manage and monitor internal risk control activities and to report the results to the ISC and Audit Committee to ensure that Kuveyt Türk undertakes all its activities in compliance with all applicable internal and external regulations. The IC Department is located in the head office and comprises 52 employees.

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

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

#### *Compliance Department*

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

In addition to the compliance function, the Compliance Department is also responsible for monitoring legal and regulatory changes and advising branches and head office on legal and regulatory issues. The Compliance Department reports directly to the Audit Committee and consists of 14 employees.

#### *Internal Audit Group ("**IAG**")*

The IAG is responsible for providing assurances to Board of Directors and Senior Management regarding both Kuveyt Türk's activities and operations being in compliance with applicable rules and regulations, in-bank strategy, policies, principles and targets, and the effectiveness and adequacy of internal control and risk management systems. As of the date of these Listing Particulars, it consists of 55 employees.

The IAG, without any restriction and through the adoption of a risk-based approach, audits all Kuveyt Türk's activities, including Head Office departments, domestic and foreign branches, subsidiaries, IT systems, accounts, records, documents, personnel and all other matters that can affect Kuveyt Türk's security. Based on its findings, it makes recommendations for changes and improvements in order to prevent the repetition of any problems it uncovers.

Amongst other things, IAG is responsible for:

- auditing compliance with Banking Law and other relevant legislation, in-bank strategy, policy and guidelines and other internal regulations;

- auditing accuracy, reliability and timeliness of legal reports and reports addressed to the Board of Directors and the Audit Committee in connection with the in-bank regulations;
- analysing the accuracy and reliability of the accounting records and financial reports;
- testing the compliance of operational activities with applicable internal control procedures;
- evaluating the adequacy and effectiveness of internal control and risk management systems; and
- reviewing information systems including electronic information system and electronic banking services within the framework of procedures and principles determined by applicable law.

Audit reports are presented to Kuveyt Türk's management and the Audit Committee. Activity reports are presented to the Board and Audit Committee on a quarterly basis. These reports include a summary of the activities of the IAG. Any significant audit findings and the results of audits conducted in relation to Kuveyt Türk's IT systems are also reported to the Board and the BRSA in the quarterly prepared activity reports.

Final audit reports and their executive summaries are submitted to Senior Management. Executive summaries are also distributed to the Audit Committee. IAG also follows up on any remedial actions required in relation to the findings of such reports and reports the results of these follow-ups to the relevant authorities as and when required.

The IAG takes every measure necessary to ensure personal development and professional growth in the best way of all IAG members.

#### *Risk Management Department ("RMD")*

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

This risk assessment is performed by the credit risk, operational risk, IT risk and market risk groups. The credit risk, operational risk, IT risk and market risk groups all fall under the purview of the RMD (which consists of 2 sub-departments and 18 employees) and is managed by the Head of the Risk Management. The RMD, Compliance Department and IC Department, are part of the ISC and are overseen by the Chief Risk Officer (who reports directly to the Audit Committee and Internal Systems Committee and coordinates all communications, reporting and monitoring between the Audit Committee, Internal Systems Committee and the RMD).

#### **Credit Risk**

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

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

Related departments prepare periodic reports that show the distribution of performing and nonperforming loans across sectors, maturity dates, currency distribution of loans, the break-down of loans in terms of customer segmentation, sectors, sensitivity of the corporate loan portfolio in terms of liquidity, management, default, commodity, country, market and investment risks. The control and management of Kuveyt Türk's credit risk is based on a number of principles and policies, as well as a range of procedures,

systems and processes including Kuveyt Türk's credit policies and procedures. Kuveyt Türk's principal country, industry, bank and customer risk limits are set out in the credit policy and are subject to regular review.

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

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

### ***Collateral***

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

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

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

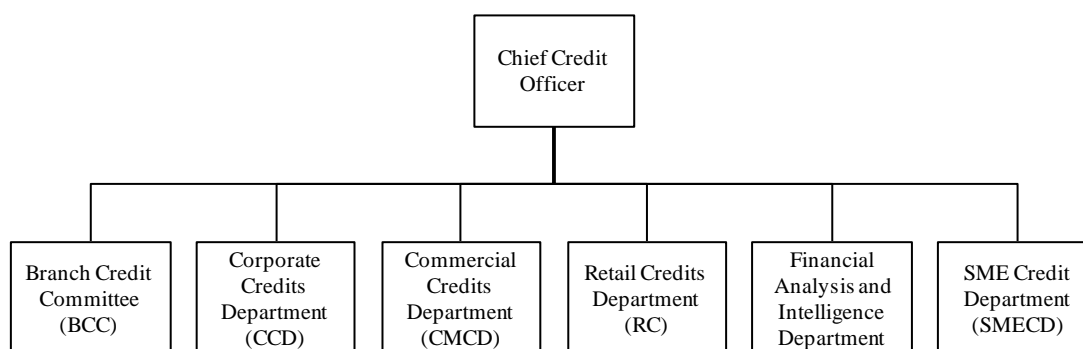
### ***Financing***

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

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

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

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



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

The approval process consists of six stages:

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

### **BCC**

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

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

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

### **Ceiling Limits and Branch Capacities:**

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

## Circular Types:

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

BRANCH CAPACITY TABLE (TL) MACRO		Company & Person		Other*					Person		
Allocation Segment		MAX 1		MAX 2		MAX 3			MAX 3		
Class	R. Estate	Vehicle	Mortgaged	With Cheque	Signature	Signature****	Signature***	Mortgaged	Signature****	Signature	
A	500.000	150.000	500.000	150.000	75.000	250.000	60.000	250.000	50.000	60.000	
B1	400.000	125.000	400.000	100.000	50.000	200.000	50.000	200.000	40.000	50.000	
B2	300.000	100.000	300.000	75.000	40.000	150.000	40.000	150.000	30.000	40.000	
C1	200.000	75.000	175.000	30.000	15.000	100.000	30.000	100.000	15.000	30.000	
C2	150.000	60.000	100.000	—	—	50.000	15.000	100.000	5.000	15.000	
D	100.000	50.000	—	—	—	—	30.000	100.000	5.000	30.000	

\* For SME Banking/Other Loans:

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

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

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

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

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

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

\* For SME Banking/Other Loans:

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

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

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

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

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

SYSTEM CAPACITY TABLE (TL)		Person		Person		Letter of Guarantee	
Allocation Segment	Class	R. Estate	Vehicle	Consumer—Other*	Signature****	Cheque Book	Signature
A		300,000	50,000	100,000	25,000	60,000	50,000

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

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

## RCD

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

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

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

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

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

- *Individual Credit Allocation Unit*

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

Kuveyt Türk's main sources of information are:

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

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

Additionally, Kuveyt Türk uses data obtained from *Sosyal Güvenlik Kurumu* ("**SGK**") (the national social security agency) to compare the income information given by the applicant to the income registered in the SGK system. Kuveyt Türk also calculates the applicant's debt versus income ratio to assess the applicant's ability to repay the credit. The loan to value ratios ("**LTVs**") are set out as follows:

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

- 
- (1) If the invoice value (for used cars) is less than or equal to TRY50,000, LTV is limited by 70 per cent.
  - (2) If the invoice value (for used cars) is above TRY50,000; LTV is limited by 70 per cent. up to TRY50,000, and LTV is limited by 50 per cent. exceeding TRY50,000.

- *Credit Card Allocation Unit*

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

### ***SMECD***

Small Business with annual revenues of under TRY40,000,000 fall under the supervision of the SMECD **provided that** the credit that has been applied for is under U.S.\$10,000,000. As with individual credits, applications for small business credits must be submitted to Kuveyt Türk's branches on standard forms along with supporting documentation. As part of Kuveyt Türk's appraisal process, Kuveyt Türk also collects and analyses additional information concerning the applicant. In the case of small businesses, this information comprises the applicant's financial statements, records held by the central chamber of commerce and the shareholder structure of the applicant. Kuveyt Türk uses this information to assess the applicant's ability to repay the credit. Kuveyt Türk also expects the applicant to have at least three years of business experience within the industry sector.

Kuveyt Türk's main sources of information are:

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

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

### ***CCD and CMCD***

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

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

Kuveyt Türk's rating system comprises a total of 12 PD models. 8 of which are designed for wholesale portfolios and 4 of which are designed for retail portfolios. The rating models cover both quantitative and qualitative factors to determine the customer's creditworthiness and the factors weights are scored based on the statistical models. On finalisation of the rating process, Kuveyt Türk assigns the customer a credit rating using a 19 notch master scale ranging from 1 to 7, the latter being the worst score. There are seven sub-categories of that rating system. The first category (with the highest rating) is the most favourable one while

the last one is automatically rejected. The remaining categories are assessed on a case by case basis with respect to the proposed security structure and other terms and conditions of the requested financings.

### **CRMD**

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

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

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

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



### ***Credit Classification and Provisioning***

Senior Management is responsible for establishing allowances and provisions in relation to Kuveyt Türk's credit portfolio in accordance with TFRS 9; see "*Overview of Turkish Banking Sector and Regulations—Provisioning and Impairment*".

### ***Portfolio Concentrations***

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

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

### ***Proprietary Investments***

Kuveyt Türk's investments held under the "*At Fair Value for Other Comprehensive Income*" and "*Fair Value Through Profit or Loss*" categories are marked to market on a monthly basis. Any permanent diminution in the value of investments in the "*Held-to-Maturity*" category are written down.

### ***Loan Provisions***

Kuveyt Türk has improved its asset quality through the years. The non-performing loans ("**NPL**") ratio is the fourth bank in the top 19 banks of the Turkish Banking Sector in 2019. Kuveyt Türk's NPL ratio realised 3.52 per cent. as at 31 December 2019.

The provisions ratio is above the Turkish Participation Banking Sector average provision ratio and among the first 9 banks in the top 19 banks of the Turkish Banking Sector in 2019.

<b>NPL Ratio</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Kuveyt Türk .....	2.43%	1.82%	2.42%	3.52%
Participation Banking Sector .....	3.92%	3.22%	4.16%	4.74%
Banking Sector .....	3.37%	3.10%	4.13%	6.11%
<b>Provisions Ratio</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Kuveyt Türk .....	78.35%	93.39%	71%	74%
Participation Banking Sector .....	62.10%	70.75%	63.21%	63.88%
Banking Sector .....	78.55%	79.98%	69.09%	65.13%

Close Monitoring Loans ratio (31 days and more overdue, restructuring loans, early warning signals, rating deterioration) is 9.75 per cent. as at 31 December 2019. Kuveyt Türk's Close Monitoring Loans is under 11.68 per cent. of the Turkish Banking Sector average.

<b>Close Monitoring Loans Ratio</b>	<b>As of December 2019</b>
Kuveyt Türk .....	9.75%
Participation Banking Sector .....	9.39%
Banking Sector .....	11.68%

The restructuring ratio of Kuveyt Türk is 3.80 per cent. as at 31 December 2019. In 2019 Kuveyt Türk was ranked 10 among the top 22 banks in the Turkish Banking Sector and has shown better performance than some of the major banks in the Turkish Banking Sector and all other participation banks in the Turkish Banking Sector.

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

The bank calculates the probability of delinquency and internal rating for both wholesale and retail portfolios. External ratings are used for loans extended to financial institutions. Ratings are shown in the table below as of 31 December 2019.

	<b>Cash Loans</b>	<b>Non-cash loans</b>	<b>Total</b>
High Quality.....	35%	59%	40%
Medium Quality.....	38%	22%	35%
Average.....	18%	12%	17%
Below Average.....	9%	6%	8%

<b>Loans:</b>	<b>As at 31 December 2019</b>				
	<b>Less than 30 Days</b>	<b>30 to 60 days</b>	<b>61 to 90 days</b>	<b>More than 91 days</b>	<b>Total</b>
	<i>(TRY in thousands)</i>				
Corporate lending.....	4,471,573	540,320	343,866	-	5,355,759
Consumer lending.....	153,578	127,256	71,308	-	352,142
Credit cards.....	123,659	10,880	5,495	-	140,034
<b>Total.....</b>	<b>4,748,810</b>	<b>678,456</b>	<b>420,669</b>	<b>-</b>	<b>5,847,935</b>

## Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk. Although strategic and reputational risks are not included in the capital measurement calculations for Basel III purposes, assessment and monitoring of these risks also fall under the purview of the RMG. Examples of events that are included under this definition of operational risk include losses from fraud, computer systems failures, settlement errors, model errors and natural disasters. Kuveyt Türk also maintains an operational loss database in order to quantify and monitor operational risks (see "*Risk Factors— Risk factors relating to Kuveyt Türk's Business*" for further details).

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

Operational risk is managed by a dedicated 2-member team within Kuveyt Türk. Business risk officers have been identified in each functional area to identify the events and evaluate the incidence of risk, probable losses and frequency thereof, in each functional area. Kuveyt Türk's Operational Risk team reviews the identified risks, controls and residual gaps and monitors the time lines for closing such gaps. The Audit Committee validates the identified risk and the prevailing gaps. Evaluating the operational risk areas is an ongoing process and the procedures and policies are updated accordingly.

## Funding

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

### **Total Deposits**

Total deposits were the major source of funding for Kuveyt Türk for the year ended 31 December 2019. As at 31 December 2019, total deposits comprised 81 per cent. of Kuveyt Türk's total liabilities and shareholders' equity which is higher than the sector average (at 55.55 per cent.). As at 31 December 2019, total deposits increased by 59.33 per cent. to TRY87,996 million, from TRY55,230 million as at 31 December 2018. Kuveyt Türk has a broad and diversified source of depositors and is not reliant on any key anchor depositors with 78 per cent. of its total deposits coming from retail depositors.

The following tables set out the total liabilities which are substantially dominated by deposits, for the core business segments for the years ended 31 December 2019 and 2018.

For the year ended December 31, 2019	Retail and enterprise banking	Commercial banking	Corporate and international banking	Unallocated	Total operations of the Group
<i>(TRY in thousands audited)</i>					
Total liabilities	73,909,898	14,083,077	9,251,721	11,756,882	109,001,578

For the year ended December 31, 2018	Retail and enterprise banking	Commercial banking	Corporate and international banking	Unallocated	Total operations of the Group
<i>(TRY in thousands audited)</i>					
Total liabilities	43,086,534	11,972,999	12,218,027	7,735,426	75,012,986

### ***Credits from banks and other international financial institutions***

Kuveyt Türk has a number of utilised credit facilities with domestic and international banks in both Turkish lira and foreign currencies, predominantly euro and U.S. dollars, along with borrowings from the international and domestic debt capital markets.

The availability of funds from banks and other financial institutions, as well as from customer accounts, is influenced by factors such as prevailing interest rates, market conditions and levels of competition (see "*Risk Factors — Risk factors relating to Kuveyt Türk's Business—Kuveyt Türk's business, financial condition, results of operations and prospects have been affected by liquidity risks in the Turkish market and may be further affected by liquidity risks, particularly if Turkish or international financial market conditions deteriorate*") for further details).

### **Legal Risk**

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

### **Market Risk**

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

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

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

## Interest Rate Risk

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

The table below sets out Kuveyt Türk's analysis of financial liabilities by contractual maturities on an undiscounted basis as at 31 December 2019:

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Above 5 Years	Total	Adjustments	Balance Sheet Value
31 December 2019								
Funds Collected (*)	78,022,451	5,696,820	3,512,723	764,141	0	87,996,135	0	87,996,135
Other Fundings	644,712	271,750	1,685,305	3,126,653	0	5,728,420	-1,900,212	3,828,208
Debts from lease transaction	13,524	23,118	88,758	206,311	22,340	354,051	0	354,051
Securities issued	54,296	82,218	136,514	2,281,515	2,328,110	4,882,653	-240,488	4,642,165
Funds from repo transaction	0	0	0	0	0	0	0	0
<b>Total</b>	<b>78,734,983</b>	<b>6,073,906</b>	<b>5,423,300</b>	<b>6,378,620</b>	<b>2,350,450</b>	<b>98,961,259</b>	<b>-2,140,700</b>	<b>96,820,559</b>

## Foreign Exchange Rate Risk

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

The table below sets out Kuveyt Türk's exposure to foreign currency exchange rate risk for the years set out below.

	Euro	USD	Other FC	Total
<b>31 December 2019</b>				
<b>(restated)</b>				
Assets				
Cash (cash in vault, effectives, money in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	6,723,592	6,143,746	4,580,207	17,447,545
Banks (****)	4,456,249	330,217	2,718,274	7,504,740
Financial assets at fair value through profit and loss	-	117,210	3,774,336	3,891,546
Money market placements	-	-	-	-
Financial assets at fair value through other comprehensive income	5,035,423	4,458,363	68,567	9,562,353

Loans and finance lease receivables (*)	12,967,653	13,987,774	94,287	27,049,714
Subsidiaries, associates and joint ventures (**)	-	-	-	-
Financial assets at amortized cost	2,210,574	648,807	0	2,859,381
Derivative financial assets for hedging purposes	-	-	-	-
Tangible assets	35,184	957	-	36,141
Intangible assets	64,671	25	-	64,696
Other assets	917,478	94,929	1,640	1,014,047
<b>Total assets</b>	<b>32,410,824</b>	<b>25,782,028</b>	<b>11,237,311</b>	<b>69,430,163</b>
<b>Liabilities</b>				
Current account and funds collected from Banks via participation accounts	5,616	245,376	143,666	394,658
Current and profit sharing accounts FC (****)	12,089,202	29,600,405	10,744,446	52,434,053
Money market borrowings	-	-	-	-
Funds provided from other financial institutions	203,116	3,430,771	68,697	3,702,584
Marketable securities issued	-	2,723,864	1,182,558	3,906,422
Miscellaneous payables	51,129	67,293	610	119,032
Derivative financial liabilities for hedging purposes	-	-	-	-
Other liabilities (*****)	137,268	314,296	43,117	494,681
<b>Total liabilities</b>	<b>12,486,331</b>	<b>36,382,005</b>	<b>12,183,094</b>	<b>61,051,430</b>
Net balance sheet position	19,924,493	-10,599,977	-945,783	8,378,733
Net off-balance sheet position	-20,055,210	11,193,288	930,027	-7,931,895
Financial derivative assets	371,647	19,860,378	1,463,898	21,695,923
Financial derivative liabilities	20,426,857	8,667,090	533,871	29,627,818
Non-cash loans (***)	1,883,918	2,503,577	576,420	4,963,915
<b>31 December 2018</b>				
Total assets	17,941,072	20,890,334	5,022,834	43,854,240
Total liabilities	8,865,568	27,755,833	6,516,001	43,137,402
Net balance sheet position	9,075,504	(6,865,499)	(1,493,167)	716,838
Net off-balance sheet position	(9,061,656)	6,923,802	1,476,750	(661,104)
Financial derivative assets	418,581	9,417,560	1,705,056	11,541,197
Financial derivative liabilities	9,480,237	2,493,758	228,306	12,202,301
Non-cash loans (***)	1,728,487	3,064,977	665,983	5,459,447

(\*) Includes foreign currency indexed loans amounting to TL 2,662,329 (31 December 2018 – TL 5,425,809).

(\*\*) Does not have any effect to the net off-balance sheet position.

(\*\*\*) Precious metals are included in "Other FC" column.

(\*\*\*\*) Other liabilities at fair value through TL 1,057 in the calculation of profit / loss of securities are not included in the foreign currency risk of impairment provisions. It also includes a provision for foreign currency indexed loans amounting to TL 95,676

(\*\*\*\*\*) Includes provisions for expected losses amounting to TL 2,865 in the balance sheet

(\*\*\*\*\*) Includes deferred tax assets amounting to TL 43,503 in the balance sheet.

## Profit Rate Risk

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

## Funding and Liquidity Risk

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

To meet its funding needs, Kuveyt Türk has principally relied on current accounts and participation accounts. Historically, when growth in cash credits has been greater than Kuveyt Türk's growth in participation accounts, it has bridged most of this gap through use of some current accounts and

shareholders' equity and by increasing capital or retaining profits. Kuveyt Türk also utilised the U.S.\$200 million syndicated interest- free commodity Murabaha facility obtained in 2006 to balance its liquidity needs. In 2011, Kuveyt Türk also issued, through KT Sukuk, U.S.\$350 million lease certificates due 2016 as part of managing its funding requirements. In 2013 Kuveyt Türk issued, through KT Kira, TRY150 million Lease Certificates due 18 November 2014 and Kuveyt Türk also raised U.S.\$275 million and EUR83 million syndicated murabaha financing from international markets on 27 December 2013. In addition, in 2014 Kuveyt Türk issued, through KT Kira, U.S.\$500 million Certificates due 2019. In April 2015, Kuveyt Türk issued MYR 300 million Certificates due 2020 through its MYR 2 billion programme. On 17 February 2016 Kuveyt Türk issued through KT Sukuk, U.S.\$350 million Fixed Rate Resetable Tier 2 Certificates due 2026. Kuveyt Türk issued, on 1 November 2016 through KT Kira, U.S.\$500 million Fixed Rate Resetable Senior Unsecured Sukuk due 2021. Most recently, Kuveyt Türk issued, on 16 July 2019, through KT One Company Limited, U.S.\$200 million Tier 1 Capital Certificates.

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

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

	As at 31 December	
	2019	2018
		(%)
Net Cash Loans/total assets.....	52.22%	62.57%
Net Cash Loans/deposits.....	64.69%	84.99%
Net Cash Loans/ total equity attributable to equity holders of the parent.....	791.39%	866.08%
Liquid assets <sup>(1)</sup> /total assets.....	11.00%	13.02%
Liquid assets/deposits <sup>(2)</sup> .....	13.56%	17.07%

- (1) Liquid assets comprise cash and cash equivalents and balances with other financial institutions (not including Kuveyt Türk's reserves with the Central Bank).
- (2) Also includes due to other financial institutions and banks.

The following tables summarise Kuveyt Türk's estimated maturity analysis for certain assets and liabilities as at 31 December 2019 and 31 December 2018, and contains certain information regarding Kuveyt Türk's funding and liquidity risk.

31 December 2019	Demand	Up to 1 Month	Up to 3 Months	Up to 12 Months	Up to 1-5 Years	Over 5 Years	Unallocated (***)	Total
Assets								
Cash (cash in vault, effectives, cash in transit, Cheques purchased) and balances with the Central Bank of the Republic of Turkey	7,919,383	11,296,909	-	-	-	-	-	19,216,292
Banks (*)	7,350,687	3	1,023,648	33,214	-	-	21,371	8,428,923
Financial assets at fair value through profit and loss	-	32,425	42	1,163,895	2,795,621	9,521	258,167	4,259,671
Money market placements	-	-	-	-	-	-	-	0
Financial assets at fair value through other comprehensive income	-	-	97,758	3,770,234	8,377,539	17,850	191,873	12,455,254

Loans (**)	-	12,226,141	8,067,543	16,440,882	18,454,898	2,883,798	-1,150,167	56,923,095
Loans measured at amortised cost	-	-	176,601	-	3,036,323	-	-	3,212,924
Other assets (***)	270,904	1,484,499	442,929	64,518	416,900	-	1,825,669	4,505,419
<b>Total assets</b>	<b>15,540,974</b>	<b>25,039,977</b>	<b>9,808,521</b>	<b>21,472,743</b>	<b>33,081,281</b>	<b>2,911,169</b>	<b>1,146,913</b>	<b>109,001,578</b>
Liabilities								
Current account and funds collected from banks via participation accounts								
	398,194	7,719	-	-	-	-	-	405,913
Current and profit sharing accounts								
	36,632,138	40,984,400	5,696,820	3,512,723	764,141	-	-	87,590,222
Funds provided from other financial institutions								
	-	158,561	31,466	371,979	1,380,854	2,239,399	-	4,182,259
Money market borrowings								
	-	-	-	-	-	-	-	0
Marketable securities issued								
	-	299,646	250,882	1,182,558	2,909,079	-	-	4,642,165
Miscellaneous payables								
	276,465	113,907	86,202	6,669	-	-	146,674	629,917
Other Liabilities (****)								
	-	1,029,136	331,789	148,110	1,971	-	10,040,096	11,551,102
<b>Total Liabilities</b>	<b>37,306,797</b>	<b>42,593,369</b>	<b>6,397,159</b>	<b>5,222,039</b>	<b>5,056,045</b>	<b>2,239,399</b>	<b>10,186,770</b>	<b>109,001,578</b>
Net liquidity gap	-21,765,823	-17,553,39	3,411,362	16,250,704	28,025,236	671,770	-9,039,857	0
<b>Prior period</b>								
Total assets	10,636,395	20,639,885	6,873,283	14,550,996	19,114,397	3,147,587	50,443	75,012,986
Total liabilities	22,914,733	28,307,032	5,435,921	6,147,094	4,181,734	1,901,210	6,125,262	75,012,986
Net liquidity gap	(12,278,338)	(7,667,147)	1,437,362	8,403,902	14,932,663	1,246,377	(6,074,819)	-

31 December 2018	Demand	Up to 1 Month	Up to 3 Months	Up to 12 Months	Up to 1-5 Years	Over 5 Years	Unallocated (***)	Total
<b>Assets</b>								
Cash (cash in vault, effectives, cash in transit, Cheques purchased) and balances with the Central Bank of the Republic of Turkey	4,138,895	6,473,026	-	-	-	-	-	10,611,921
Banks	6,352,267	1,136	543,524	-	-	-	-	6,896,927
Financial assets at fair value through profit and loss	-	22,228	20,532	14,921	34,974	10,439	-	103,094
Money market placements	-	-	-	-	-	-	-	-
Financial assets at FVTOCI	-	194,356	365,308	277,283	4,813,983	415,375	138,115	6,204,420
Loans (*)	-	11,211,572	5,648,338	14,258,792	13,881,644	2,721,773	(753,976)	46,968,143
Held-to-maturity investments	-	-	-	-	37,156	-	-	37,156
Other assets (**)	145,233	2,737,567	295,581	-	346,640	-	666,304	4,191,325
<b>Total Assets</b>	<b>10,636,395</b>	<b>20,639,885</b>	<b>6,873,283</b>	<b>14,550,996</b>	<b>19,114,397</b>	<b>3,147,587</b>	<b>50,443</b>	<b>75,012,986</b>
<b>Liabilities</b>								
Current account and funds collected from banks via participation accounts	225,025	27,867	-	-	-	-	-	252,892
Current and profit sharing accounts	22,508,876	26,399,674	4,219,221	1,623,929	225,426	-	-	54,977,126
Funds provided from other financial institutions	-	14,564	530,480	1,302,063	148,189	1,901,210	-	3,896,506
Money market borrowings	-	188,003	-	-	-	-	-	188,003
Marketable securities issued	-	381,578	494,604	3,215,751	3,700,937	-	-	7,792,870
Miscellaneous payables	180,832	81,062	-	-	-	-	-	261,894
Other liabilities (**)	-	1,214,284	191,616	5,351	107,182	-	6,125,262	7,643,695
<b>Total Liabilities</b>	<b>22,914,733</b>	<b>28,307,032</b>	<b>5,435,921</b>	<b>6,147,094</b>	<b>4,181,734</b>	<b>1,901,210</b>	<b>6,125,262</b>	<b>75,012,986</b>
Net liquidity gap	(12,278,338)	(7,667,147)	1,437,362	8,403,902	14,932,663	1,246,377	(6,074,819)	-
<b>Prior period</b>								
Total assets	6,171,125	14,062,475	5,827,793	12,796,499	14,680,788	3,066,996	959,026	57,564,702
Total liabilities	16,430,348	21,035,351	4,354,487	4,053,616	4,913,272	1,360,338	5,417,290	57,564,702
Net liquidity gap	(10,259,223)	(6,972,876)	1,473,306	8,742,883	9,767,516	1,706,658	(4,458,264)	-

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

The matching and controlled mismatching of the maturities and profit sharing rates or mark-up rates of assets and liabilities is fundamental to the management of Kuveyt Türk's business. It is unusual for these to be completely matched as transacted business is often on uncertain term and of different types. Furthermore, due to the short term maturity nature of deposits in Turkey, maturity mismatches are a common problem



for Turkish banks. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace them, at an acceptable cost, are important factors in assessing Kuveyt Türk's liquidity and its exposure to changes in interest/profit or mark-up rates and exchange rates. Liquidity requirements to support calls under letters of guarantee, letters of credit and other non-cash credits are considerably less than the amount of the commitment.

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

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

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

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

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

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

## MANAGEMENT

### *Board of Directors*

The board of directors of Kuveyt Türk (the "**Board**") is comprised of nine directors ("**Directors**"), (see table below). Members of the Board are appointed by Kuveyt Türk's shareholders, five of which are appointed by KFH, with one such Director being the chairman. Kuveyt Türk's chief executive officer also sits as a member of the Board as required by the Banking Law. Each Director is appointed for a term of three years and the Board meets at least six times annually. The business address of each member of the Board is Büyükdere Caddesi, No: 129/1, 34394 Esentepe, Istanbul, Turkey. No member of the Board has any actual or potential conflict of interest between his duties to Kuveyt Türk and his private interests and/or other duties.

The Board members together with senior managers of Kuveyt Türk own 0.11 per cent. of Kuveyt Türk's share capital.

As at the date of these Listing Particulars, the members of the Board are:

Name	Year of birth	Position	Year first elected to position
Hamad Abdulmohsen AlMarzouq.....	1962	Chairman	2014
Burhan Ersoy.....	1958	Director	2020
Salah A E AL Mudhaf Shadi            Ahmed            Yacoub            Zahran .....	1958	Director	2019
.....	1972	Director	2020
Gehad Mohamed El Bendary..... .....	1973	Director	2020
Nadir Alpaslan .....	1966	Director	2011
Ahmad S Al Kharji.....	1972	Director	2014
Mohammed Al Midani.....	1965	Director	2015
Ufuk Uyan.....	1958	Director, Chief Executive Officer	1999

### *Hamad Abdulmohsen Al Marzouq—Chairman*

Mr. Al Marzouq graduated from Claremont Graduate School in 1985 and received an MBA degree from the University of Southern California, United States of America. Prior positions include working at senior management level at each of Kuwait Investment Corporation until 1990, the Kuwait Central Bank between 1990-1998 and Ahli United Bank Bahrain until 2014. Mr. Al Marzouq was appointed as Chairman of the Board of Directors of Kuveyt Türk in 2014. Mr. Al Marzouq is also a member of Kuveyt Türk's Corporate Governance Committee, Executive Committee and Credit Committee.

### *Burhan Ersoy-Director*

Mr. Ersoy was born in 1958 in Samsun, Turkey and completed his primary, secondary and high school education in Amasya, Turkey and his university education in Samsun. He started his business life in Merzifon Agricultural Equipment Institution in 1976, and in 1984 he worked in Ankara Education Center Directorate. In 1986, he worked as the Branch Manager of the Ministry of National Education Personnel General Directorate, Central Appointment Department. Between 1988 and 1991, Mr. Ersoy served as the State Ministry Consultant. From 1991 to 1996, he worked as the Branch Manager of the Prime Ministry General Directorate of Personnel and Principles and as the Deputy Head of the Press and Public Relations Department of the Prime Ministry. Mr. Ersoy has worked as a consultant in various public institutions and in the Turkish Grand National Assembly since 1997, and also in the Ministry of State. While serving as the Head of Department at the Prime Ministry General Directorate of Legislation Development and Publication, he was appointed as the Deputy General Manager of the General Directorate of Foundations in 2003. Mr. Ersoy, who also served as a Board Member of various organisations, is currently a member of the Board of Trustees of Fatih Sultan Mehmet Vakıf University and he is a member of the Board of Directors of Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. Mr. Ersoy has been appointed as the General Manager of Foundations and Chairman of the Foundations Council since 1 February 2020, and he is still in office. Mr. Ersoy has a good command of Arabic and English.

*Salah A. E. Al Mudhaf- Director*

Born in 1958 in Kuwait, Mr. Al Mudhaf graduated from the Business Administration Department at Kuwait University in 1981. He began his career at the Kuwait Social Security Institution as a manager in charge of the staff. Mr. Al Mudhaf is still serving the same institution as the Deputy General Manager. He was a member of the board at Wafra Real Estate and Wafra International Investment Co. in 1993-2014 and 2002-2013, respectively. Since 2013, he has been serving the same company as the Chairman of the Board of Directors. Mr. Al Mudhaf was appointed as a member of the board at Kuveyt Türk in April 2019. He is also a Member of the Internal Systems Committee.

*Shadi Ahmed Yacoub Zahran—Director*

Mr. Zahran received his Master of Business Administration (MBA) Degree in Finance from the University of Manchester in the United Kingdom in 2014. He received his Bachelor's Degree in Accounting from the University of Jordan in 1992. Mr. Zahran is a member of the Board of Trustees of the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) and a Board Member of the General Council for Islamic Banks and Financial Institutions (CIBAFI). Mr. Zahran holds several specialized professional certificates including Certified Public Accountant (CPA) from the state of Illinois in the U.S. since 1996, an Auditing License from the Council of the Auditing Profession in Jordan since 1996, Certified Bank Auditor (CBA) from Bank Administration Institute (BAI) since 1999, and Certified Islamic Professional Accountant (CIPA) from the Accounting and Auditing Organization for Islamic Financial Institutions since 2006. Mr. Zahran previously held several executive positions at Ahli United Bank Group including General Manager Finance in Kuwait from 2009 until 2014 and Head of Group Financial Controlling at Ahli United Bank in Bahrain from 2005 until 2009. Mr. Zahran previously held the position of Head of Financial Systems Management & Operations Department at Al Rajhi Bank in the Kingdom of Saudi Arabia from 2000 until 2005. In addition, Mr. Zahran previously worked as an External Auditor at the international external audit firm Ernst & Young. Mr. Zahran is currently the Group Chief Financial Officer at Kuwait Finance House since 2014. In addition, Mr. Zahran is the Vice Chairman of KFH Capital Investment Company and Board Member at Kuwait Finance House Bahrain.

*Gehad Mohamed El-Bendary—Director*

Gehad Mohamed El-Bendary received his Finance & Risk Management Diploma from the University of Wales in the U.K. in 2014. He received his Bachelors of Commerce Degree in Accounting from Tanta University in Egypt in 1996. Mr. El-Bendary has completed specialized training programs in Enterprise Leadership from Insead University, Network Leadership Program from IMD University, and Advanced Risk Management from Wharton University. Mr. El-Bendary holds numerous specialized professional certificates including the International Certificate in Banking Risk and Regulation (ICBRR) from the Global Association of Risk Professionals (GARP) in 2009. Mr. El-Bendary previously held several executive positions at Kuwait Finance House including the position of General Manager Risk Management from 2016 until 2018, Deputy General Manager - Portfolio & Enterprise Risk Management from 2013 until 2016, Head of Enterprise Risk Management Unit from 2012 until 2013, and Head of Risk Unit from 2007 until 2012. Mr. El-Bendary is currently the Group Chief Risk Officer at Kuwait Finance House since 2018 and has over 20 years' experience in Risk Management, Auditing and Internal Control Systems in Financial Institutions.

*Nadir Alpaslan—Director*

Mr. Alpaslan received a bachelor's degree from the Faculty of Political Sciences in Istanbul University, Turkey in 1987. Mr. Alpaslan has been a member of the Board since April 2011. His career started at the Ministry of Tourism as ministerial adviser from 1999 and subsequently at the Ministry of Education as human resources director and thereafter he joined the Ministry of Culture and Tourism until 2007. From 2007 to May 2011 he served at the general secretariat of the Turkish President.

*Ahmad S Al Kharji—Director*

Mr. Al Kharji received a bachelor's degree in Finance and Banking from Kuwait University, Kuwait in 1994. In 1998, he received his master's degree in Business Administration from the University of San Diego, California, USA.

Mr. Al Kharji was appointed as a member of Kuveyt Türk's board of directors in 2014. He previously served as Head of the Investment Banking Department at Kuveyt Türk from June 2006 until November 2008. Mr. Al Kharji currently heads the International Banking Sector department KFH, which oversees and monitors the bank's subsidiaries, namely Kuveyt Türk, Kuwait Finance House Bahrain B.S.C. and Kuwait Finance House (Malaysia) Berhad, as well as managing the activity of the Financial Institutions and Structured Finance functions.

*Mohammed Al Midani—Director*

Mr. Al Midani received his bachelor's degree from Beirut University, Lebanon Business Administration in 1988 and his graduate degree from Canada Concordia University Accounting Department. Starting his career at Solinor S.A.R.L. in 1988, Mr. Al Midani worked at Moore Stephens Hyde Hughton Canada between 1997-1998 and Ernst & Young Saudi Arabia between 1998-2000 as Senior Auditor. He continued his career at Shareek Co.(Dallah Group) between 2000-2001 as Finance Manager. Between 2001-2010, he was a Lead Internal Auditor at Islamic Development Bank, Saudi Arabia. Since 2010 he has been working as Manager of Equity Investments Department at Islamic Development Bank, Saudi Arabia. In May 2015, Mr. Al Midani became a member of Kuveyt Türk's board of directors, the Audit Committee, the Internal Systems Committee and the Corporate Governance Committee.

*Ufuk Uyan—Director and Chief Executive Officer*

Mr. Uyan received his bachelor's degree in Economics from Bosphorus University, Turkey in 1981 and obtained a master's degree from the same university in 1983.

Mr. Uyan has been a member of Kuveyt Türk's board of directors since 1999. He also serves as a member of Kuveyt Türk's Executive Committee. He worked as a research assistant at Bosphorus University between 1981 and 1982, and, in 1982, he joined Türkiye Sinai Kalkınma Bankası A.S., as a research analyst in the department of private investigations. In 1985, he became an assistant project manager at Albaraka Türk Katılım Bankası A.S. He was appointed as the manager of projects and investments at Kuveyt Türk in 1989. In 1993, he was promoted to deputy general manager and in 1999 he was appointed as Kuveyt Türk's Chief Executive Officer.

*Senior Management*

Kuveyt Türk's Senior Management is responsible for the day-to-day management of Kuveyt Türk in accordance with the instructions, policies and operating guidelines set by the Board.

The business address of each member of Kuveyt Türk's Senior Management is Büyükdere Caddesi, No: 129/1, 34394 Esentepe, Istanbul, Turkey. No officer or senior manager of Kuveyt Türk has any actual or potential conflict of interest between his duties to Kuveyt Türk and his private interests and/or other duties.

The names and title of each member of Kuveyt Türk's Senior Management are set out in the table below:

<b>Name</b>	<b>Year of birth</b>	<b>Position</b>	<b>Year first elected to position</b>
Ufuk Uyan.....	1958	Chief Executive Officer	1999
Ahmet Karaca .....	1970	Chief Financial Officer (Financial Affairs)	2006
Ahmet Süleyman Karakaya.....	1953	Executive Vice President (Corporate and Commercial Banking)	2003
Bilal Sayın.....	1966	Executive Vice President (Credits)	2003
Hüseyin Cevdet Yılmaz .....	1966	President (Risk, Control and Compliance Group)	2002
İrfan Yılmaz.....	1970	Executive Vice President (Banking Services)	2005
Nurettin Kolaç.....	1966	Executive Vice President (Legal Affairs and Risk Follow Up)	2010
Mehmet Oral .....	1967	Executive Vice President (Retail Banking)	2012
Dr. Ruşen Ahmet Albayrak .....	1966	Executive Vice President (International Banking and Treasury)	2005
Aslan Demir .....	1971	Executive Vice President (Strategy)	2012
Abdurrahman Delipoyraz.....	1968	Executive Vice President (SME Banking)	2015

*Ufuk Uyan—Director and Chief Executive Officer*

*See "Management—Board of Directors—Ufuk Uyan".*

*Ahmet Karaca—Chief Financial Officer (Financial Affairs)*

Mr. Karaca received a bachelor's degree from the Department of Public Administration of Ankara University, Turkey in 1990. He completed his master's degree in Economics at the State University of New York, United States of America in 2006.

Mr Karaca has been Executive Vice President in charge of Kuveyt Türk's Financial Affairs since 2006. Between 2002 and 2003, he worked as the vice chairman of the board of directors of Sworn Bank Auditors. From 1992, he was an on-site bank examiner at the Treasury Ministry of Turkey and was appointed as a sworn bank auditor in 1995.

*Ahmet Süleyman Karakaya—Executive Vice President (Corporate and Commercial Banking)*

Mr. Karakaya received a bachelor's degree in Business and Finance from Istanbul, Turkey University in 1979.

Mr. Karakaya has been the Executive Vice President in charge of Kuveyt Türk's Commercial Banking Group since 2003. Before joining Kuveyt Türk, he worked at the Risk Management, Credits and District Management departments of Türkiye Garanti Bankası A.S. in Turkey between 1981 and 2003. Prior to this Mr. Karakaya also served as an inspector at Türkiye Garanti Bankası A.S. between 1981 and 1985.

*Bilal Sayin—Executive Vice President (Credits)*

Mr. Sayin received a bachelor's degree in Public Administration from Orta Dogu Teknik Üniversitesi in 1990.

Mr Sayin has been the Executive Vice President in charge of Kuveyt Türk's Credits since 2003. In 1999, he was appointed as manager of Kuveyt Türk's Commercial Fund Allotment department. Mr. Sayin joined Kuveyt Türk in 1995 as specialist of the Projects and Investment department. He began his banking career in 1990 at Albaraka Türk Katılım Bankası A.S.

*Hüseyin Cevdet Yılmaz—President (Risk, Control and Compliance Group)*

Mr. Yılmaz received a bachelor's degree from the Business School of Bosphorus University, Turkey in 1989.

Mr Yılmaz has been the President in charge of Kuveyt Türk's Risk Control and Compliance Group since 2002. In 2002 he joined Kuveyt Türk as president of the Inspection Board. He began his banking career in 1991 at Esbank A.S. as an assistant inspector in the Inspection department.

*İrfan Yılmaz—Executive Vice President (Banking Services)*

Mr. Yılmaz received a bachelor's degree in Business Engineering from Istanbul Technical University, Turkey in 1989.

Mr. Yılmaz has been the Executive Vice President in charge of Kuveyt Türk's Banking Services since 2005. Prior to this, he served as a manager in the Retail Banking department in 2000. In 1996, he joined Kuveyt Türk's Inspection Board and became its chairman in 1998. He began his banking career in 1990 at Kuveyt Türk spending six years as an officer in the Financial Control department as officer.

*Nurettin Kolaç—Executive Vice President (Legal Affairs and Risk Follow Up)*

Mr. Kolaç received a bachelor's degree in Law from Marmara University, Turkey in 1988.

Prior to this Mr. Kolaç worked for Türkiye Halk Bank A.Ş. and its subsidiaries as an attorney at law between 1989 and 2004. He started his career at the BRSA in 2007 where he was the Head of Legal Affairs. Mr. Kolaç joined Kuveyt Türk in April 2010 and has been appointed as the Executive Vice President responsible for legal affairs and collection.

*Mehmet Oral—Executive Vice President (Retail Banking)*

Mr. Oral is a graduate of Uludag University, Department of Business Administration, Turkey. He started his career at Kuveyt Türk as a Central Branch Officer in 1992. After working for eight years at the Central Branch, he was appointed as Director of the IMES Branch in 2000. Mr. Oral went on to serve as Director of the Bursa Branch from 2001 to 2004 and Director of Merter Branch from 2004 to 2005. After Kuveyt Türk's transition to regional offices, he was appointed Regional Director of the Istanbul European Side Region Office in 2005. After serving in this position for four years, Mr. Oral became the Director of the HR, Training and Quality Group in 2009. Since October 2012, he has been serving as Executive Vice President - Retail Banking.

*Dr. Rusen Ahmet Albayrak—Executive Vice President (International Banking and Treasury)*

Dr. Albayrak received a bachelor's degree in Industrial Engineering from Istanbul Technical University, Turkey in 1988 and completed his doctor of philosophy degree at Istanbul Technical University in Business Management in 2007. He received his master's degree in Organisational Leadership and the Management from University, USA of North Carolina in 1993.

Dr. Albayrak has been the Executive Vice President in charge of Kuveyt Türk's Corporate and International Banking Department since 2012. Prior to this, Dr. Albayrak acted as Executive Vice President in charge of Kuveyt Türk's Banking Services Group from 2005 to 2012. He was appointed as Kuveyt Türk's assistant general manager in charge of Branches in 2003 and was in charge of setting up the Retail Banking Sales department at Kuveyt Türk in 2002. Mr. Albayrak joined Kuveyt Türk as an assistant manager in the Financial Analysis and Marketing Department in 1994. Prior to this, he worked as a project leader of Performance Management Consultancy Limited, Turkey between 1996 and 1997. He began his banking career at Albaraka Türk Katılım Bankası A.S. in 1988.

*Aslan Demir—Executive Vice President (Strategy)*

Mr. Demir is a graduate of Marmara University, Department of International Relations, Turkey, and is currently enrolled in the MBA program at the University of Sheffield, United Kingdom. Having started his banking career as an officer in the Treasury Department of Kuveyt Türk in 1995, Mr. Demir worked for six years in the department before serving in the Project Management and Quality Department of Kuveyt Türk from 2001 to 2004. In 2005, he was appointed Director of Project Management and Quality and in 2007, Mr. Demir was appointed as Head of Information Technologies at Kuveyt Türk. Since October 2012, Mr. Demir has been serving as Executive Vice President - Strategy.

*Abdurrahman Delipoyraz—Executive Vice President (SME Banking)*

Mr. Delipoyraz graduated from Istanbul Technical University, Department of Industrial Engineering, Turkey in 1992. He started his professional career at Kuveyt Türk, in the Financial Analysis and Intelligence Department. Later, he went on to work in the Corporate and Commercial Banking Sales Department, before serving as Branch Manager at the Beşyüzevler and Bakırköy branches. In December 2004, he was appointed a Regional Director and served as the Istanbul Europe-1 and Istanbul Anatolia Regional Directors. Since January 2015, Mr. Delipoyraz has been serving as Executive Vice President – SME Banking.

*Board and Management Committees*

Kuveyt Türk has established several Board and management committees responsible for various aspects of Kuveyt Türk's operations. The committees are the Internal Audit Committee, the Internal Systems Committee, the Credit Committee (see "*Risk Management*" for further details), the Executive Committee and the Basel II Steering Committee.

*Executive Committee*

The Executive Committee is responsible for exercising the powers of the Board (save for those which the Board expressly reserves for itself) in the management of the business and affairs of Kuveyt Türk as directed by the Board.

## Corporate Governance

There are no mandatory corporate governance rules in Turkey. However, in 2003, the CMB issued a set of recommended principles for public companies (the "**Corporate Governance Principles**"). The Corporate Governance Principles can be categorised into four groups: (i) principles relating to investor relations; (ii) principles relating to public disclosure and transparency; (iii) principles relating to shareholders; and (iv) principles relating to management. Although implementation of the Corporate Governance Principles is not currently mandatory, the CMB requires public companies to disclose the extent to which they have been implemented and, if they have not been fully implemented, to explain the reasons therefore. The CMB may decide to make such principles mandatory for public companies in the future. Annual reports filed by public companies must disclose contingency plans for dealing with any conflicts that may arise in the future and the implementation of the Corporate Governance Principles. In order to support implementation of the new Corporate Governance Principles, the CMB issued a rating communiqué which enables rating agencies to rate companies on the basis of their compliance with the principles.

Kuveyt Türk introduced its Code of Ethics guidelines in 2003 and established its Corporate Governance Committee in July 2007 which ensures that Kuveyt Türk operates within the Corporate Governance Principles.

## Employees

As at 31 December 2019, Kuveyt Türk employed 5,955 full-time employees. As at 31 December 2019, the average age of Kuveyt Türk's employees was approximately 33.37 years of age and approximately 88.7 per cent. of Kuveyt Türk's professional staff were university graduates. The following table sets forth the average number of employees of Kuveyt Türk and its subsidiaries for the periods indicated.

	For the years ended 31 December	
	2019	2018
Kuveyt Türk.....	5955	5871
KT Bank AG.....	108	87
KT Portföy Yönetimi A.Ş. ....	20	15
Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. ....	8	9
Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İşletmeciliği A.Ş.....	8	8
KT Sukuk Varlık Kiralama A.Ş. ....	5	5
KT Kira Sertifikaları Varlık Kiralama A.Ş.....	5	5
KT Sukuk Company Limited	5	5
<b>Total</b> .....	<b>6,114</b>	<b>6,005</b>

## Training

Kuveyt Türk believes that its interests are aligned with the interests of its employees in terms of training and career development. Accordingly, Kuveyt Türk has developed a carefully devised training and career development strategy for its personnel, which also takes into account its growth plans and continuous need for new qualified employees. Kuveyt Türk offers its employees a comprehensive training framework that covers core banking training, career development training and executive development programs. In addition to the centralised training, at local branch levels Kuveyt Türk offers selected employees training opportunities abroad. Kuveyt Türk was the first Turkish participation bank to develop an on-line training programme for employees. Kuveyt Türk currently provides approximately 60 per cent. of all training in-house and each employee attends on average 7 days of training each year.

## Compensation

Kuveyt Türk's strategy is to offer its employees a comprehensive and competitive compensation package. Kuveyt Türk provides private health insurance for its employees at no cost and a private group pension plan for employees. If the employee pays 2 per cent. (minimum TRY90) of monthly gross salary into the pension plan, Kuveyt Türk matches that payment. Kuveyt Türk offers its employees a selection of other benefits based on their seniority including car allowances, cell phone allowances, lunch benefits, clothing allowances, education allowances, language allowances, transportation and other social contributions such as health, marriage, birth and death contributions. In addition to their base salaries, Kuveyt Türk also pays employees annual performance bonuses based on the individual employee's performance as well as Kuveyt Türk's overall financial performance. The total bonus pool is 6 per cent. of Kuveyt Türk's annual net profit

in the event that at least 80 per cent. of the targeted annual net profit is reached or a bonus pool of 8 per cent. of Kuveyt Türk's annual net profit in the event that at least 90 per cent. of the targeted annual net profit is reached. On average, these performance bonuses have been approximately 1.7 times the employee's monthly salary.

#### *Shariah Advisory Board*

The Shariah Advisory Board comprises Islamic scholars of good repute and with extensive experience in law, economics and banking systems. The Shariah Advisory Board is appointed by the Board. Its responsibilities include directing, reviewing and supervising the activities of Kuveyt Türk in order to ensure that they are in compliance with Islamic rules and principles including, but not limited to, supervising the development and creation of innovative interest-free products, issuing fatwas on any matter proposed to it by the individual business units of Kuveyt Türk, ensuring that transactions are carried out in compliance with interest-free banking principles and analysing contracts and agreements concerning Kuveyt Türk's transactions.

The following table sets out the names of the current members of the Shariah Advisory Board:

<b>Name</b>	<b>Position</b>
Prof.Dr.M.Abdurrezzak Tabatabai	Chairman
Prof.Dr.Mubarek AL Harbi	Member
Associate Professor Enver Şuayb Abdusselam	Member
Associate Professor Abdullah Durmus	Member
Mehmet Odabaşı	Member
Sheikh Halil Gönenc	Member

There are no potential conflicts of interest between the private interests or other duties of the Shariah Advisory Board members listed above and their duties to Kuveyt Türk.



## OVERVIEW OF THE TURKISH BANKING SECTOR AND REGULATIONS

### Summary

The Turkish financial sector has gone through major structural changes as a result of the financial liberalisation programme that started in the early 1980s. The abolition of directed credit policies, the liberalisation of deposit and credit interest rates and liberal exchange rate policies as well as the adoption of international best standard banking regulations have accelerated the structural transformation of the Turkish banking sector. Since the 1980s, the Turkish banking sector has experienced a significant expansion and development in the number of banks, employment in the sector, diversification of services and technological infrastructure. The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001 this resulted in the collapse of several institutions, including a participation bank. The banking sector also experienced a sharp reduction in shareholders' equity in 2001, with the capital of the 22 private sector banks declining to U.S.\$4,916 million at the end of 2001 from U.S.\$8,056 million for 28 banks at the end of 2000, according to the Banks Association of Turkey.

The Turkish money markets and foreign exchange markets have stabilised since 2001, in large part due to regulatory reform and other governmental actions (including a three-part audit undertaken in 2001 and the first half of 2002, after which all private commercial banks were either found to be in compliance with the 8.0 per cent. minimum capital requirement, transferred to the SDIF, or asked to increase their capital level). The transparency of the system was improved along with the establishment of an independent supervisory and regulatory framework and new disclosure requirements. Unfair competition from state banks was reduced while the efficiency of the banking system increased in general as a result of consolidation. According to the SDIF's official data, since 1994, 20 private banks have been transferred to SDIF and 5 private banks have been subjected to bankruptcy processes (which banks' licenses have been terminated) due to, among other things, weakened financial stability and liquidity and efforts are continuing on the resolution of the SDIF banks while restructuring and privatisation of the state banks is progressing.

In August 2004, in an attempt to reduce the regulatory costs inherent in the Turkish banking system, the government reduced the rate of the Resource Utilisation Support Fund ("**RUSF**") applicable on short-term foreign currency commercial loans lent by banks domiciled in Turkey to zero. However, the 3.0 per cent. RUSF charge for some types of loans provided by banks outside of Turkey with an average repayment term of less than one year remains valid. Pursuant to recent changes in the RUSF charges in accordance with the Council of Ministers decision numbered 2012/4116 (published on 1 January 2013), loans provided by banks outside of Turkey with an average repayment term of one year (including one year) to two years are subject to a 1.0 per cent. RUSF charge, those with an average repayment term of two years (including two years) to three years are subject to a 0.5 per cent. RUSF charge and those with an average repayment term of above 3 years (including 3 years) are subject to a 0 per cent. RUSF charge. In 2010, the government also increased the RUSF charge on interest on foreign currency-denominated retail loans from 10 per cent. to 15 per cent. in order to curb domestic demand fuelled by credit, which was in turn perceived to be adversely affecting Turkey's current account balance. The RUSF charge applied to consumer credits to be utilised by real persons (for non-commercial utilisation) is 15 per cent. in accordance with the Council of Ministers' decision numbered 2010/974 (published on 28 October 2010).

In addition, there have been significant changes to Turkish banking legislation over the last few years.

The Banks Act No. 4389 (as amended by Laws No. 4491, 4672, 4684, 4743, 4842, 5020, 5189 and 5228) was replaced by the Banking Law No. 5411 on 1 November 2005 (the "**Banking Law**"). The Banking Law (as amended by Laws No. 5472, 5667, 5754, 5766, 6111, 6300, 6327, 6352, 6362, 6456, 6462, 6487, 6493 and 6495 and Decree No. 662) governs the activities conducted by, among others, commercial banks as well as participation banks. For further details please see "*Types of Banks in Turkey*" below.

### Regulatory Environment

Regulatory responsibility in the Turkish banking sector is split between the BRSA, the CBT and the SDIF. The BRSA regulates and monitors the application of the Banking Law and other relevant regulations to ensure a disciplined and efficient banking sector within Turkey. The CBT is the entity responsible for the Government's fiscal and monetary policies. The SDIF's role is to insure the savings deposits and

participation funds held with banks. In the event of financial instability within a bank, the SDIF may take measures to restructure such a bank to strengthen its fiscal structure.

### **The Role of the BRSA**

The BRSA is an independent body authorised under Articles 82 to 110 of the Banking Law and has the status of a public legal entity with administrative and financial autonomy. It is the sole regulatory and supervisory authority for the Turkish banking sector. The BRSA's role is to protect the rights and benefits of depositors and to establish a competitive, disciplined and efficient banking and financial sector within Turkey. Accordingly, the BRSA is authorised to undertake all necessary steps, within the limits of the autonomy granted to it by the Banking Law, to ensure it effectively monitors and regulates the Turkish banking sector.

The BRSA has responsibility for all banks operating in Turkey, including foreign and participation banks. The BRSA sets various mandatory ratios such as capital adequacy and liquidity ratios. In addition, all banks operating in Turkey must provide the BRSA, on a regular and timely basis, with information adequate to permit off-site analysis by the BRSA of such bank's financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and annual basis, depending upon the nature of the information to be reported.

The BRSA conducts both on-site and off-site audits and supervises implementation of the provisions of the Banking Law and other legislation, examines all banking operations and analyses the relationship and balance between assets, receivables, equity capital, liabilities, profit and loss accounts and all other factors affecting a bank's financial structure. The BRSA's on-site supervision is conducted through a team of sworn bank auditors and other experts who are employed by the BRSA. In addition, the chairman of the BRSA has the authority to commission independent audit teams to examine specific matters within any bank that the chairman deems appropriate.

In addition to the above-mentioned requirements, pursuant to the regulation regarding the Internal Systems of Banks (as issued by the BRSA and published in the Official Gazette dated 11 July 2014 and numbered 29057), banks in Turkey are required to establish, manage and develop (for themselves, and all of their branches, regional directorates and units and all of their consolidated affiliates) internal audit and risk management systems in line with the scope and structure of their organisations, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. Furthermore, pursuant to Article 20 of the regulation, internal control personnel cannot have any other duties.

### **The Participation Banks Association of Turkey**

The Participation Banks Association of Turkey ("**PBAT**"), established in accordance with the Banking Law, acts as an organisation with limited supervision and coordination in respect of participation banks. All participation banks in Turkey are obliged to become members of this association. As the representative body of the participation banking sector, the association aims to examine, protect and promote its members' professional interests.

Pursuant to Article 79 of the Banking Law, deposit banks and investment banks are obliged to become members of the Banks Association of Turkey and participation banks are obliged to become members of the PBAT within one month of obtaining their operation permit. Both of the Banks Association of Turkey and the PBAT are professional organisations which have the same status. As the representative bodies of the banking sector, the associations aim to examine, protect and promote its members' professional interests.

However, despite its regulatory and disciplinary functions, it does not possess any of the powers to regulate banking as the BRSA does.

### **The Role of the CBT**

The CBT was founded in 1930 and performs the traditional functions of a central bank, including the issuance of bank notes, provision of price stability and its continuity, regulation of the money supply, management of official gold and foreign exchange reserves, monitoring of the financial system and advising

the government on financial matters. The CBT exercises its powers independently of the Government and is responsible for its affairs within the boundaries of the Government's defined policies.

Currently, the CBT is the sole regulator of the volume and circulation of the national currency. It has responsibility for developing and implementing the Government's monetary policy, as well as managing and controlling official gold and foreign exchange reserves. The CBT also acts as the Government's treasurer, financial agent and economic adviser. The CBT uses various monetary tools to implement its functions, including open market operations, setting reserve and liquidity ratios, determining discount rates and controlling short term interest rates. The CBT monitors a centralised risk valuation system in an effort to better supervise the banking system in collaboration with the Undersecretariat of Treasury for Turkey (the "**Treasury**").

Pursuant to the recent amendments introduced to the Banking Law, the Central Bank has been empowered to determine maximum interest rates for lending and deposit taking activities of banks, as well as fees, expenses and commissions charged by banks to their clients for any sort of activities. Furthermore, effective from 1 January 2020, the Central Bank has been designated as the new payment and e-money services watchdog of Turkey, replacing the BRSA by way of stripping it of its powers under the Law on the Payment Systems and Securities Settlement Systems, Payment Services and Electronic Money Institutions No. 6493.

### **The Role of the SDIF**

The SDIF is a public legal entity, set up to insure savings deposits and participation funds held with banks. The SDIF is responsible for, and authorised to take measures in relation to restructuring, transfer of title to third parties and strengthening the fiscal structures of banks **provided that** the management and control of the bank have been transferred to the SDIF in accordance with Article 71 of the Banking Law.

Pursuant to Article 63 of the Banking Law, the savings deposits and participation funds belonging to real persons in credit institutions are insured by the SDIF. The coverage and amount of the savings deposits and participation funds belonging to real persons which will be subject to insurance is set by the SDIF upon the approval of the CBT, the BRSA and the Treasury. According to the Banking Law, the risk-based insurance premium rate cannot exceed 20/1000 of the deposits and participation funds subject to insurance on an annual basis. The tariff, collection time, method and other conditions of the risk-based insurance premium is set by the SDIF after consultation with the BRSA. Pursuant to the Regulation on Saving Deposits and Participation Funds subject to Insurance and Premiums to be collected by the SDIF, the insurance premium rate to be paid by Kuveyt Türk as of the date of these Listing Particulars is 5.2/1000 per cent. of the deposits and participation funds subject to insurance. The SDIF may borrow with the authorisation of the Treasury and/or if necessary, the Treasury can issue government securities, the proceeds of which shall be allocated to the SDIF. The principles and procedures regarding government securities including their interest rates and terms and conditions of repayments to the Treasury are determined collectively by the Treasury and the SDIF.

In extraordinary circumstances, where the resources of the SDIF do not match its needs, the CBT may advance funds to the SDIF upon a request by the SDIF. The maturity, amounts, repayment conditions, interest rates and other conditions of the advance will be determined by the CBT upon consultation with the SDIF.

If the assets of the SDIF do not meet the demands on it and the resources of the SDIF are insufficient, then banks may be required to make advances of up to the total insurance premiums paid by them in the previous year to be set-off against their future premium obligations.

Deposits held in a bank by controlling shareholders, the chairman and members of the board of directors or board of managers, general manager and assistant general managers, auditors and by the parents, spouses and children of the above, and deposits, participation funds and other accounts within the scope of criminally-related assets set forth in Article 282 of the Turkish Criminal Code and other deposits, participation funds and accounts as determined by the BRSA are not covered by the SDIF's insurance.

Premiums paid by a bank into the SDIF are to be treated as an expense in the calculation of that bank's corporate tax.

In the event of the bankruptcy of a bank, the SDIF is a privileged creditor and may liquidate the bank under the provisions of the Execution and Bankruptcy Act (1932), exercising the duties and powers of the

bankruptcy office and creditors' meeting and the bankruptcy administration with the exception of certain provisions under the Code of Execution of Bankruptcy specifically referred to in the Banking Law (such as the call to the creditors to lodge their receivables and how the bankruptcy estate will operate). 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 these Listing Particulars, Adabank A.Ş. and Birleşik Fon Bankası A.Ş. ("**BFB**") and Bank Asya are the only banks which are under the supervision and administration of the SDIF. BFB has been incorporated by the SDIF by merging the assets of Etibank A.S., İktisat Bankası T.A.S., Interbank A.S., Esbank A.S., EGSBank A.S., Kentbank A.S. and Toprakbank A.S. into Bayindirbank A.S. and by converting the latter into BFB. In February 2015 Bank Asya came under the supervision of the SDIF as a result of a determination by the BRSA that Bank Asya had failed to submit information and documents concerning 132 of 185 of its privileged shareholders. On 22 July 2016, Bank Asya's banking permissions were cancelled by the BRSA. Bank Asya was declared bankrupt by Istanbul 1st Commercial Court of First Instance as of 16 November 2017 and in accordance with the Banking Law, SDIF is responsible for taking the necessary steps to consummate the on-going bankruptcy process.

### 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. According to the BRSA, as of March 2020, the number of banks operating in the Turkish banking sector was 54 (including banks controlled by the SDIF), 34 of which are deposit banks and 14 are development and investment banks; of the deposit banks, 3 are state-owned banks, 9 are private banks, 21 are foreign banks and 1 is a bank under the control of the SDIF. This amounts to an increase in 3 banks operating in the Turkish banking sector since March 2019.

The following table sets out certain statistical information for the Turkish banking sector as at 31 March 2019 under BRSA accounting principles.

	Public Sector Banks	Private Sector Banks	Foreign Banks	Development and Investment Bank	Participation Banks	Total
	<i>(TRY in millions, where applicable)</i>					
Total assets .....	1,626,025	1,384,525	1,128,971	284,563	229,175	4,139,521
Total loans .....	1,092,715	796,594	636,045	203,013	123,731	2,525,355
Total deposits .....	800,450	763,426	643,698	0	156,077	2,207,574
Total shareholders' equity .....	150,565	160,999	121,797	39,745	18,707	433,361
Net income .....	3,182	4,815	4,487	1,317	498	12,484
Number of domestic branches .....	3,891	3,920	3,656	56	1,128	11,467
Number of domestic employees .....	66,236	71,819	67,534	5,321	15,667	205,586
Number of banks .....	10	13	28	13	6	51

Source: BRSA.

Note: Banks controlled by the SDIF are not included in these figures.

The public and private sector commercial banks form the majority of the Turkish banking sector in terms of assets and operations. T.C. Ziraat Bankası A.Ş., Türkiye Halk Bankası A.Ş. and Türkiye Vakıflar Bankası T.A.O., which all have large branch networks, were originally established with social rather than profit objectives, principally to provide services to certain sectors of the working population. Private sector commercial banks are comprised of full-service banks and corporate/trade finance-orientated banks. The four largest private commercial banks are Türkiye İş Bankası A.Ş., Türkiye Garanti Bankası A.Ş. ("**Garanti Bankası**"), Akbank T.A.Ş. ("**Akbank**") and Yapı ve Kredi Bankası A.Ş. These banks provide a large proportion of retail banking services and related financial products to the Turkish population in addition to providing large Turkish corporations and Turkish subsidiaries of large foreign companies with corporate and foreign trade related banking services.

In recent years, the liberalisation of the Turkish economy has resulted in an increase in the number of foreign-banks operating in Turkey, either as locally incorporated banks, branches or joint ventures with domestic banks. The following are examples of notable merger and acquisition activities by foreign banks in recent years. In February 2005, BNP Paribas acquired 50 per cent. of the shares of TEB Mali Yatırımlar A.Ş. which owns 84.3 per cent. of the shares of TEB A.Ş. In October 2006, Denizbank was acquired from the Zorlu Group by Dexia for U.S.\$2.4 billion. In September 2012, Sberbank acquired 99.85 per cent. of

Denizbank from Dexia for U.S.\$3.6 billion (subject to post-closing adjustments). However, in May 2018, Emirates NBD Bank P.J.S.C. entered into a definitive agreement to buy 99.85% of Denizbank from its parent Sberbank and, on 27 June 2019, the BRSA granted its permission to the acquisition. In January 2007, Citigroup acquired a 20 per cent. stake in Akbank and later in the same year ING acquired 100 per cent. of Oyakbank for U.S.\$2.7 billion. More recently, in March 2011, General Electric Co. and Doğu Holding A.Ş. sold their 18.6 per cent. and 6.3 per cent. stakes, respectively, in Garanti Bankası to Banco Bilbao Vizcaya Argentaria S.A. ("BBVA") for U.S.\$3.8 billion and U.S.\$2 billion, respectively. In July 2015, BBVA purchased 14.8 per cent. of Garanti Bankası, A.Ş. eventually rendering BBVA the majority shareholder by holding a total of 39.9 per cent. of the shares. By purchasing 10 per cent. more shares in Garanti Bankası for USD 917 million, BBVA has increased its holding to 49.9 per cent. in February 2017. 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 July 2016, Q.S.C. acquired another 25.0 per cent of Alternatif Bank A.Ş. by paying USD 224.9 million. The Abraaj Group of BAE purchased 9.95 per cent. of Fibabanka in June 2016. Another notable acquisition in the Turkish Banking sector over the past few years was the transfer of the shares in Finansbank A.Ş., which bank was previously owned by the Özyeğin Family, by the National Bank of Greece (NBG) to Qatar National Bank in June 2016. As a result of this transfer, the trading name of the bank was changed to QNB Finansbank A.Ş.

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. This was the BRSA's first authorisation to establish a deposit bank in Turkey since 1997. Later in 2012, the BRSA also approved The Bank of Tokyo-Mitsubishi UFJ's application to establish a deposit bank and The Bank of Tokyo-Mitsubishi UFJ was granted an operation permit in September 2013. The deposit bank hence established later changed its trading name to MUFG Bank Turkey A.Ş. on 8th of April, 2018. In August 2013, Rabobank International Holding B.V. was granted an authorisation to establish a deposit bank in Turkey. In April 2014 Industrial and Commercial Bank of China Ltd. announced that it had signed an agreement to acquire 75.5 per cent. of Tekstilbank from GSD Holding A.Ş. On 22 May 2015, the contemplated transfer of shares was completed rendering the Industrial and Commercial Bank of China Ltd. the majority shareholder by holding a total of 92.812 per cent. of the shares. Most recently, Bank of China Turkey A.Ş. was granted a banking licence on 1 December, 2017.

Development banks are funded by international banks and institutions such as the World Bank. Their objective is to provide medium and long-term financing to Turkish companies that cannot raise such funding easily through the market. These banks do not accept customer deposits.

In October 2014, one of Turkey's largest state-owned banks, T.C. Ziraat Bankası, was given permission by the BRSA to establish a participation bank with U.S.\$300 million capital. T.C. Ziraat Bankası received approval on 12 May 2015 and launched its participation bank in May 2015. Additionally, Türkiye Halk Bankası, another state-owned bank, received approval in January 2015 to establish a participation bank. Furthermore on 27 February 2015, Vakıflar Bankası T.A.O. received regulatory approval to establish a participation bank – Vakıf Katılım Bankası A.Ş. became a legal entity following its registration at the trade registry on 25 June 2015 and is owned by the Republic of Turkey General Directorate of Foundations. Vakıf Katılım Bankası A.Ş. obtained official authorisation from the BRSA to operate as a participation bank on 11 February 2016 and started its participation banking activities as of 24 February 2016. Emlak Bank obtained official authorisation from the BRSA to operate as a participation bank and changed its name as Türkiye Emlak Katılım Bankası A.Ş. in February 2019. It began to operate in March 2019 after expiration of control by the SDIF. Finally, Golden Global Investment Bank was given permission by the BRSA to establish an investment and development bank with TRY 150 million in 15 May 2019.

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

### **Public Sector Commercial Banks**

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

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

The following table sets out the three state-owned commercial banks in Turkey, ranked for size of assets (non-consolidated basis) under Turkish GAAP accounting principles as at the dates presented.

<b>Bank</b>	<b>Total Assets as at 31 March 2019</b>	<b>Number of branches as at 31 March 2019</b>
	(TRY in millions)	
T.C. Ziraat Bankası A.Ş. ....	579,377	1,766
Türkiye Halk Bankası A.Ş. ....	407,034	998
Türkiye Vakıflar Bankası T.A.O. ....	363,224	950

Source: The Banks Association of Turkey.

### Private Sector Commercial Banks

Private sector commercial banks comprise full-service banks and corporate/trade finance-oriented banks. Private sector commercial banks can be divided into large and small branch network commercial banks. Most private sector banks belong to large industrial groups, which may provide additional support to the banks.

The following table ranks the larger branch network private sector commercial banks by asset size (non-consolidated basis) under BRSA accounting principles as at the dates presented.

<b>Bank</b>	<b>Ownership</b>	<b>Total Assets as at 31 March 2019</b>	<b>Number of branches as at 31 March 2019</b>
		(TRY in millions)	
Türkiye İş Bankası A.Ş. ....	Bank Pension Fund and Republican People's Party	425,978	1,336
Akbank T.A.Ş. ....	Sabancı Group	356,833	780
Yapı ve Kredi Bankası A.Ş. ....	Koç Financial Services	368,998	854
Türk Ekonomi Bankası A.Ş. ....	BNP Yatırımlar Holding A.Ş. and BNP Paribas Employee Pension Funds and TEB Holding A.Ş.	102,172	496
QNB Finansbank A.Ş. ....	Qatar National Bank P.S.C. (99.88%) and others (0.12%)	169,802	543

Source: The Banks Association of Turkey.

The following table ranks the small branch network private sector commercial banks by asset size (non-consolidated basis) as at the dates presented.

<b>Bank</b>	<b>Ownership</b>	<b>Total Assets as at 31 March 2019</b>	<b>Number of branches as at 31 March 2019</b>
		(TRY in millions)	
Fibabanka A.Ş. ....	Fiba Holding A.Ş. and Özyol	20,813	69
Anadolubank A.Ş. ....	Habas Group	14,914	112
Turkish Bank A.Ş. ....	Mehmet Tanju Özyol	1,438	11
Adabank ....	Transferred to SDIF	57	1

Source: The Banks Association of Turkey.

Despite significant growth in the number of small commercial banks, larger commercial banks (both private and public) continue to dominate the banking sector. As at the date of these Listing Particulars, out of 8 privately owned commercial banks, apart from the three largest banks, there are two medium sized privately owned commercial banks. Two private sector commercial banks are smaller banks, which have, in aggregate, relatively negligible banking market shares (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 these Listing Particulars there are 21 foreign banks in total, 15 of which are locally incorporated banks and 6 of which are Turkish branches of foreign banks.

The table below indicates certain information regarding foreign commercial banks in Turkey, together with their asset size (non-consolidated basis), under Turkish GAAP accounting principles as at the dates presented.

<b>Locally Incorporated Banks</b>	<b>Ownership</b>	<b>Total Assets as at 31 March 2019</b>	<b>Number of branches as at 31 March 2019</b>
<i>(TRY in millions)</i>			
Türkiye Garanti Bankası A.Ş. ...	Doğuş Group and BBVA	384,384	930
Finansbank A.Ş. ....	The Commercial Bank (Q.S.C.)	169,801	543
Denizbank A.Ş. ....	Emirates NBD Bank PJSC	146,907	710
Türk Ekonomi Bankası A.Ş.	TEB Holding A.Ş., BNPP Yatirimlar Holding A.Ş., BNP Paribas Fortis Yatirimlar Holding A.Ş., BNP Paribas SA, Kocaeli Ticaret Odasi	103,511	496
ING Bank A.Ş. ....	ING Bank N.V.	59,681	223
Odea Bank A.Ş. ....	Bank Audi Sal and Audi Saradar Private Bank	31,059	45
HSBC Bank A.Ş. ....	HSBC Bank plc	30,169	82
Alternatif Bank A.Ş. ....	Comm. Bank of Qatar & Anadolu End. Group	24,997	49
Burgan Bank A.Ş. ....	Burgan Bank S.A.K	19,128	38
Citibank A.Ş. ....	Citi Group	13,328	3
ICBC Turkey Bank A.Ş. ....	ICBC	19,038	44
The Bank of Tokyo-Mitsubishi UFJ Turkey A.Ş. ....	The Bank of Tokyo-Mitsubishi UFJ Ltd	15,392	1
Türkland Bank A.Ş. ....	Arab Bank Suisse, Arab Bank and BankMed	3,498	23
Arap Türk Bankası A.Ş. ....	Libyan Arab Foreign Bank Tripoli Libya	4,562	7
Deutsche Bank A.Ş. ....	Deutsche Bank AG	2,664	1
Rabobank A.Ş. ....	Rabobank NV	1,759	1

<b>Branches of Foreign Bank Incorporation</b>	<b>Country of Incorporation</b>	<b>Total Assets as at 31 March 2019</b>	<b>Number of branches as at 31 March 2019</b>
<i>(TRY in millions)</i>			
Intesa Sanpaolo S.p.A. ....	Italy	13,117	1
Bank of China ....	Bank of China	1,426	1
JP Morgan Chase Bank N.A. ....	United States	673	1
Bank Mellat ....	Iran	1,006	3
Société Générale ....	France	807	1
Habib Bank Limited ....	Pakistan	221	1

Source: The Banks Association of Turkey.

### Development and Investment Banks

Development banks are funded by the CBT, international banks and institutions such as the World Bank, the European Investment Bank and various export credit agencies. Their objective is to provide medium and long-term financing to large and medium sized companies on a project basis. Development banks do not accept deposits and are also active in foreign exchange and securities transactions. Development and investment banks are subject to certain provisions of the Banking Law (including article 77 and excluding articles 54, 55, 56, 57, 61, 63, 64, 106 – 129, 130(a), 131 and 142).

As at the date of these Listing Particulars there are 4 state-owned, 6 privately-owned and 3 foreign development and investment banks in Turkey. The following table sets out these banks and their assets (non-consolidated basis) and number of branches as at the dates presented.

<b>Bank</b>	<b>Total Assets as at 31 March 2019</b>	<b>Number of branches as at 31 March 2019</b>
<i>(TRY in millions)</i>		
<b>State-owned Development Banks</b>		
Türk Eximbank .....	154,981	15
İller Bankası A.Ş. ....	32,578	19
Türkiye Kalkınma Bankası A.Ş. ....	16,587	1
<b>Privately-owned Development and Investment Banks</b>		
Türkiye Sınayi Kalkınma Bankası A.Ş. ....	41,591	3
İstanbul Takas ve Saklama Bankası A.Ş. ....	17,907	1
Nürol Yatırım Bankası A.Ş. ....	2,760	1
GSD Yatırım Bankası A.Ş. ....	261	2

<b>Bank</b>	<b>Total Assets as at 31 March 2019</b>	<b>Number of branches as at 31 March 2019</b>
<i>(TRY in millions)</i>		
Diler Yatırım Bankası A.Ş. ....	162	1
<b>Foreign Development and Investment Banks</b>		
Pasha Yatırım Bankası A.Ş. ....	1,499	1
Bank Pozitif Kredi ve Kalkınma Bankası ....	995	1
Merrill Lynch Yatırım Bankası ....	520	1
Standard Chartered Yatırım Bankası Türk A.Ş. ....	88	1

Source: *The Banks Association of Turkey.*

### **Participation Banks**

Participation banks structure their products and provide services on an interest-free basis. Participation banks are subject to the Banking Law and are permitted to engage in financial activities other than accepting deposits. As at the date of these Listing Particulars, there are six participation banks operating in Turkey. Türkiye Emlak Katılım Bankası A.Ş. newly re-started started its operations on 21 March 2019. Each of the participation banks is a member of PBAT.

The table below sets out the remaining five participation banks in Turkey, ranked by size of assets (non-consolidated basis) under Turkish GAAP accounting principles as at the dates presented.

<b>Bank</b>	<b>Total Assets as at 31 March 2019</b>	<b>Number of branches as at 31 March 2019</b>
<i>(TRY in millions)</i>		
Kuveyt Türk Katılım Bankası A.Ş. ....	83,569	419
Türkiye Finans Katılım Bankası A.Ş. ....	51,218	308
Al Baraka Türk Katılım Bankası A.Ş. ....	44,593	231
Ziraat Katılım Bankası A.Ş. ....	24,957	82
Vakıf Katılım Bankası A.Ş. ....	23,416	91
Türkiye Emlak Katılım Bankası A.Ş. ....	1,412	1

Source: *Participation Banks Association of Turkey.*

### **Key Regulatory Characteristics of the Turkish Banking System**

#### ***Collection of Funds and Financing Activities of Participating Banks***

Participation banks may collect funds in two ways:

- (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 investment by the relevant financial institutions. Such accounts do not require payments of pre-determined return.

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

#### ***Shareholding***

The direct or indirect acquisition by a person of shares that represent 10 per cent. or more of the share capital of any bank, or the direct or indirect acquisition or disposal of such shares by a person if the total number of shares held by such shareholder increases above or falls below 10 per cent., 20 per cent., 33 per cent. or 50 per cent. of the share capital in that bank, requires the permission of the BRSA in order to preserve full voting and other shareholders' rights associated with such shares. In addition, irrespective of the above thresholds, an issuance, assignment and transfer of: (i) preference shares attached with the right



to nominate a member to the board of directors or audit committee; or (ii) an issuance of new shares with such preferences is also subject to the authorisation of the BRSA. In the absence of such authorisation, a holder of such thresholds of shares cannot be registered in the share register, which effectively deprives such shareholder of the ability to participate in shareholder meetings or to exercise voting or other shareholders' rights with respect to the shares, but not of the right to collect dividends declared on such shares. Registrations made in the share register in the absence of such authorisation are invalid.

The board of directors of a bank is responsible for ensuring that shareholders attending general assemblies have obtained the applicable authorisations from the BRSA. If the BRSA determines that a shareholder has exercised voting or other shareholder's rights (other than the right to collect dividends) without due authorisation as described in the preceding paragraph, then it is authorised to direct the board of directors of a bank to cancel any applicable general assembly resolutions (including by way of taking any necessary precautions concerning such banks within its authority under the Banking Law if such procedure has not been started yet). If the shares are obtained on the stock exchange, then the BRSA may also impose administrative fines on shareholders who exercise their rights or acquire or transfer shares as described in the preceding paragraph without BRSA authorisation. Unless and until a shareholder obtains the necessary share transfer approvals from the BRSA, the SDIF has the authority to exercise such voting and other shareholders' rights (other than the right to collect dividends and priority rights) attributable to such shareholder.

### ***Lending Limits***

Turkish law sets out certain limits on the asset profile of banks and other financial institutions which are designed to protect those institutions from excessive exposure to any one counterparty (or group of related counterparties). In particular:

- Cash credits and non-cash credits such as letters of guarantee, counter-guarantees, sureties, avals, endorsements and acceptances extended by a bank and undertakings having the same quality, bonds and similar capital market instruments purchased by it, loans (whether deposits or otherwise), receivables arising from the future sales of assets, overdue cash receivables, accrued but uncollected interest, amounts of non-cash credits converted into cash, receivables arising from reverse repo transactions and risks undertaken due to the futures and options contracts and other similar contracts, partnership interests and shareholding interests are considered as a credit irrespective of the account through which they are traced. Credits directly or indirectly extended to, a real person or legal entity in excess of 10 per cent. of the bank's equity capital are to be considered major credits and the total of such major credits, cannot exceed eight times its equity capital.
- The Banking Law restricts the total financial exposure (including extension of credits, issuance of guarantees, etc.) that a bank may have to any one customer or a risk group, directly or indirectly, to 25 per cent. of its equity capital. In calculating such limit, a credit extended to an unincorporated partnership is deemed to be extended to the partners in proportion to their liabilities. A risk group is defined as an individual, his or her spouse and children and partnership(s) in which any one of such persons is a director or general manager, as well as partnerships that are directly or indirectly controlled by any one of such persons, either individually or jointly with third parties, or in which anyone of such persons participate with unlimited liability. Furthermore, a bank, its shareholders holding 10 per cent. or more of the bank's voting rights or the right to nominate board members, its board members, its general manager and partnerships directly or indirectly, individually or jointly, controlled by any of these persons or a partnership in which these persons participate with unlimited liability, constitute a risk group, for which the lending limits are reduced to 20 per cent. of a bank's equity capital, subject to the BRSA's discretion to increase such lending limits up to 25 per cent or to lower it to the legal limit. Real and legal persons having surety, guarantee or similar relationships where the insolvency of one is likely to lead to the insolvency of the other are included in the applicable risk groups. Lending limits shall be applied as 20 per cent. for the risk group consisting of a bank together with its qualified shareholders (as defined in the Banking Law), members of board of directors and general managers as well as the partnerships controlled by the same individually or jointly, directly or indirectly.
- Loans made available to a bank's or other registered shareholders holding more than 1 per cent. of the share capital of the bank irrespective of whether these are controlling shareholders or qualified shareholders and their risk groups may not exceed 50 per cent. of the bank's equity capital.

Banks are obliged to regularly report to the BRSA any loans extended to persons who are in their risk groups. The banks are obliged to liquidate loans that are made in violation of applicable regulations by no later than six months after being so requested by the BRSA.

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

The BRSA has taken certain decisions to mitigate the adverse effects of the COVID-19 outbreak on the Turkish economy. In this regard, on 5 May 2020 pursuant to its decision numbered 9010, the BRSA announced that the total amount of Turkish Lira placements, deposits, repos and loans of Turkish banks entered into with financial institutions abroad cannot exceed 0.5 per cent. of their latest regulatory equity capital, so long as the extraordinary circumstances due to COVID-19 outbreak continue.

Pursuant to Article 55 of the Banking Law, the following transactions are exempt from the above-mentioned lending limits:

- transactions collateralised with cash, cash-like assets and accounts and precious metals;
- transactions carried out with the Treasury, the CBT, the Privatisation Administration and the Mass Housing Administration, Türkiye Varlık Fonu Yönetimi Anonim Şirketi or Turkey Wealth Fund, as well as the transactions carried out against bills, bonds and similar securities issued or guaranteed by these institutions;
- transactions carried out in the markets before the CBT and in other 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 between the banks under the principles set out by BRSA;
- transactions considered as "deductibles" when calculating the shareholders' equity; and
- other transactions to be determined by the board of the BRSA (the "**BRSB**").

#### ***Loan Loss Reserves***

Pursuant to Article 53 of the Banking Law, banks must formulate, implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans and other receivables and to reserve an adequate level of provisions against impairment in the value of other assets, for qualification and classification of assets, receipt of guarantees and securities and measurement of their value and reliability. In addition, such policies must address issues such as monitoring the loans, follow-up procedures and the repayment of overdue loans. Banks must also establish and operate systems to perform these functions. All special provisions set aside for loans and other receivables in accordance with Article 53 are considered as expenditures deductible from the corporate tax base in the year they are set aside.

Procedures relating to loan loss reserves for non-performing loans are set out in Article 53 of the Banking Law and in regulations issued by the BRSA. Pursuant to the Regulation on the Principles and Procedures Related to the Determination of Qualifications of the Loans and other Receivables by Banks and the Reserves to be Set Aside (as amended) (the "**Regulation**"), banks are required to classify their loans and receivables into one of the following five groups:

1. *Standard Loans and Other Receivables*: this group involves loans and other receivables:
  - (a) that have been disbursed to natural persons and legal entities with financial creditworthiness;
  - (b) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor;
  - (c) the reimbursement of which has been made within due dates or have not been overdue for more than 30 days, for which no reimbursement problems are expected in the future and which can be fully collected without recourse to any security; or
  - (d) for which no weakening of the creditworthiness of the debtor concerned has been found.
  - (e) that are subject to 12-month expected credit loss provisioning according to TFRS 9.

On 27 March 2020 (with retroactive effect from 17 March 2020), the BRSA announced, as part of the measures taken to combat the impact of the COVID-19 pandemic, a temporary rule (effective until 31 December 2020) providing that the 30 days referred to in clause (c) is replaced with 90 days, resulting in loans remaining categorised as Group I loans longer and then moving into Group II loans at 90 days.

The terms of a bank's loans and receivables which have been classified into this group may be modified provided they continue to meet the classification requirements for this group. However, in the event that such modification relates to the extension of the initial payment plan under the loan or receivable, a general loan provision, not being less than five times the sum of 1 per cent. of the cash loan portfolio plus 0.2 per cent. of the non-cash loan portfolio (for example, letters of guarantee, acceptance credits, letters of credit undertakings and endorsements) (these rates may be applied by banks for loans relating to transit trade, export sales and deliveries and services and activities resulting in gains of foreign currency as 0 per cent., for cash loan portfolio extended to small and medium sized enterprises as 0.5 per cent. and for non-cash loan portfolio of small and medium sized enterprises as 0.1 per cent.) is required to be set aside and such modifications are required to be disclosed in the financial reports which are disclosed to the public. This ratio is required to be at least 2.5 times the Consumer Loans Provisions (as defined below in the second paragraph of the section titled "*General Provisions*") for amended consumer loan agreements (other than auto and housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof are made in a timely manner and **provided that** the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

2. *Closely Monitored Loans and Other Receivables*: This group involves loans and other receivables:
  - (a) that have been disbursed to natural persons and legal entities with financial creditworthiness and for the principal and interest payments of which there is no problem at present, but which need to be monitored closely due to reasons such as negative changes in the solvency or cash flow of the debtor, probable materialisation of the latter or significant financial risk carried by the person utilising the loan;
  - (b) whose principal and interest payments according to the conditions of the loan agreement are not likely to be repaid according to the terms of the loan agreement and where the persistence of such problems might result in partial or full non- reimbursement risk;

The following loans belong to this sub-group:

- (i) extended to natural persons and legal entities with a credible financing structure, but for which negative signs are observed or forecasted in the debtor's solvency or cash flows due to unfavorable developments in macroeconomic conditions or in the sectors in which the debtor operates, or, independent of the aforementioned factors, due to adverse developments specific to the debtor;
  - (ii) requiring close monitoring due to reasons such as the debtor facing a substantial financial risk at the granting stage of the loan;
  - (iii) likely suffers from problems regarding timely payments of principal or interest in accordance with the contract and full repayment of principal and interest without realization of collateral is unlikely if such problems are not solved;
  - (iv) where the creditworthiness of the debtor has not weakened since the date the loan was granted but is likely to weaken due to an irregular and unmanageable cash flow structure;
  - (v) where delinquency in principal and/or interest payments lasts for a period of time (starting on the maturity date) more than 30 days but not more than 90 days due to reasons that cannot be interpreted as credit deterioration;
  - (vi) subject to expected credit loss provisioning required for financial assets with a significant increase in credit risk according to TFRS 9;
  - (vii) where net realizable value of collateral is below the book value of receivables, in the case of repayment being solely dependent upon realisation of collateral;
  - (viii) subject to forbearance measures if the loan were to be classified under Stage 1 (*Standard Loans and Other Receivables*) or Stage 2 (*Closely Monitored Loans and Other Receivables*) and it does not satisfy the criteria for "non-performing loans"; or
  - (ix) subject to forbearance measures if the loan were to be classified as "non-performing" and classified as "performing" upon the realization of conditions stated in Article 7 of the Regulation.
- (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 Stage 3 below; or
- (d) although the credit standing of the debtor has not weakened, there is a high likelihood of it weakening due to the debtor's irregular cash flow which is difficult to control.

On 27 March 2020 (with retroactive effect from 17 March 2020), the BRSA announced, as part of the measures taken to combat the impact of the COVID-19 pandemic, a temporary rule (effective until 31 December 2020) providing that the 30 days referred to in clause (b)(v) is replaced with 90 days, resulting in loans remaining categorised as Stage 1 loans longer and then moving into Stage 2 loans at 90 days.

If a loan customer has multiple loans and any of these loans is classified in Stage 2 and others are classified in Stage 1, then all of such customer's loans are required to be classified in Stage 2. The terms of a bank's loans and receivables which fall within the classification requirements of this stage 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 stage 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;

The following loans and other receivables belong to this sub-group:

- (i) where the debtor's creditworthiness has deteriorated;
- (ii) where full collection is unlikely without realizing collateral since net realizable value of collateral or debtor's own funds are inadequate to pay the debt on its maturity and loss is likely unless observed problems are resolved;
- (iii) where principal and/or interest payments are overdue for a period of time more than 90 days but not more than 180 days;
- (iv) where the bank is of the opinion that collection of principal and /or interest will occur more than 90 days from the maturity date or the due date due to reasons such as the debtor having problems in raising capital for its operating activities or in accessing additional liquidity due to unfavorable developments in macroeconomic conditions or in the sectors in which the debtor operates or, independent of the aforementioned factors, due to adverse developments specific to the debtor; or
- (v) if it has been classified as performing loans following the application of forbearance measures but principal and/or interest payments are overdue for more than 30 days within the one-year probation period or the loan is subject to forbearance measures within the one year probation period; 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.

On 17 March 2020, as part of the measures taken to combat the impact of the COVID-19 pandemic, the BRSA implemented a temporary rule (effective until 31 December 2020) providing that the 90 days referred to in clauses (c)(iii) and (iv) are replaced with 180 days, resulting in loans remaining categorised as Stage 2 loans longer.

4. *Loans and Other Receivables with Remote Collection Ability:* This stage 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) "Doubtful Loans": The following loans belong to this sub-group:
    - (i) where full collection of principal and/or interest in accordance with the contract is unlikely without realizing collateral;
    - (ii) where the debtor's creditworthiness has deteriorated seriously but the loan is not considered a complete loss due to the potential interventions available such as a new merger, new financings and new capital contributions for the debtor and recoverability of the loan;
    - (iii) where principal and/or interest payments are overdue for a period of time between 181 days and one year from the due date; or
    - (iv) where delinquency in the payments of principal and /or interest is expected for more than 180 days from the maturity date or the due date due to unfavorable developments in macroeconomic conditions or in the sectors in which the debtor operates, or, independent of the aforementioned factors, due to adverse developments specific to the debtor.
  - (e) 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 stage 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.
  - (d) "Loans classified as a Loss": The following loans belong to this category:
    - (i) where nil or negligible collection is expected since the creditworthiness of the debtor has completely deteriorated;
    - (ii) where despite otherwise meeting the criteria for being classified under Stage 3 (*Loans and Other Receivables with Limited Collection Ability*) or Stage 4 (*Loans and Other Receivables with Remote Collection Ability*), delinquency in payments is expected for more than a year; or
    - (iii) where principal and/or interest payments are overdue for a period of time more than one year from the due date.

### ***Exchange Rate Exposure***

According to the Calculation of the Standard Ratio of the Net Short Foreign Currency Position to the Capital Base on a Consolidated and an Unconsolidated Basis by the Banks and its Implementation (the "**Calculation Regulation**"), banks are obliged to calculate the standard ratio of their net short foreign currency position to their capital base daily in accordance with the criteria on the declaration forms to be sent to the BRSA by the banks. The weekly average of the absolute values of the standard ratios of a bank's net short foreign currency position to its capital base, calculated over the working days in that week, cannot exceed 20 per cent., based on both consolidated and non-consolidated financials.

## *Capital Adequacy*

Article 45 of the Banking Law defines "**Capital Adequacy**" as having adequate equity against losses that could arise from the risks encountered. Pursuant to the same article, banks must calculate, achieve, maintain and report their capital adequacy ratio, which, within the framework of the BRSA's regulations, cannot be less than 8.0 per cent. Despite the statutory 8.0 per cent. minimum capital adequacy ratio requirement, the BRSA has declared in the press that its approach is, and will continue to be, to prohibit banks with a capital adequacy ratio less than 12.0 per cent. from opening new branches.

The BRSA is authorised to increase the minimum capital adequacy ratio and the minimum consolidated capital adequacy ratio, to set different ratios for each bank and to revise the calculation and notification periods, but must consider each bank's internal systems as well as its asset and financial structures. Both the minimum total capital adequacy ratio and the minimum consolidated capital adequacy ratio for the group as required by the BRSA is currently 8.0 per cent. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4.0 per cent. higher than the legal capital ratio of 8.0 per cent (in each case, excluding capital buffers).

In order to implement the rules of the report entitled "*A Global Regulatory Framework for More Resilient Banks and Banking Systems*" published by the Basel Committee in December 2010 and revised in June 2011 (*i.e.*, Basel III) into Turkish law, the 2013 Equity Regulation and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks were published in the Official Gazette dated 23 October 2015 and numbered 29511 and entered into force on 31 March 2016. The 2013 Equity Regulation defines capital of a bank as the sum of: (a) principal capital (*i.e.*, Tier I capital), which is composed of core capital and additional principal capital (*i.e.*, additional Tier I capital); and (b) supplementary capital (*i.e.*, Tier II capital) *minus* capital deductions. Pursuant to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks (as amended): (i) both the minimum core capital adequacy ratio and the minimum consolidated core capital adequacy ratio are 4.5 per cent. and (ii) both the minimum Tier I capital adequacy ratio and the minimum consolidated Tier I capital ratio are 6.0 per cent.

In addition, the Regulation on the Capital Maintenance and Cyclical Capital Buffer and the Regulation on the Measurement and Evaluation of Leverage Levels of Banks were published in the Official Gazette dated 5 November 2013 and numbered 28812, which regulations entered into force on 1 January 2014 (with the exception of certain provisions of the latter regulation that entered into effect on 1 January 2015). The Regulation on the Capital Maintenance and Cyclical Capital Buffer provides additional core capital requirements both on a consolidated and bank-only basis. Pursuant to this regulation, the additional core capital requirements are to be calculated by the multiplication of the amount of risk-weighted assets by the sum of a capital maintenance buffer ratio and bank-specific countercyclical buffer ratio. The Regulation on the Measurement and Evaluation of the Leverage Level of Banks seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and bank-only basis against leverage risks.

Lastly, the Regulation on Liquidity Coverage Ratios, published in the Official Gazette dated 21 March 2014 and numbered 28948, seeks to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period. Such regulation provides that the ratio of the high quality asset stock to the net cash outflows, both of which are calculated in line with the regulation, cannot be lower than 100 per cent. in respect of total consolidated and non-consolidated liquidity and 80 per cent. in respect of total consolidated and non-consolidated foreign exchange liquidity; *however*, pursuant to the BRSA Decision on Liquidity Ratios, for a period starting from 5 January 2015 and ending 31 December 2015, such ratios were to be applied as 60 per cent. and 40 per cent., respectively. Furthermore, pursuant to the BRSA Decision on Liquidity Ratios, such ratios shall be applied in increments of ten percentage points for each year from 1 January 2016 until 1 January 2019. Unconsolidated total and foreign currency liquidity coverage ratios cannot be non-compliant more than six times within a calendar year. This includes non-compliances that have already been remedied. With respect to consolidated total and foreign currency liquidity coverage, these cannot be non-compliant consecutively within a calendar year and such ratios cannot be non-compliant for more than two times within a calendar year, including the non-compliances that have already been remedied. However, pursuant to the BRSA's decision numbered 8967 dated 26 March 2020, due to the COVID-19 outbreak, banks are exempt from this requirement until 31 December 2020. For other coronavirus-related measures, see "*Overview of the Turkish Banking Sector and Regulations—Recent Coronavirus-related Measures*".

The Regulation on the Calculation of Banks' Liquidity Coverage Ratios, through which BRSA seeks to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period, both on a consolidated and unconsolidated basis, was published in the Official Gazette, dated 21 March 2014 and numbered 28948 (the "**Regulation on Liquidity Coverage Ratios**") and entered into effect immediately with the provisions thereof becoming applicable as of 1 January 2014 (with the exception of certain provisions relating to minimum coverage ratio levels and the consequences of failing to maintain compliance, which entered into effect on 5 January 2015, pursuant to the BRSA Decision on Liquidity Ratios). However, on 26 March 2020, the BRSA announced that any non-compliance by a bank with the minimum requirements for liquidity coverage ratios will not require such bank to report their remediation measures under the Regulation on Liquidity Coverage Ratios to the BRSA until 31 December 2020.

Under the 2013 Equity Regulation, debt instruments and their issuance premia can be included either in additional Tier I capital or in Tier II capital subject to certain conditions; *however*, such amount is required to be reduced by the amount of reciprocal cross holdings of capital (investments in the capital of other banks, other financial institutions and insurance entities who are the creditors of aforementioned debt instruments).

In accordance with Basel III rules, each bank is required to prepare an internal capital adequacy assessment process report (the "**ICAAP Report**") representing its own assessment of its capital requirements. The first ICAAP Report covering the activities of Kuveyt Türk in 2012 was submitted to the BRSA on 26 June 2013. Subsequent filings of the ICAAP Report are required to be made at the end of March in each year. See also a discussion of the implementation of Basel III in "*-Basel Committee - Basel III*" below.

Currently, all Turkish Lira-denominated claims on sovereign entities in Turkey and the Central Bank must have a 0 per cent. risk weight. The risk weights for foreign currency-denominated claims on the Turkish sovereign and the Central Bank were 50 per cent. or 100 per cent. depending on the external credit assessment institutions used for calculating the risk-weighted assets for capital adequacy purposes. However, the BRSA, with its decision dated 24 February 2019 and numbered 7234, determined that banks may apply a risk weight of 0 per cent. for foreign currency required reserves (including gold) at the Central Bank under the Capital Adequacy Regulation. Most recently, on 16 April 2020, the BRSA announced that banks may apply 0 per cent. risk weights for foreign currency-denominated claims on the Turkish Government.

On 23 March 2020, the BRSA issued a press release announcing certain measures to facilitate the calculation of the capital adequacy ratio and net foreign currency positions on banks' balance sheets due to financial market fluctuations caused by the COVID-19 outbreak. Pursuant to the measures introduced by the BRSA, until 31 December 2020, banks will be entitled to: (i) use the year-end buying exchange rate of 2019 (i.e., U.S. Dollar 1 = Turkis Lira 5.94) in calculating the amount subject to credit risk as per Capital Adequacy Regulation for the calculation of the valued amounts as per TAS and the relevant reserves to set aside related to their cash and non-cash assets, excluding the assets in foreign currency measures in historical cost; (ii) calculate the equity amount to be used for capital adequacy ratio in accordance with the Regulation on Equities of Banks published in the Official Gazette No. 28756 dated 5 September 2013, by disregarding the negative net valuation differences related to the securities the banks held in their "Securities the fair value difference of which is reflected on other comprehensive income" portfolio prior to 23 March 2020 (for the avoidance of doubt, securities acquired after 23 March 2020 will not be subject to this exception); and (iii) calculate their net foreign currency position by disregarding the value decrement of the securities held by the banks in their portfolio prior to 23 March 2020 (for the avoidance of doubt, the portfolios acquired after 23 March 2020 will not be subject to this exception).

#### *Tier II Rules under Turkish Law*

*Previous Tier II Rules.* Secondary subordinated debts were, through 31 December 2013, regulated under the 2006 Equity Regulation. The following describes the rules previously applicable to Kuveyt Türk's secondary subordinated debts that were issued before 1 January 2014, which rules continue to apply to such subordinated debts notwithstanding the 2013 Equity Regulation.

According to the 2006 Equity Regulation, the net worth of a bank (i.e., the bank's own funds) consists of main capital and supplementary capital *minus* capital deductions. In the relevant definition, "secondary subordinated loans" (which as defined can also include bonds) are listed as one of the items that constitute a bank's supplementary capital (i.e., "Tier II" capital); *however*, loans provided to the banks by their



affiliates or debt instruments issued to their affiliates do not fall within the scope of such "secondary subordinated loans." Unless temporarily permitted by the BRSA in exceptional cases, the portion of primary subordinated debts that is not included in the calculation of "Tier I" capital *plus* the total secondary subordinated debts that, in aggregate, exceeds 50 per cent. of "Tier I" capital is not taken into consideration in the calculation of "Tier II" capital. During the final five years of a secondary subordinated debt, the amount thereof to be taken into account in the calculation of the "Tier II" capital would be reduced by 20 per cent. per year. In addition, any secondary subordinated debt with a remaining maturity of less than one year is not included in the calculation of "Tier II" capital. A secondary subordinated debt is taken into account in the calculation of "Tier II" capital on the date of the accounting of such secondary subordinated debt on the books of the relevant bank.

The 2006 Equity Regulation requires banks to obtain the prior permission of the BRSA for a debt to be classified as a "secondary subordinated loan." In order to obtain such permission, the bank must submit to the BRSA the original copy or a notarized copy of the applicable agreement(s), and if an applicable agreement is not yet signed, a draft of such agreement (with submission of its original to be made after receipt of the BRSA's consent). The BRSA would, in considering any such request for its permission, determine if the credit in question meets the following criteria:

- the debt must have an initial maturity of at least five years and the agreement must contain express provisions that prepayment of the principal cannot be made before the expiry of the five-year period and the creditors waive their rights to make any set-offs against the bank with respect to such debt; *it being understood* that interest and other charges may be payable during such five year period;
- there may be no more than one repayment option before the maturity of the debt and, if there is a repayment option before maturity, the date of exercising the option must be clearly defined;
- the creditors must have agreed expressly in the agreement that in the event of dissolution and liquidation of the bank, such debt will be repaid before any payment to shareholders for their capital return and payments on primary subordinated debts but after all other debts;
- it must be stated in the agreement that the debt is not related to any derivative operation or contract violating the condition stated in clause (c) or tied to any guarantee or security, in one way or another, directly or indirectly, and the debts cannot be assigned to any affiliates of the bank;
- it must be utilized as one single drawdown if utilized in the form of a loan and it must be wholly collected in cash if in the form of a debt instrument; and
- payment before maturity is subject to approval of the BRSA.

If the interest rate applied to a secondary subordinated debt is not explicitly indicated in the loan agreement or the text of the debt instrument or if the interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorize the inclusion of the loan or debt instrument in the calculation of "Tier II" capital.

In cases where the parties subsequently agree that a secondary subordinated debt be prepaid prior to its stated maturity (but in any event after the fifth anniversary of its utilization), they would be required to apply for the BRSA's permission. Upon any such application, the BRSA would, in its sole discretion, determine if any such prepayment would adversely affect the bank's credit lines and limits or its compliance with the applicable standard ratios and give or decline to give its consent accordingly.

In connection with secondary subordinated debts pursuant to which it has been agreed that a prepayment option shall be available and the remaining maturity is calculated by way of taking into account the originally agreed maturity date (*i.e.*, not on the basis of the prepayment option date), such prepayment option can only be exercised with the consent of the BRSA, which would apply the criteria stated above.

Subordinated debt instruments that do not meet the New Tier II Conditions described below as of 1 January 2014 are not required to meet such conditions or otherwise become subject to such conditions (*e.g.*, they are not subject to the new loss absorbency rules); *however*, the issuing bank will be permitted to take them into account for equity calculation only after reducing their nominal amount over the total amount of the Tier II instruments by 10 per cent. each year effective from 1 January 2015. Additionally, debt instruments

that provide for an increase in interest rate after 1 January 2015 shall not be taken into account in equity calculations as of the date of increase.

*New Tier II Rules.* According to the 2013 Equity Regulation (including provisional articles relating to the transition period to the New Tier II Rules), which came into force on 1 January 2014, Tier II capital shall be calculated by subtracting capital deductions from general provisions that are set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts for receivables (as the case may be, depending upon the method used by the bank to calculate the credit risk amounts of the applicable receivables) and the debt instruments that have been approved by the BRSA upon the application of the board of directors of the applicable bank along with a written statement confirming compliance of the debt instruments with the conditions set forth below and their issuance premia (the "**New Tier II Conditions**"):

- the debt instrument shall have been issued by the bank and approved by the CMB and shall have been fully collected in cash;
- in the event of dissolution of the bank, the debt instrument shall have priority over debt instruments that are included in additional Tier I capital and shall be subordinated with respect to rights of deposit holders and all other creditors;
- the debt instrument shall not be related to any derivative operation or contract violating the condition stated in clause (b) nor shall it be tied to any guarantee or security, in one way or another, directly or indirectly;
- the debt instrument must have an initial maturity of at least five years and shall not include any provision that may incentivize prepayment, such as dividends and increase of interest rate;
- if the debt instrument includes a prepayment option, such option shall be exercisable no earlier than five years after issuance and only with the approval of the BRSA; approval of the BRSA is subject to the following conditions:
  - (a) the bank should not create any market expectation that the option *will* be exercised by the bank;
  - (b) the debt instrument shall be replaced by another debt instrument either of the same quality or higher quality, and such replacement shall not have a restrictive effect on the bank's ability to sustain its operations; or
  - (c) following the exercise of the option, the equity of the bank shall exceed the higher of: (1) the capital adequacy requirement that is to be calculated pursuant to the regulation on the measurement and evaluation of capital adequacy of banks along with the procedures and principles on capital buffers that are to be set by the BRSA, (2) the capital requirement derived as a result of an internal capital adequacy evaluation process of the bank and (3) the higher capital requirement set by the BRSA (if any);

*however*, if tax legislation or other regulations are materially amended, a prepayment option may be exercised; **provided that** the above conditions are met and the BRSA provides its approval;

- the debt instrument shall not provide investors with the right to demand early amortization except for during a bankruptcy or dissolution process relating to the issuer;
- the debt instrument's dividend or interest payments shall not be linked to the creditworthiness of the issuer;
- the debt instrument shall not be: (i) purchased by the issuer or by corporations controlled by the issuer or significantly under the influence of the issuer or (ii) assigned to such entities, and its purchase shall not be directly or indirectly financed by the issuer itself;
- if there is a possibility that the bank's operating license would be cancelled or the probability of transfer of management of the bank to the SDIF arises pursuant to Article 71 of the Banking Law,

removal of the debt instrument from the bank's records or the debt instrument's conversion to share certificates would be possible if the BRSA so decides; and

- in the event that the debt instrument has not been issued by the bank itself or one of its consolidated entities, the amounts obtained from the issuance shall be immediately transferred without any restriction to the bank or its consolidated entity (as the case may be) in accordance with the rules listed above.

Loans (as opposed to securities) that have been approved by the BRSA upon the application of the board of directors of the applicable bank accompanied by a written statement confirming that all of the New Tier II Conditions (except the issuance and approval by the CMB) are met also can be included in Tier II capital calculations.

In addition to the conditions that need to be met before including debt instruments and loans in the calculation of Tier II capital, the 2013 Equity Regulation also provides a limit for inclusion of general provisions to be set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts of receivables (as the case may be, depending upon the method used by Kuveyt Türk to calculate the credit risk amount of such receivables) in Tier II capital such that: (a) the portion of general provisions that exceeds 1.25 per cent. of the risk-weighted sum of the receivables and/or (b) the portion of surplus of provisions and capital deductions that exceeds 6 parts per 1,000 of the receivables to which they relate is not taken into consideration in calculating the Tier II capital.

Furthermore, in addition to the New Tier II Conditions stated above, the BRSA may require new conditions for each debt instrument and the procedure and principles regarding the removal of the debt instrument from the bank's records or the debt instrument's conversion to share certificates are determined by the BRSA.

Applications to include debt instruments or loans into Tier II capital are required to be accompanied with the original copy or a notarized copy of the applicable agreement(s) or, if an applicable agreement is not yet signed, a draft of such agreement (with submission of its original or a notarized copy to BRSA within five business days of the signing of the agreement). If the interest rate is not explicitly indicated in the loan agreement or the prospectus of the debt instrument (*borçlanma aracı izahnamesi*), or if the interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorize the inclusion of the loan or debt instrument in the calculation of Tier II capital.

Debt instruments and loans that are approved by the BRSA are included in accounts as Tier II capital as of the date of transfer to the relevant accounts in the applicable bank's records. Loan agreements and debt instruments that have been included in Tier II capital calculations, and that have less than five years to maturity, shall be included in Tier II capital calculations after being reduced by 20 per cent. each year.

#### *Basel Committee*

*Basel II.* The most significant difference between the capital adequacy regulations in place before 1 July 2012 and the Basel II regulations is the calculation of risk-weighted assets related to credit risk. The current regulations seek to align more closely the minimum capital requirement of a bank with its customers' credit risk profile. The impact of the new regulations on capital adequacy levels of Turkish banks largely stems from exposure to the Turkish government, principally through the holding of Turkish government bonds. While the previous rules provided a 0 per cent. risk weight for exposures to the Turkish sovereign and the Turkish Central Bank, the rules of Basel II require that claims on sovereign entities and their central banks be risk-weighted according to their credit assessment, which currently results in a 50 per cent. risk weighting for Turkey; *however*, the Turkish rules implementing the Basel principles in Turkey (*i.e.*, the "**Turkish National Discretion**") revises this general rule by providing that all Turkish lira-denominated claims on sovereign entities in Turkey and all foreign currency-denominated claims on the Turkish Central Bank will have a 0 per cent. risk weight. As a result of these implementation rules, the impact of the new regulations has been fairly limited when compared to the previous regime. The BRSA announced that the migration from the previous regime to Basel II regulations had an effect of an approximately 0.20 per cent. decline in the capital adequacy levels of the Turkish banking system as of 31 July 2012. This figure is consistent with Kuveyt Türk's own experience (with its capital adequacy actually increasing slightly due to its diversified portfolio of retail loans, which benefit from certain preferential capital treatments) and thus no additional capital needs are projected for Kuveyt Türk in the short term due to this change in the regulatory capital adequacy framework.

*Basel III.* Turkish banks' capital adequacy requirements have been and might continue to be further affected by Basel III, as implemented by the 2013 Equity Regulations, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements. In 2013, the BRSA announced its intention to adopt the Basel III requirements and, as published in the Official Gazette dated 5 September 2013 and numbered 28756, adopted the 2013 Equity Regulation and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks, both of which entered into effect on 1 January 2014. The 2013 Equity Regulation introduced core Tier I capital and additional Tier I capital as components of Tier I capital, whereas the amendments to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks: (a) introduced a minimum core capital adequacy standard ratio (4.5 per cent.) and a minimum Tier I capital adequacy standard ratio (6.0 per cent.) to be calculated on a consolidated and non-consolidated basis (which are in addition to the previously existing requirement for a minimum total capital adequacy ratio of 8.0 per cent.) and (b) changed the risk weights of certain items that are categorized under "other assets." The 2013 Equity Regulation also introduced new Tier II rules and determined new criteria for debt instruments to be included in the Tier II capital. Furthermore, The Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks was revised in the Official Gazette dated 23 October 2015 (numbered 29511) and entered into force on 31 March 2016. The Regulatory Consistency Assessment Programme (RCAP) of Basel Committee assessed Turkey as compliant with the Basel risk-based capital standards and the minimum Basel liquidity coverage ratio ("LCR") standard in March 2016. According to amendments to the 2013 Equity Regulation and the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks, from 1 January 2022, general provisions will no longer be allowed to be included in the supplementary capital (i.e., Tier 2 capital) of Turkish banks and be deducted from their risk-weighted assets.

In addition to these implementations: (a) the Regulation on the Capital Maintenance and Cyclical Capital Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, and (b) the Regulation on the Measurement and Evaluation of Leverage Levels of Banks, through which regulation the BRSA seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks (including measurement error in the risk-based capital measurement approach), were published in the Official Gazette dated 5 November 2013 and numbered 28812 and entered into effect on 1 January 2014 with the exception of certain provisions of the Regulation on the Measurement and Evaluation of Leverage Levels of Banks that entered into effect on 5 January 2015. Lastly, the BRSA issued the Regulation on Liquidity Coverage Ratios seeking to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period, both on a consolidated and unconsolidated basis, which entered into effect immediately with the provisions thereof becoming applicable as of 1 January 2014 (with the exception of certain provisions relating to minimum coverage ratio levels and the consequences of failing to maintain compliance, which entered into effect on 1 January 2015, pursuant to the BRSA Decision on Liquidity Ratios).

#### ***Asset Ratio***

Pursuant to decision numbered 9000 dated 18 April 2020, decision numbered 9003 dated 30 April 2020 and decision number 9042 dated 29 May 2020, the BRSA introduced a new test referred to as the "Asset Ratio," which ratio banks are required to meet on a weekly basis starting from 1 May 2020. The monthly average of the Asset Ratio, which is a modified form of a financial assets (e.g., loans and securities) to deposits ratio and is (inter alia) intended to measure (and encourage) a bank's use of deposits for active lending (particularly in Turkish Lira) as opposed to investing in securities or other financial assets (particularly in foreign currencies), should not be lower than 95 per cent. for deposit-taking banks and 75 per cent. for participation banks. Any failure to satisfy this minimum level subjects the applicable bank to an administrative fine of up to 5 per cent. of the shortfall, which fine shall not be less than TL 500,000 in any case. As of the date of these Listing Particulars, the Bank's management does not anticipate any material impact from the introduction of this new test. For other coronavirus-related measures, see "*Overview of the Turkish Banking Sector and Regulations—Recent Coronavirus-related Measures*". See also "*Risk Factors - The outbreak of COVID-19 has negatively affected the global and Turkish economy and financial markets and might continue to disrupt and/or otherwise negatively impact the operations of Kuveyt Türk and/or its clients*" above.

#### ***Reserves and Liquidity Reserve Requirement***

Article 46 of 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 BRSA. Within this

framework, a comprehensive liquidity arrangement was put into force by the BRSA, following the consent of the CBT.

The reserve requirements regarding foreign currency liabilities vary by category, as set out below in accordance with the most recent amendment to the Communiqué on Reserve Requirements, effective as of 10 July 2020:

<b>Category of Foreign Currency Liabilities</b>	<b>Required Reserve Ratio</b>
Demand deposits, notice deposits and private current accounts, precious metal deposit accounts, deposits/participation accounts up to 1-month, up to 3-month, up to 6-month and up to 1-year maturities .....	22%
Deposits/participation accounts and precious metal deposit accounts, with 1-year and longer maturity and cumulative deposits/participation accounts .....	18%
Other Liabilities up to 1-year maturity (including 1-year).....	24%
Other Liabilities up to 2-year maturity (including 2-year).....	19%
Other Liabilities up to 3-year maturity (including 3 -year).....	14%
Other Liabilities up to 5-year maturity (including 5 -year).....	10%
Other Liabilities more than 5-year maturity .....	8%

The reserve requirements regarding Turkish lira liabilities vary by category, as set out below.

<b>Turkish Lira Liabilities</b>	<b>Required Reserve Ratio</b>
Demand deposits, notice deposits and private current accounts .....	7%
Deposits/participation accounts up to 1-month maturity (including 1-month).....	7%
Deposits/participation accounts up to 3-month maturity (including 3-month).....	7%
Deposits/participation accounts up to 6-month maturity (including 6-month).....	4%
Deposits/participation accounts up to 1-year maturity.....	2%
Deposits/participation accounts up to 1-year and longer maturity and cumulative deposits/participation accounts....	1%
Liabilities other than deposits/participation funds up to 1-year maturity (including 1-year) .....	7%
Liabilities other than deposits/participation funds up to 3-year maturity (including 3-year) .....	3,5%
Liabilities other than deposits/participation funds with longer than 3-year maturity .....	1%

The reserve requirements also apply to gold deposit accounts. Furthermore, pursuant to the most recent amendment to the Communiqué on Reserve Requirements, effective as of 10 July 2020, banks are permitted to maintain:

(a) up to 30 per cent of the Turkish lira reserve requirements in U.S. dollars (first 20 per cent. at 1.0 times, second 5 per cent. at 1.4 times, third 5 per cent. at 1.7 times the reserve requirement), up to 20 per cent of the Turkish lira reserve requirements in standard gold (first 15 per cent. at 1.6 times and second 5 per cent. at 1.7 times the reserve requirement) and up to 15 per cent of the Turkish lira reserve requirements in scrap gold (15 per cent. at 1.0 times); and (b) up to the total amount of the foreign currency reserve requirements applicable to precious metal deposit accounts in standard gold. In addition, banks are required to maintain their required reserves against their U.S. dollar-denominated liabilities in U.S. dollars only.

Starting in September 2010, reserve accounts kept in Turkish lira became non-interest-bearing (reserve accounts in foreign currencies had not been interest-bearing since 2008). However, as of 24 October 2014, interest has been paid by the CBT on Turkish lira liquidity reserve accounts. Pursuant to the announcement made by the Turkish Central Bank on 2 May 2015, reserve accounts in U.S. dollars became interest bearing as of 5 May 2015.

Pursuant to the Communiqué regarding Reserve Requirements numbered 2013/15, there is a new reserve requirement to be calculated based upon the financial leverage ratio of banks. The leverage ratio of a bank is determined as the ratio of the main capital of the bank to the sum of: (a) the total of its liabilities; (b) its non-cash loans and liabilities; (c) 10 per cent. of its revocable commitments; (d) the total amount to be calculated by the multiplication of each undertaking arising from derivative instruments with their own loan conversion ratio; and (e) the total amount of irrevocable undertakings. The reserve requirement based on the financial leverage ratio of banks is required to be determined for three-month periods by calculating the arithmetic average of monthly leverage ratios. The additional reserve requirements to be set aside in the following quarter of the calculation period (calculated separately for each category of Turkish lira and foreign currency liabilities) vary by leverage ratios, as set forth below:

<b>Calculation Period for the Leverage Ratio</b>	<b>Leverage Ratio</b>	<b>Additional Reserve Requirement</b>
From the 4 <sup>th</sup> quarter of 2013 through the 3 <sup>rd</sup> quarter of 2014.....	Below 3.0%	2.0%
	From 3.0% (inclusive) to 3.25%	1.5%
From the 4 <sup>th</sup> quarter of 2014 through the 3 <sup>rd</sup> quarter of 2015 (inclusive) .....	From 3.25% (inclusive) to 3.5%	1.0%
	Below 3.0%	2.0%
Following the 4 <sup>th</sup> quarter of 2015 (inclusive).....	From 3.0% (inclusive) to 3.50%	1.5%
	From 3.5% (inclusive) to 4.0%	1.0%
	Below 3.0%	2.0%
	From 3.0% (inclusive) to 4.0%	1.5%
	From 4.0% (inclusive) to 5.0%	1.0%

Banks have been required to notify the CBT of their leverage ratios starting from 31 December 2012, and the above-described additional reserve requirements were first implemented in 2014 in respect of the 2013 year-end financial statements.

The Central Bank amended the Communiqué Regarding Reserve Requirements and limited the mandatory reserve ratios to 2 per cent. for banks that attained a loan growth (i.e., the sum of foreign exchange loans and Turkish lira denominated loans (excluding loans extended to banks) that are under close monitoring) between 10 per cent. and 20 per cent. With its amendment dated 9 December 2019, the Central Bank categorised banks into two groups as (i) banks with a real annual loan growth rate above 15 per cent. and an adjusted real loan growth rate below 15 per cent. ("**Stage 1**") and (ii) banks with a real annual loan growth rate not exceeding 15 per cent. and an adjusted real loan growth rate above 5 per cent. ("**Stage 2**") and imposed different calculation methods applicable to each category in order to determine their required reserve ratio. The Central Bank set the required reserve ratio at 2 per cent. for both categories in order to incentivise long-term commercial loans and long-term housing loans. Pursuant to the amendment, the adjusted annual rates of banks (which are calculated by deducting certain loans from the real annual growth rate) are taken as a reference point while determining banks which will be subject to the 2 per cent. required reserve ratio. However, the 2 per cent. incentive will not be applicable to Turkish Lira liabilities for deposits/participation accounts that have 1-year and longer maturities.

In 17 March 2020 (with retroactive effect from 6 March 2020), the Central Bank issued a press release announcing a temporary rule (effective until 31 December 2020) that foreign currency reserve requirement ratios were reduced by 500 basis points for all types of liabilities and maturities for banks that are in Stage 1 and Stage 2. In order to support short-term interest rates and to enhance resilience in the economy, the Central Bank amended the Communiqué Regarding Reserve Requirements on 20 June 2020. Pursuant to the amendment, until 25 December 2020, banks with a real annual loan growth rate above 15 per cent. and an adjusted real annual growth rate above 15 per cent. will also be considered in Stage 1.

### ***Foreign Exchange Requirements***

The ratio of a bank's foreign exchange net position to its capital base should not exceed 20 per cent., such calculation being required on a weekly basis. The net foreign exchange position is the difference between the Turkish Lira equivalent of a bank's foreign exchange assets and its foreign exchange liabilities. For the purpose of computing the net foreign exchange position, foreign exchange assets include all active foreign exchange accounts held by a bank and its foreign branches, its foreign exchange-indexed assets and its subscribed forward foreign exchange purchases; for purposes of computing the net foreign exchange position, foreign exchange liabilities include all passive foreign exchange accounts held by a bank (including its foreign branches), its subscribed foreign exchange-indexed liabilities and its subscribed forward foreign exchange sales. If the ratio of a bank's net foreign exchange position to its capital base exceeds 20%, then the bank is required to take steps to move back into compliance within two weeks following the bank's calculation period. Banks are permitted to exceed the legal net foreign exchange position to capital base ratio up to six times per calendar year.

### *Savings Deposit Insurance Fund*

Article 111 of the Banking Law relates to the SDIF and its principles. The SDIF is a public legal entity established to develop trust and stability in the banking sector by strengthening the financial structures of Turkish banks, restructuring Turkish banks as needed and insuring the savings deposits and participation funds of Turkish banks. The SDIF is responsible for and authorised to take measures for restructuring, transfers to third parties and strengthening the financial structures of banks, the shares of which and/or the management and control of which have been transferred to the SDIF in accordance with Article 71 of the Banking Law, as well as other duties imposed on it.

#### *Insurance of Deposits*

Pursuant to Article 63 of the Banking Law, savings deposits and individuals' participation funds held with banks are insured by the SDIF. The scope and amount of savings deposits and individuals' participation funds subject to the insurance, the tariff of the insurance premium, the time and method of collection of this premium, and other relevant matters are determined by the SDIF upon consultation with the Treasury, the BRSA and the Central Bank.

#### *Borrowings of the SDIF*

The SDIF may borrow in extraordinary situations upon an authorisation from the Treasury by borrowing Government debt securities which are issued by the Treasury where it is deemed necessary. Principles and procedures regarding the borrowing of Government debt securities, including their interest rates and terms and conditions of repayment to the Treasury, are to be determined together by the Treasury and the SDIF.

#### *Power to Require Advances from Banks*

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.

#### *Contribution of the Central Bank*

If the SDIF's resources prove insufficient due to extraordinary circumstances, then the Central Bank will, on request, provide the SDIF with an advance. The terms, amount, repayment conditions, interest rates and other conditions of the advance will be determined by the Central Bank upon consultation with the SDIF.

#### *Savings Deposits that are not subject to Insurance*

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 as an Expense Item*

Premiums paid by a bank into the SDIF are to be treated as an expense in the calculation of that bank's corporate tax.

#### *Liquidation*

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, exercising the duties and powers of the bankruptcy office and creditors' meeting and the bankruptcy administration.

#### *Claims*

In the event of the bankruptcy of a bank, 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.

Since 25 September 2019, deposit accounts (Turkish Lira, foreign exchange currency accounts or other accounts linked to precious metals) opened by natural persons in domestic branches are insured by the SDIF up to an amount of TL 150,000 per person, in each deposit bank.

### ***Audit of Banks***

Under Article 24 of the Banking Law, banks' boards of directors are required to establish audit committees for the execution of audit and monitoring functions. Audit committees must consist of a minimum of two members and be appointed from among the members of the board of directors who do not have executive duties. The duties and responsibilities of the audit committee include, among others: (i) the supervision of the efficiency and adequacy of the banks' internal control, risk management and internal audit systems; (ii) the functioning of these systems and accounting and reporting systems within the framework of the Banking Law and other relevant legislation; (iii) the integrity of the information produced; (iv) conducting the necessary preliminary evaluations for the selection of independent audit firms by the board of directors; (v) regularly monitoring the activities of independent audit firms selected by the board of directors; and (vi) in the case of holding companies covered by the Banking Law, ensuring that the internal audit functions of the institutions that are subject to consolidation and operate in a coordinated manner, on behalf of the board of directors.

The BRSA, as the principal regulatory authority in the Turkish banking sector, has the right to monitor compliance by banks with the requirements relating to audit committees. As part of exercising this right, the BRSA reviews audit reports prepared for banks by their independent auditing firms. Banks are required to select an independent audit firm in accordance with the Regulation on Independent Audit of Banks, published in the Official Gazette dated 2 April 2015 and numbered 29314. Professional liability insurance is required for: (a) independent auditors; and (b) if requested by the service-acquiring bank or required by the BRSA, evaluators, rating agencies and certain other support services. Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with the Turkish Accounting Standards. The year-end consolidated financial statements are required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms.

The reports prepared by independent audit firms are also filed with the CMB if the bank's shares are quoted on Borsa Istanbul and published on the Public Disclosure Platform. The CMB has the right to inspect the accounts and transaction records of any publicly traded company. In addition, quarterly reports that are subject to limited review must also be filed with the CMB and published on the Public Disclosure Platform.

All banks (public and private) undergo an annual audit by certified bank auditors who have the authority to audit banks on behalf of the BRSA. Audits by certified bank auditors encompass all aspects of a bank's operations, its financial statements and other matters affecting the bank's financial position, including its domestic banking activities, foreign exchange transactions and tax liabilities. Additionally, such audits seek to ensure compliance with applicable laws and the constitutional documents of the bank. The CBT has the right to monitor compliance by banks with the CBT's regulations through off-site examinations.

Pursuant to the Regulation on the Internal Systems of Banks, banks are obligated to establish, manage and develop (for themselves and all of their consolidated affiliates) internal audit and risk management systems in line with the scope and structure of their activities, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. To achieve this, according to the regulation, the internal audit and risk management systems personnel cannot also be appointed to work in another role. This prohibition is not applicable to the banks that are established by law with the purpose of development of the country or financing a specific sector or field, and which do not accept deposit funds or participation funds.

### ***Anti-Money Laundering and Combating the Finance of Terrorism (AML/CFT) Policies***

The AML/CFT policies applicable to banks are defined under the Law No. 5549 on Prevention of Laundering Proceeds of Crime, the Turkish Criminal Code No. 5237 and the Regulation on Program of Compliance with Obligations of Anti-Money Laundering and Combating the Finance of Terrorism, the Regulation on Measures Regarding Prevention of Laundering Proceeds of Crime and Financing of Terrorism and related Financial Crime Investigation Board Communiqués and a new law on Combating the Finance of Terrorism number 6415 published in the Official Gazette on 16 February 2013 (together the "**Anti-Money Laundering Laws**").

Pursuant to the Anti-Money Laundering Laws, banks are required to identify their customers and the persons carrying out transactions on behalf of, or on account of, their customers. In the event there is any information or concern that a transaction concluded by a customer is a suspicious transaction or there are



reasonable grounds to suspect that the asset which is the subject of the transaction, carried out or attempted to be carried out within or through a bank, is acquired through illegal means or used for illegal purposes, such a transaction must be reported by the relevant bank to the Turkish Financial Crimes Investigation Board. The notifying bank cannot disclose such notification to third parties, including the parties to the suspicious transaction, other than to the investigators assigned to inspect the transaction and the competent courts during legal proceedings.

When requested by the Financial Crimes Investigation Board or the investigators thereof, banks are required to provide information relating to their customers and their transactions. Furthermore, banks are required to maintain all the documents, books and records of identification documents regarding all transactions for eight years starting from the transaction date, the last record date and the last transaction date. The eight year period for identification documents relating bank accounts will commence on the closing date of the account. In addition to these, banks are required to provide them to the officials when requested.

Banks breaching any of the obligations set out in the Anti-Money Laundering Laws may, as at the date of these Listing Particulars, be subject to an administrative fine of approximately TRY 20,450. Furthermore, real persons who breach their duty of confidentiality with respect to the notification that they made regarding the suspicious transactions to the Financial Crimes Investigation Board and who fail to provide all necessary, information, documents, records, passwords, etc. to the public authorities, the Financial Crimes Investigation Board and inspection officials, when requested and keep all relevant documents, records, books etc, in relation to their duties and transaction within the scope of Anti-Money Laundering Laws for eight years starting from the transaction date, the last record date and the last transaction date may be subject to imprisonment with terms ranging from one year to three years.

The Law on Prevention of Financing of Terrorism number 6415 and dated 7 February 2013 has been enacted by the Republic of Turkey and it has been published in the Official Gazette No. 28561 dated 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.

### ***Manipulation and Misleading Transactions in Financial Markets***

On 20 February 2020, a new market manipulation concept was introduced into Turkish law by way of amendments made to the Banking Law. According to Article 76/A of the Banking Law, manipulation in financial markets will be deemed to occur, where a bank within the remit of the Banking Law, by way of undertaking banking activities as set forth under Article 4 of the Banking Law, (i) engages in activities with a view to making or creating artificial, false or misleading demand, supply or foreign exchange rate, (ii) disseminates false or misleading information through various media, including the internet, or (iii) engages in such other activities that would create misleading information for, or otherwise mislead, investors.

On 7 May 2020, the Regulation on Manipulative and Misleading Transactions in the Financial Markets (the "**Manipulation Regulation**") was published in the Official Gazette. The Manipulation Regulation aims to clarify, which activities fall within the ambit of the recently introduced manipulation offence, thereby aiming at curbing manipulative transactions that could worsen the current volatility of the Turkish Lira or, otherwise, harm the Turkish economy at large.

Turkish banks that engage in manipulative and misleading transactions may have a fine imposed of up to 5 per cent. of the sum of interest, profit share income, fees and commissions and other income of banking operations specified in the bank's most recent year-end financial statements, with such fine being no less than twice the benefit that such bank has derived from the concerned transaction.

### ***Cancellation of Banking Licence***

If the results of an audit show that a bank's financial structure has seriously weakened, then the BRSA may require the bank's board of directors to take measures to strengthen its financial position. Pursuant to the Banking Law, in the event the BRSA in its sole discretion determines that:

- the assets of a bank are insufficient or are likely to become insufficient to cover its obligations as they become due;
- the bank is not complying with liquidity requirements;
- the bank's profitability is not sufficient to conduct its business in a secure manner due to disturbances in the relation and balance between the expenses and profit;
- the regulatory equity capital of such bank is not sufficient or is to likely to become insufficient;
- the quality of assets of such bank have been impaired in a manner potentially weakening its financial structure, the decisions, transactions or applications of such bank are in breach of the Banking Law, relevant regulations or the decisions of the BRSA;

- such bank fails to establish internal audit, supervision and risk management systems or to effectively and sufficiently conduct such systems or any factor impedes the supervision of such systems, or any factor impedes the audit; or
- there has been a material increase in risks defined in the Banking Law and relevant legislation which weakens the bank's financial structure due to the imprudent acts of such bank's managers,

then the BRSA may require the board of directors of such bank to take one or some of the following measures depending on the situation for a period determined by the BRSA and in accordance with a plan approved by the BRSA:

- to increase its equity capital;
- not to distribute dividends for a period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund;
- to increase its loan provisions;
- to stop extension of loans to its shareholders;
- to dispose of its assets in order to strengthen its liquidity;
- to limit or stop its new investments;
- to restrict payment of fees and other types of payments;
- to cease its long term investments;
- to cure the breach and comply with the relevant banking legislation;
- to cease its risky transactions, by re-evaluating its credit policy;
- to take all actions to decrease any maturity foreign exchange and interest rate risks; and/or
- to exercise other necessary actions to be determined by the BRSA,

In the event the aforementioned actions are not taken (in whole or in part) by that bank or its financial structure cannot be strengthened despite its having taken such actions, or its financial structure has become so weak that it could not be strengthened, then the BRSA may require such bank:

- to strengthen its financial structure, to increase its liquidity and/or capital adequacy;
- to dispose of its fixed assets and long-term assets within a reasonable time determined by the BRSA;
- to decrease its operational and management costs;
- to suspend its payments under any name whatsoever, excluding the regular payments to be made to its members;
- to limit or prohibit extension of any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors;
- to convene an extraordinary general assembly in order to change the members of the board of directors or assign new member(s) to the board of directors, in the event any board member is responsible for non-compliance with relevant legislation, a failure to establish efficient and sufficient operation of internal audit, internal control and risk management systems or non-operation of these systems efficiently or there is a factor that impedes supervision or such member(s) of the board of directors cause(s) to increase risks as stipulated above;
- to implement short-, medium- or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the bank or to take written undertakings from members of board

of directors or qualified shareholders (as defined in the Banking Law) regarding such plans and projections; and/or

- to exercise other necessary actions to be determined by the BRSA.

In the event the aforementioned actions are not (in whole or in part) taken by that bank or are not sufficient to cause such bank to continue its business in a secure manner, then the BRSA may require such bank:

- to limit or cease its business or its whole organisation by its field of activity for a temporary period (to include its relations with its local or foreign branches and correspondents);
- to apply various restrictions, including restrictions on interest rate and maturity with respect to resource collection and utilisation;
- to remove from office (in whole or in part) its members of the board of directors, general manager and deputy general managers and department and branch managers from their offices and obtain approval from the BRSA as to the persons to be appointed to replace these individuals;
- to make available long-term loans, **provided that** these will not exceed the amount of deposit or participation funds subject to insurance, and be secured sufficiently by the shares or other assets of the controlling shareholders;
- to limit or cease its non-performing operations and to dispose of its non-performing assets;
- to merge with one or more other banks;
- to provide new shareholders in order to increase its equity capital;
- to cover its losses with its equity capital; and/or
- to exercise other necessary actions to be determined by the BRSA.

In the event: (a) the aforementioned actions are not (in whole or in part) taken by that bank within a period of time set forth by the BRSB or in any case within twelve months; (b) the financial structure of such bank cannot be strengthened despite its having taken such actions or the financial structure of such bank has become so weak that it could not be strengthened even if the actions were taken; (c) the continuation of the activities of such bank would jeopardise the rights of the depositors and the participation fund owners and the security and stability of the financial system; (d) such bank cannot cover its liabilities as they become due; (e) the total amount of the liabilities of such bank exceeds the total amount of its assets; or (f) the controlling shareholders or directors of such bank are found to have made use of that bank's resources for their own interests, directly or indirectly or fraudulently, in a manner that jeopardised the secure functioning of the bank or caused such bank to sustain a loss as a result of such misuse, then the BRSA, with the affirmative vote of at least five of its board members, may revoke the licence of such bank to engage in banking operations and/or to accept deposits and transfer the management, supervision and control of the privileges of shareholders (excluding dividends) of such bank to the SDIF for the purpose of the whole or partial transfer or sale of such bank to third persons or merger thereof, **provided that** the loss is deducted from the share capital of current shareholders.

In the event that the licence of a bank to engage in banking operations and/or to accept deposits is revoked, then that bank's management and audit will be taken over by the SDIF. Any and all execution and bankruptcy proceedings (including preliminary injunctions) against such bank would be discontinued as from the date on which the BRSA's decision to revoke such bank's licence is published in the Official Gazette. From the date of revocation of such bank's licence, the creditors of such bank may not assign their rights or take any action that could lead to assignment of their rights. The SDIF must take measures for the protection of the rights of depositors, participation fund owners and other creditors of such bank.

The SDIF is required to pay the insured deposits and insured participation funds of such bank either by itself or through another bank it may designate. In practice, the SDIF may designate another bank that is under its control. The SDIF is required to institute bankruptcy proceedings in the name of depositors against a bank whose banking licence is revoked.

### ***Annual Reporting***

The Banking Law stipulates that banks are required to prepare an annual activity report that includes information about their status, management and organisation structures, human resources, activities, financial situations and assessment of the management and expectations, together with financial statements, summary of board of directors' report and independent audit report.

Pursuant to the Banking Law, Turkish banks are required to follow the BRSA's principles and procedures (which are established in consultation with the Turkish Accounting Standards Board and international standards) when preparing their annual reports. In addition, they must ensure uniformity in their accounting systems, correctly record all their transactions and prepare timely and accurate financial reports in a format that is clear, reliable and comparable as well as suitable for auditing, analysis and interpretation. Turkish listed companies must also comply with the Communiqué on Principles of Financial Reporting in Capital Markets issued by the CMB.

Furthermore, Turkish companies (including banks) are required to comply with the Regulation regarding Determination of the Minimum Content of the Companies' Annual Reports published by the Ministry of Customs and Trade, as well as the Corporate Governance Communiqué, when preparing their annual reports. These reports are required to include the following information: management and organization structures, human resources, activities, financial situation, assessment of management and expectations and a summary of the directors' report and independent auditor's report.

A bank cannot settle its balance sheets without ensuring reconciliation with the legal and auxiliary books and records of its branches and domestic and foreign correspondents.

The BRSA is authorised to take necessary measures where it is determined that a bank's financial statements have been misrepresented.

When the BRSA requests a bank's financial reports, the chairman of the board, members of the audit committee, general manager, deputy general manager responsible for financial reporting and the relevant unit manager (or equivalent authorities) must sign the reports indicating their full names and titles and declare that the financial report complies with relevant legislation and accounting records. In addition, foreign banks must have the members of the board of managers of their Turkish branches sign the annual reports.

All annual reports that banks present to their general assemblies must be approved by independent auditing firms.

Banks are required to submit their financial reports to related authorities and publish them in accordance with the BRSA's principles and procedures.

Further, banks are required to submit and publish activity reports that comply with the BRSA's established guidelines.

The Regulation on the Preparation and Publication of Annual Reports regulates the procedures and principles regarding the annual reports of banks to be published at the end of each fiscal year. According to the regulation, a bank's financial performance and the risks that it faces need to be assessed in the annual report. The annual report is subject to the approval of the board of directors and must be submitted to the review of shareholders at least 15 days before the annual general assembly of the bank together with the assent of the independent auditing firm regarding such report. Each bank must: (i) submit electronically a copy of its annual report to the BRSA within 7 days following its publication; (ii) keep a copy of it in its headquarters; (iii) keep an electronic copy of it at each branch to provide it as printed, if requested, until the annual report for next year will be published; and (iv) publish it on its website by the end of May.

### ***Disclosure of Financial Statements***

With the Communiqué on Financial Statements to be Disclosed to the Public published in the Official Gazette No. 28337 dated 28 June 2012, new principles of disclosure of annotated financial statements of banks were promulgated. The amendments to the calculation of risk-weighted assets and their implications for capital adequacy ratios are reflected in the requirements relating to information to be disclosed to the public and new standards of disclosure of operational, market, currency and credit risk were determined. In

addition, new principles were determined with respect to the disclosure of position risks relating from (*inter alia*) securitisation transactions and investments in quoted stocks.

In addition, the BRSA published the Communiqué on Public Disclosure regarding Risk Management of Banks (which entered into force on 31 March 2016), which expands the scope of public disclosure to be made in relation to risk management in line with the disclosure requirements of the Basel Committee. According to this regulation, each bank is required to announce information regarding their consolidated and/or unconsolidated risk management related to risks arising from or in connection with securitisation, counterparty, credit, market and its operations in line with the standards and procedures specified in this regulation. Each bank is also required to form policies approved by its board of directors regarding internal audit and control processes relating to risk management.

#### ***New Consumer Loan and Credit Card Regulations***

On 8 October 2013, the BRSA introduced new regulations that aim to limit the expansion of individual loans (especially credit card installments). The rules (as amended from time to time): (a) include overdrafts on deposit accounts and loans on credit cards in the category of consumer loans for purposes of provisioning requirements, (b) set a limit of TRY1,000 for credit cards issued to consumers who apply for a credit card for the first time if their income cannot be determined by the bank, (c) require credit card issuers to monitor cardholders' income levels before each limit increase of the credit card, (d) set the risk weight for installment payments of credit cards to 75 per cent. and (e) increase the minimum monthly payment required to be made by cardholders. Before increasing the credit card limit, a bank should monitor the income level of the consumer. A bank should not increase the limit of the credit card if the aggregate card limit exceeds four times the consumer's monthly income.

The Law on the Protection of Consumers (Law No: 6502), published in the Official Gazette No. 28835 dated 28 November 2013 which entered into force six months after its publication date, imposes new rules applicable to Turkish banks, such as requiring banks to offer to its customers at least one credit card type for which no annual subscription fee (or other similar fee) is payable. Furthermore, while a bank is generally permitted to charge its customers fees for accounts held with it, no such fees may be payable on certain specific accounts (such as fixed term loan accounts and mortgage accounts).

The Regulation Amending the Regulation on Bank Cards and Credit Cards published in the Official Gazette dated 31 December 2013 and numbered 28868 (which entered into force on 1 February 2014) introduced some changes on the credit limits for credit cards and income verification so that: (a) the total credit card limit of a cardholder from all banks will not exceed four times his/her monthly income in the second and subsequent years (two times for the first year) and (b) banks will have to verify the monthly income of the cardholders in the limit increase procedures and will not be able to increase the limit if the total credit card limit of the cardholder from all banks exceeds four times his/her monthly income. The following additional changes regarding minimum payment amounts and credit card usage were included in the amended regulation: (i) minimum payment amounts differentiated for first time cardholders in the sector, new cardholders, existing cardholders and existing cardholders' second card by customer limits, (ii) if the cardholder does not pay at least three times the minimum payment amount on his/her credit card statement in a year, then his/her credit card cannot be used for cash advance and also will not allow limit upgrade until the total statement amount is paid, and (iii) if the cardholder does not pay the minimum payment amount on three consecutive occasions, then his/her credit card cannot be used for cash advances or shopping, and such card will not be available for a limit upgrade, until the total amount in the statements is paid.

The BRSA, by the Regulation Amending the Regulation on Bank Cards and Credit Cards published in the Official Gazette dated 31 December 2013 and numbered 28868 (which entered into force on 1 February 2014), has adopted limitations on instalments of credit cards. Pursuant to such limitations (which limitations were amended as of 12 June 2019), the instalments for purchase of goods and services and cash withdrawals are not permitted to exceed a period of time between 6 and 18 months, depending on the type of expenditure incurred. In addition, in respect of telecommunication and jewellery expenditures and food, nutriment and fuel oil purchases, credit cards may not provide for instalment payments.

On 31 December 2013, the BRSA adopted new rules on loan to value ratios and maturities of certain types of loans. The minimum loan to value ratio requirement for housing loans extended to consumers, for other loans secured by houses and for finance lease transactions in respect of houses is 80 per cent. In respect of housing loans where the respective house has an energy performance rating of Class A or Class B, the loan

to value ratio requirement is set at 90 and 85 per cent respectively, according to the amendment of 25 January 2019. In addition, for auto loans extended to consumers, for loans secured by autos and for finance lease transactions in respect of autos, the loan to value ratio requirement is set at 70 per cent., provided that in each case the sale price of the respective auto is not higher than TRY 120,000. On the other hand, if the sale price of the respective auto is above this TRY 120,000 threshold, then for such portion of the loan equal in amount to such threshold amount the loan to value ratio requirement is set at 70 per cent. and for the remainder of such loan amount, the loan to value ratio requirement is set at 50 per cent. There are limitations concerning the maturity of specific loans. For consumer loans (other than loans extended for housing finance, other real estate finance loans and education loans) and auto loans where the respective auto has a sale price of TRY 120,000 or lower, the maturity is limited to 60 months. For auto loans and loans secured by autos where the respective auto has a sale price in excess of TRY 120,000, the maturity is limited to 48 months. In respect of loans for the purchase of personal computers, the maturity is limited to 12 months. In respect of loans for the purchase of tablet computers, the maturity is limited to 6 months. In respect of loans for the purchase of mobile phones where the respective mobile phone has a sale price of TRY 3,500 or lower, the maturity is limited to 12 months and, where the respective mobile phone has a sale price in excess of TRY 3,500, the maturity is limited to 6 months. Provisions regarding the minimum loan-to-value requirement for auto loans entered into force on 1 February 2014 and the other provisions of this amendment entered into force on 31 December 2013. Values and thresholds have been amended as of 25 January 2019.

In addition, pursuant to the amendment published in the Official Gazette dated 28 March 2020 and numbered 31082, minimum payment ratios for credit cards will be determined by the BRSA at a rate between 20 per cent. and 40 per cent. The amendment also entitles the BRSA to set a minimum limit of credit cards. Accordingly, with its decision dated 30 March 2020 and numbered 8975, the BRSA decided that the minimum payment ratio may not be lower than 20 per cent. of the credit card term debt. The decision numbered 8975 also provides that banks may not request any payments from cardholders, including the minimum amount, and define non-payment periods until 31 December 2020 due to economic impacts of COVID-19 pandemic. For other coronavirus-related measures, see "*Overview of the Turkish Banking Sector and Regulations—Recent Coronavirus-related Measures*".

### ***Provisioning and Impairment***

#### **Definitions of the methods used when determining the provision amount**

IFRS 9 requires a 12-month expected credit loss provision for all financial assets in Stage 1 (please see below for the section entitled "Impairment") and the expected credit loss provision for all other financial assets. "12-month expected credit loss" represents the portion of the expected credit loss from probable default events within 12 months after the reporting date. "Lifetime expected credit losses" are losses from all possible default events during the expected life of the financial instrument after the reporting date. "Lifetime" refers to the maturity of the financial instrument. In non-maturity financial instruments, the bank calculates the behavioral maturity and uses this to calculate the expected loan loss. The expected credit losses (the "ECLs") are calculated at each instrument level by taking into account the projected cash flows, the probability of default (the "PD"), the default on loss (the "DoL"), the credit conversion rate (the "CCR") and the discount rate. In small, very unimportant and unrated portfolios, the ECL can be estimated on a collective basis.

The scope and definitions of "overdue" and "provision allocated" receivables for accounting purposes are as follows. "Overdue receivables" and "provision allocated receivables" are determined according to the Communiqué on Principles and Procedures for the Determination of the Quality of Loans and Other Receivables and Reserves. Provision for receivables applies to all financial instruments other than those covered by IFRS 9 and whose fair value is reflected in the profit / loss.

The part of the overdue receivables (more than 90 days past the due date) for which provision is not allocated will receive different accounting treatment. This part, as defined in the "Regulation On The Procedures and Principles For Determining Loan Qualifications By Banks and Provisions To Be Set Aside" (as published in the Official Gazette dated 22 June 2016 and numbered 29750), is based on minimum, legal compulsory consideration of collateral except for the amount calculated by using ECLs in the calculation of lost in defaults ("**Lost in Defaults**"). This portion corresponds to the rate determined by the Bank's past collection experience regarding the unsecured credit risk amount.

## Disclosure of TFRS 9 Financial Instruments

TFRS 9 "Financial Instruments", which became effective as of 1 January 2018, was published by the Public Oversight Accounting and Auditing Standards Authority ("POA") in the Official Gazette numbered 29953 dated 19 January 2017. TFRS 9 replaced TAS 39 (Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments). TFRS 9 also includes new principles for hedge accounting which aim to harmonize hedge accounting with risk management applications. In terms of permitted accounting policies, TFRS 9 presents the option of postponing the adoption of TFRS 9 hedge accounting and continuing to apply the hedge accounting provisions of TAS 39. Within this context, the Group elected to continue to apply the hedge accounting provisions of TAS 39. All recognized financial assets that are within the scope of TFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under TFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment in other comprehensive income, with only dividend income generally recognized in profit or loss. Dividends obtained from such investments are accounted for in the financial statements as profit or loss unless they are evidently part of the recoverable cost of investment.

## Impairment

As of 1 January 2018, the Bank recognized provisions for impairment in accordance with the TFRS 9 requirements according to the "Regulation On The Procedures and Principles For Determining Loan Qualifications By Banks and Provisions To Be Set Aside" (as published in the Official Gazette dated 22 June 2016 and numbered 29750). In this framework, as of 31 December 2017, the method of provisions for impairment as set out in the related legislation of BRSA as mentioned in the Section 3 Part VII-c of Explanation on Accounting Policies changed by applying the expected credit loss model under TFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and should include reliable information about past events, current conditions, and forecasts of future economic conditions. Certain modelling works were made in relation to the basic components of "Expected Credit Loss" in advance of the adoption of TFRS 9, and models for probability of default ("PD") were developed on the basis of various credit portfolios. Credit portfolios are determined in accordance with customer segments constituting the basis of banking activities. Through the cycle probability of default ("TTC PD") made with these models, which were developed for use in the internal ratings-based approach ("IRBA"), are converted into point in time probability of default ("PIT PD"), and these instant probabilities of default are used to calculate Expected Credit Loss in the scope of TFRS 9. Loss given default ("LGD") calculation reflects the state withholding rates and the bank's prior collection performance in unsecured loans. Default amount ("DA") corresponds to the used balance on the reporting date for money loans, and to the balance after the application of the credit conversion rate for non-cash loans and commitment risks. Macroeconomic scenarios impact on the values of POD and LGD. Three scenarios as "Base", "Good" and "Bad" and their expected credit loss are calculated. The default probabilities of borrowers and the loss given default ratios are changing for each scenario.

The Bank has created a 3-stage impairment model based on a change in credit quality after initial recognition.

Stage 1: includes financial assets not having a significant increase in their credit risk from initial recognition till the following reporting date or financial assets having a low credit risk at the reporting date. 12-month expected credit losses are recognized for such financial assets. TFRS 9 replaces the 'realized loss' model in TAS 39 with the 'expected credit loss' model.

Stage 2: includes financial assets having a significant increase in their credit risk subsequent to the initial recognition, without the Bank having objective evidence about impairment. Lifetime expected credit loss is recognised for such financial assets. In this context, the main considerations that are taken into account



in determining whether there has occurred a significant increase in the credit risk of a financial asset and transferring the relevant financial asset to Stage 2 include without limitation:

- (a) default outstanding for 30 days or more as of the reporting date;
- (b) being in the scope of restructuring;
- (c) close monitoring performed by the bank; or
- (d) assessment of rating impairment.

The "rating impairment" or "rating note distortion" is determined by the Bank undertaking a comparison of the rating note at reporting date and the rating note at credit opening date by using credit rating models on the basis of Bank's models of credit rating models depending on internal ratings. A rating note distortion is deemed to occur when a credit note that is calculated for the credit at reporting date exceeds the determined threshold.

Stage 3: includes financial assets where the Bank has objective evidence about impairment at the reporting date. Lifetime expected credit losses are recognised for such financial assets. The impact of the adoption of TFRS 9 on the financial statements as of 1 January 2018, is recorded. Furthermore, the Bank calculated deferred tax on the expected credit losses calculated on Stage 1 and Stage 2 loans and the impact regarding the tax deferred asset was accounted for under equity during transition.

The Group allocates impairment for expected loss on financial assets measured at amortised cost and measured at fair value through other comprehensive income. As of 1 January 2018, the Group has started to recognize provisions for classification of loans in accordance with the terms of TFRS 9 according to the "Regulation On The Procedures and Principles For Determining Loan Qualifications By Banks and Provisions To Be Set Aside" (as published in the Official Gazette dated 22 June 2016 and numbered 29750). In this framework, as of 31 December 2017, the method of provisions for impairment as set out in the related legislation of BRSA is changed by applying the expected credit loss model under TFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

These financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1: includes financial assets not having a significant increase in their credit risk from initial recognition till the following reporting date or financial assets having a low credit risk at the reporting date. 12-month expected credit losses are recognized for such financial assets.

Stage 2: includes financial assets having a significant increase in their credit risk subsequent to the initial recognition, without the Bank having objective evidence about impairment. Lifetime expected credit losses are recognized for such financial assets.

Stage 3: includes financial assets where the Bank has objective evidence about impairment at the reporting date. Lifetime expected credit losses are recognized for such financial assets.

#### ***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.

#### ***Personal Data Protection***

The Law on Protection of Personal Data (the "**Law No. 6698**") was accepted on 24 March 2016 and published in the Official Gazette dated 7 April 2016 and numbered 29677. A majority of the provisions of Law No. 6698 became effective from 7 April 2016.

Under Law No. 6698, the main requirement to collect and process personal data is to obtain explicit consent of the person whose data will be collected and processed ("**Data Subject**"). However, personal data can also be collected and processed without the Data Subject's consent in any of the conditions stated below:

- if collection and processing is permitted by any specific law provision,
- if the Data Subject is under a circumstance that prevents him/her from providing consent (due to an actual impossibility or lack of legal capacity) and processing is necessary for protection of the Data Subject's or third parties' life or physical integrity,
- if processing is necessary for the formation or performance of a contract to which the Data Subject is a party,
- if processing is mandatory for a data controller to perform his/her legal duties,
- if personal data has been made available to the public by the Data Subject himself/herself,
- if processing is mandatory for assigning, using or protecting a right,
- if processing is necessary for purposes within the scope of work and services provided by the data controller, which are considered by Turkish Law its "legitimate interest," provided that the fundamental rights and freedoms of the Data Subject are protected.

Any personal data that is related to a Data Subject's race, ethnicity, political views, philosophical beliefs, religion, sect or other beliefs, appearance and way of dressing, association, foundation or union memberships, information related to health, sex life, past criminal convictions and biometric data are considered sensitive personal data. Under Law No. 6698, sensitive personal data may only be processed upon the Data Subject's explicit consent. The conditions to legally process sensitive personal data are as follows:

- obtaining explicit consent of the Data Subject and,
- taking necessary precautions determined by the data protection board of the Republic of Turkey ("**Data Protection Board**").

However, explicit consent of the Data Subject is not required to legally process the above noted sensitive data under any of the conditions set out below:

- sensitive data, except for data concerning health and sexual life, can be processed if explicitly permitted by law,
- data concerning health or sexual life can only be processed for the purposes of protection of public health and planning or sustaining health-care services by an authorised body or persons who are under an obligation of confidentiality,
- collection and processing is permitted by any specific law provision, and
- collection and processing is mandatory for assigning, using or protecting a right.

According to Law No. 6698, personal data may only be transferred to third parties with the Data Subject's explicit consent. In the absence of such consent, personal data may still be transferred to third parties if the conditions mentioned above for the processing of personal and sensitive data are met.

Personal data can also be transferred to third countries with the explicit consent of the Data Subject. In the absence of such consent, personal data may still be transferred to third countries if the conditions mentioned above for the processing of personal and sensitive data are met and the laws of the country to which the personal data will be transferred adequately protect personal and sensitive data.

In case there is no adequate legal protection for personal and sensitive data in the third country, the data controllers in Turkey and in the relevant country must undertake in writing to adequately protect such data and the Data Protection Board must also approve such transfer. The Data Protection Board will determine

the list of countries which adequately protect and to which personal data may be transferred without the explicit consent of the Data Subject.

All personal data, processed or collected before the enactment of the Law No. 6698, is required to be brought in conformity with the articles of Law No. 6698 within two years.

In addition, the Banking Law provides a stricter protection regime applicable to banks in respect of customer secrets, defined under the Banking Law as "information collected related to an individual or entity's banking related activities after the customer relationship is established". Accordingly, if any personal data also falls within the scope of such definition, a specific instruction (in addition to the explicit consent requirement set out under the Law No. 6698) from the relevant client will be necessary for the bank to be able to share the customer secret with any third party. The Banking Law also grants vast authorities to the BRSA such as the power to prevent information sharing by banks with offshore entities at its own discretion in respect of specific data categories to be determined by the BRSA.

### ***Recent Amendments to the Turkish Insolvency and Restructuring Regime***

The Enforcement and Bankruptcy Law No. 2004 prevents a contractual arrangement by which a contractual event of default clause is stipulated to be triggered in case any application is made by a Turkish company for debt restructuring upon settlement (*uzlaşma yoluyla yeniden yapılandırma*) within the scope of this law. In addition, changes were introduced to this law on 15 March 2018 that (*inter alia*) states that the contractual termination, default and acceleration clauses of an agreement cannot be triggered in case the debtor makes a concordat application and such application shall not constitute a breach of such agreement.

On 15 August 2018, the BRSA published the Regulation on Restructuring of Debts in the Financial Sector (the "**Restructuring Regulation**") pursuant to which a framework agreement was drafted by the Banks Association of Turkey (as amended, novated or supplemented from time to time and as reissued on 9 October 2019, the "**Framework Agreement**"). The main aim of the Restructuring Regulation is to enhance the repayment ability of debtors in repaying their debts to the financial sector in order for these companies to sustain their operations and contribute to the employment in Turkey. The Framework Agreement determined: (a) the scope of debts to be restructured, (b) the minimum qualifications of the eligible debtors, (c) the minimum debt amount to be restructured, (d) the content of the restructuring agreements and (e) the procedure to determine a debtor's eligibility, which is the capacity of a debtor to repay its debts following the restructuring process in line with the repayment schedule. According to the Framework Agreement, there are two main restructuring schemes: (a) a large scale restructuring for debtors that have a principal debt equal to or more than TL 25 million (including cash and non-cash debt) and (b) a small scale restructuring for debtors that have a principal debt less than TL 25 million, in each case, including cash and non-cash debt. According to the Framework Agreement, the eligible debtor(s) and the applicable credit institutions may sign a restructuring agreement at any time through 19 September 2020. As such, certain borrowers of the Bank might apply for restructuring of their debt.

In respect of the large scale restructurings large scale restructurings (i.e. with an amount of principal equal to or above TL 25 million), eligible Turkish or foreign creditors (the "**Eligible Creditors**") that have signed or will be signing the Framework Agreement will constitute a creditors consortium and, to the extent that a debtor is able to meet certain eligibility conditions set out in the Restructuring Regulation and the Framework Agreement (together the "**New Restructuring Framework**"), it will have the right to apply to one of the three Eligible Creditors carrying the highest three exposures to initiate the restructuring process. Pursuant to the Framework Agreement applicable for large scale restructurings (i.e. with an amount of principal equal to or above TL 25 million), when a debtor makes an application for restructuring, there is a minimum 90 day standstill period, which can be extended up to 180 days. If the restructuring agreement is signed, then, during the standstill period, all enforcement actions by the respective Eligible Creditors that sign the Framework Agreement are suspended and no new enforcement action can be initiated by such Eligible Creditors against such debtor. The debtor and any related party (including such debtor's subsidiaries, other affiliates and their respective shareholders) are under the "*equal treatment*" principle during the standstill period, which requires them not to favour any Eligible Creditor over any other Eligible Creditor. Following the negotiations, if a restructuring protocol is entered into between such number of Eligible Creditors representing at least two-thirds of the outstanding debt of the debtor that has been agreed to be restructured under the Framework Agreement, then all Eligible Creditors that have signed the Framework Agreement must restructure their loans to such debtor. According to the New Restructuring Framework, a restructuring protocol may (*inter alia*) provide for a reduction of restructured debt, extension of maturities of the restructured debt, extension of new loans, introduction of new framework for the

governance of the debtor, injection of shareholder equity contribution, disposal of certain parts of the business of the debtor and the provision of additional collaterals.

According to the Restructuring Regulation, only debtors that are expected to gain the financial ability to repay their obligations in a reasonable period of time are allowed to benefit from financial restructuring. To this end, the solvency of such debtors that would like to benefit from a restructuring scheme is to be determined by the entities specified in the Framework Agreement. Furthermore, the Banking Law has been amended on 17 July 2019 to incorporate, among others, a provisional article which forms the legislative basis of the Restructuring Regulation. Such amendments contemplate certain tax exemptions for, and suspension of execution proceedings against, debtors subject to restructuring, as well as a provision which states that reduction of collateral pool, write-off of principal or other receivables or such other actions taken by banks to effectuate the restructuring of loans shall not constitute embezzlement offence set out under Article 160 of the Banking Law.

### ***Credit Guarantee Fund***

The Credit Guarantee Fund ("**KGF**") was established pursuant to Decree No. 93/4496 dated 14 July 1993 in order to provide guarantees for SMEs and other enterprises, in particular, to those that are not able to obtain bank loans due to their insufficient collateral. In order to improve financing possibilities and contribute to the effective operation of the credit system, pursuant to provisional Article 20 of the Law regarding the Regulation of Public Financing and Debt Management (Law No. 4749) dated 28 March 2002, resources up to TL 2 billion could be transferred by the Minister in charge of the Turkish Treasury to the credit guarantee institutions. Such amount was increased to TL 25 billion in accordance with the Law No. 6770 dated 18 January 2017 and to TL 50 billion within the scope of the stimulus package introduced against the Covid-19 outbreak. In addition, pursuant to Decree No. 2016/9538 on Treasury Support to be provided to the Credit Guarantee Institutions (published in the Official Gazette No. 29896 and dated 22 November 2016) (as amended from time to time), the KGF guarantees are supported by the Turkish Treasury.

Pursuant to Presidential Decree No. 162 published in the Official Gazette dated 11 October 2018, loans guaranteed by the Turkish Treasury under the KGF programme may be restructured up to 96 months for working capital loans and up to 156 months for investment loans. Such Presidential Decree also requires lenders to provide an opportunity to borrowers to restructure their KGF-guaranteed loans prior to any recourse to the KGF guarantee.

### ***Recent Coronavirus-related Measures***

As a result of fluctuations in the financial markets due to the COVID-19 outbreak, Turkish authorities have taken several measures:

On 17 March 2020, the BRSA announced temporary changes in NPL classification for banks until 31 December 2020 which extended the delinquency period after which loans are required to be classified as non-performing from 90 days to 180 days.

On 22 March 2020, presidential decision number 2279 ordered the cessation of enforcement and bankruptcy proceedings across Turkey (excluding proceedings related to alimony receivables) until 30 April 2020.

On 23 March 2020, the BRSA issued a press release announcing three measures, which will remain in effect until 31 December 2020. First, banks may use the foreign exchange buying rates for a bank's financial statements for the year ended 31 December 2019 when calculating (i) amounts valued in accordance with Turkish Accounting Standards and (ii) the bank's relevant specific reserve amounts of monetary and non-monetary assets under the Regulation on Assessment and Evaluation of the Capital Adequacy of Banks. Second, when calculating their capital adequacy ratio, banks may disregard negative net valuation differences of securities held by the bank before 23 March 2020 that fall within the scope of the bank's "Fair Value Through Other Comprehensive Income" portfolio, but not such securities acquired after 23 March 2020. And third, banks may disregard the value loss reserves of the securities they held as of 23 March 2020 when calculating their foreign currency net general position under the Regulation on Calculation and Implementation of Foreign Currency Net General Position/Equity Capital Standard Ratio by Banks on a Consolidated and an Unconsolidated Basis but not for securities they acquired after 23 March 2020.

On 27 March 2020, the BRSB has resolved with its decisions numbered 8970 and 8971 that principal and interest payments of vehicle and consumer loans made available by banks, financial leasing, factoring and financing companies are postponed until 31 December 2020 and the delay will not be taken into account in determining maturity limits, which under normal circumstances range from 48 to 60 months. Further, the 30-day delay resulting in loans to fall from Group I to Group II under the 2016 Monitoring Regulation will, from 17 March 2020 until 31 December 2020, deemed to be 90 days. For loans that continue to be classified in the second category in spite of the 90-day default, banks will be required continue to set aside provisions in compliance with their own risk models used in the calculation of expected loan loss under TFRS 9.

On 12 April 2020, the BRSB has resolved with its decision numbered 8989 that the limits regarding Turkish banks' exposures under swap, spot, forward and other derivative transactions with foreign counterparties under which the Turkish bank will receive Turkish Lira at the maturity date (which was previously capped at 10%) is reduced to 1% of such bank's most recently calculated regulatory capital. In this regard, the BRSA has further clarified that the transactions with different terms will no longer be subject to a differential treatment based on the applicable maturity date for the purposes of the daily calculation of the 1% limit. Likewise, in the similar types of derivative trades where the Turkish bank will sell Turkish Lira to a foreign counterparty at the maturity date, the total notional principle amount of local banks' exposure may not exceed (i) 10% of the bank's regulatory capital for transactions with a maturity of 1 year or less; (ii) 2% of the bank's regulatory capital for transactions with a maturity of 30 days or less; and (iii) 1% of the bank's regulatory capital for transactions with a maturity of 7 days or less. Furthermore, a prior written approval of the BRSA will be necessary if, for any reason, these transactions are requested to (i) be terminated earlier than the agreed maturity or (ii) become subject to an extended maturity. On 13 April 2020, the CMB has announced that equivalent restrictions will also be applicable to the capital markets institutions.

On 5 May 2020, the BRSB has resolved with its decision numbered 9010 that total amount of banks' all Turkish lira placement, Turkish lira deposit, Turkish lira repo, and Turkish lira loan transactions with foreign counterparties, including foreign subsidiaries which are credit or financial institutions subject to consolidation with Turkish banks and foreign branches of Turkish banks, cannot exceed 0.5% of the banks' most recently calculated regulatory equity, as a way to ensure that Turkish Lira resources are used efficiently and meet the financing needs of the public and private sector.

On 7 May 2020, the Manipulation Regulation was published in the Official Gazette numbered 31120. The Manipulation Regulation aims to clarify, which activities fall within the ambit of the recently introduced manipulation offence, thereby aiming at curbing manipulative transactions that could worsen the current volatility of the Turkish Lira or, otherwise, harm the Turkish economy at large.

On 20 May 2020, the BRSB has resolved with its decision numbered 9031 that in order not to adversely affect the clearing of Turkish lira-denominated bond and lease certificate transactions, Euroclear Bank and Clearstream Banking be exempt from the BRSB decision dated 5 May 2020 and numbered 9010.

On 28 July 2020, the BRSB introduced an exemption to its previous decision dated 12 April 2020 and numbered 8989. Accordingly, the BRSA exempted international development banks from within the scope of its previously adopted restriction in respect of foreign banks' access to Turkish Lira in order to alleviate the financial conditions arising from the Covid-19 pandemic. Pursuant to the restriction, the total Turkish Lira placement, Turkish Lira reserve, Turkish Lira repo, and Turkish Lira credit transactions to be made with foreign financial institutions were limited to 0.5% of their equity capital.

On 6 August 2020, the BRSB has resolved with its decision numbered 9114 a parallel exemption regarding foreign banks. The exemption covers the following transactions:

- Currency Swaps where the foreign bank buys Turkish Lira and sells FX in the beginning, while sells Turkish Lira and buys FX at forward,
- Currency Swaps with BIST FX Swap Market where the foreign bank buys Turkish Lira and sells FX in the beginning, while sells Turkish Lira and buys FX at forward,
- Repo and Reverse Repo transactions with BIST Repo Market, and
- Turkish Lira deposits at domestic banks.

Foreign banks will be able to carry out the above transactions provided that (i) they give a written declaration and commitment to the domestic banks, in which they have opened accounts, that they will keep Turkish Lira liquidity provided from domestic market and to use this Turkish Lira liquidity to buy Turkish Lira securities and to deposit excess Turkish Lira liquidity to domestic banks, and (ii) their application to BRSA to benefit from the above exemption is accepted.

## SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

*The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).*

### **Declaration of Trust**

The Declaration of Trust will be entered into on the Issue Date between the Bank, the Trustee and the Delegate and will be governed by English law.

Pursuant to the Declaration of Trust, the Trustee will declare a trust for the benefit of the Certificateholders over the Trust Assets.

The Trust Assets will comprise: (i) the cash proceeds of the issuance of the Certificates pending application thereof in accordance with the terms of the Transaction Documents; (ii) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets; (iii) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and certain covenants given to the Trustee and the Delegate, given by the Bank pursuant to the Declaration of Trust); and (iv) all amounts standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

The Declaration of Trust shall provide that the rights of recourse in respect of Certificates shall be limited to the amounts from time to time available therefor from the Trust Assets, subject to the priority of payments set out in Condition 5 (*The Trust*). After enforcing or realising the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished.

Pursuant to the Declaration of Trust, the Trustee will, *inter alia*:

- (a) hold the Trust Assets on trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the provisions of the Declaration of Trust and the Conditions; and
- (b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust and the Conditions.

In the Declaration of Trust, the Trustee shall irrevocably and unconditionally appoint the Delegate to be its delegate and attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future powers (including the power to sub-delegate), rights, authorities (including but not limited to the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, exercise all of the rights of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the provisions of the Declaration of Trust and the Conditions. The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and, subject to certain provisions of the Declaration of Trust, shall not affect the Trustee's continuing role and obligations as trustee. Pursuant to the Declaration of Trust:

- (a) upon the occurrence of a Bank Event and the delivery of a Dissolution Notice by the Delegate to the Trustee, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 14.1 (*Bank Events*), the Delegate may at its discretion or shall, if so requested in writing by Certificateholders holding at least 25 per cent. of the then aggregate face amount of the Certificates outstanding, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction take one or more of the following steps: (i) institute any steps, actions or proceedings for the winding-up of the Bank; and/or (ii) prove in the winding-up of the Bank;

and/or (iii) institute any steps, actions or proceedings for the bankruptcy of the Bank; and/or (iv) claim in the liquidation of the Bank; and/or (v) take such other steps, actions or proceedings which, under the laws of Turkey, have an analogous effect to the actions referred to in (i) to (iv) above, in each case for (subject to the provisos contained in Condition 14.3(a) (*Proceedings for Winding-up*)) all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due (if any) to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents; and

- (b) without prejudice to Conditions 14.1 (*Bank Events*) and 14.3 (*Winding-up, Dissolution or Liquidation*) and the provisions of clause 16 of the Declaration of Trust, the Trustee (or the Delegate) may at its discretion and the Delegate shall, in each case subject to Condition 14.3(e)(i) (*Realisation of Trust Assets*) if so requested in writing by Certificateholders holding at least 25 per cent. of the then aggregate face amount of the Certificates outstanding and without further notice institute such steps, actions or proceedings against the Bank and/or the Trustee, as it may think fit to enforce any term or condition binding on the Bank or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of the Bank under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations) including, without limitation, any failure by the Bank to procure the substitution of the Trustee in the circumstances described in Condition 14.2 (*Trustee Events*), and in no event shall the Bank, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents.

A Transaction Account will be established in the name of the Trustee. Monies received in the Transaction Account will, *inter alia*, comprise payments of amounts payable under the Mudaraba Agreement immediately prior to each Periodic Distribution Date (see "*Mudaraba Agreement*" below). The Declaration of Trust shall provide that all monies credited to the Transaction Account from time to time will be applied in the order of priority set out in Condition 5 (*The Trust*).

To the extent permitted by law, each of the Trustee and Kuveyt Türk have agreed that it has accepted the *Shari'a* compliant nature of the Declaration of Trust and has agreed that (a) it shall not claim that any of its obligations under the Declaration of Trust (or any provision thereof) is *ultra vires* or not compliant with the principles of *Shari'a*; (b) it shall not take any steps or bring any proceedings in any forum to challenge the *Shari'a* compliance of the Declaration of Trust; and (c) to the extent permitted by law and/or consistent with any ruling of any competent court of tribunal, none of its obligations under the Declaration of Trust shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that the Declaration of Trust to which it is a party is not compliant with the principles of *Shari'a*.

### **Mudaraba Agreement**

The Mudaraba Agreement will be entered into on the Issue Date between the Bank (as the Mudareb) and KT AT One Company Limited (as Trustee and Rab-al-Maal) and will be governed by English law (except for clause 2.4 thereof, which shall be governed by the laws of Turkey).

The Mudaraba will commence on the date of payment of the Mudaraba Capital to the Mudareb, being the date of the Mudaraba Agreement, and will: end (i) on the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions following the liquidation of the Mudaraba in accordance with the terms of the Mudaraba Agreement (the "**Mudaraba End Date**"); or (ii) (if earlier), in the case of a Non-Viability Event Write-down in whole only, on the Non-Viability Event Write-down Date.

Pursuant to the Mudaraba Agreement, the proceeds of the issue of the Certificates will be contributed by the Rab-al-Maal to the Mudareb and shall form the Mudaraba Capital. The Mudaraba Capital shall be invested by the Bank (as Mudareb), on an unrestricted co-mingling basis, in its general business activities in accordance with the investment plan prepared by the Mudareb and scheduled to the Mudaraba Agreement (the "**Investment Plan**"). The Mudareb will acknowledge and agree in the Mudaraba Agreement that the Investment Plan was prepared by it with due skill, care and attention, and acknowledge that the Rab-al-Maal has entered into the Mudaraba in reliance on the Investment Plan.



The Mudareb is expressly authorised to co-mingle the Mudaraba Capital with its shareholders' equity and such amounts may be co-mingled in its general business activities, **provided that** prior to the calculation of any Mudaraba Profit or Final Mudaraba Profit the Mudareb shall exclude a proportion of any profit earned for its own account.

The Mudaraba Agreement provides that the profit (if any) generated by the Mudaraba will be distributed by the Mudareb on each Mudaraba Profit Distribution Date on the basis of a constructive liquidation of the Mudaraba by the Mudareb in accordance with the following profit sharing ratio:

- (a) the Rab-al-Maal 99 per cent.; and
- (b) the Mudareb 1 per cent.

If the Mudareb elects to make a payment of Mudaraba Profit, or Final Mudaraba Profit is otherwise payable pursuant to the Mudaraba Agreement, and if the Rab-al-Maal's share of the Mudaraba Profit (the "**Rab-al-Maal Mudaraba Profit**") or the Rab-al-Maal's share of the Final Mudaraba Profit (the "**Rab-al-Maal Final Mudaraba Profit**") (as applicable) payable to the Rab-al-Maal is: (i) greater than the then applicable Periodic Distribution Amount, the amount of any excess shall be credited to a reserve account (the "**Mudaraba Reserve**") and the Rab-al-Maal Mudaraba Profit or the Rab-al-Maal Final Mudaraba Profit (as applicable) payable to the Rab-al-Maal will be reduced accordingly or; (ii) is less than the then applicable Periodic Distribution Amount, the Mudareb shall first utilise any amount available in the Mudaraba Reserve (after re-crediting amounts to it in accordance with the terms of the Mudaraba Agreement if there is any such shortfall) and, if a shortfall still exists following such re-credit, it may (at its sole discretion) elect (but shall not be obliged) to make one or more payments from its own cash resources in order to cover such shortfall. Provided that, in either case, and at any time, the amount standing to the credit of the Mudaraba Reserve is not less than the aggregate Periodic Distribution Amounts which are, or would, but for the occurrence of a Non-Payment Event or a Non-Payment Election, be payable by the Trustee on the next two following Periodic Distribution Dates (the "**Minimum Reserve Amount**"), the Mudareb shall be entitled to deduct and retain for its own account as an incentive fee for its performance under the Mudaraba Agreement, any amounts over and above the Minimum Reserve Amount standing to the credit of the Mudaraba Reserve (at its sole discretion) at any time prior to the Mudaraba End Date.

If the Mudareb makes a Non-Payment Election or a Non-Payment Event occurs, then the Mudareb shall give notice to the Rab-al-Maal, the Principal Paying Agent and the Delegate and the Trustee in turn shall give notice to the Certificateholders, in each case providing details of such Non-Payment Election or Non-Payment Event (as the case may be) in accordance with the notice periods set out in the Mudaraba Agreement. The Rab-al-Maal shall have no claim in respect of any Rab-al-Maal Mudaraba Profit (or any part thereof, as applicable) or Rab-al-Maal Final Mudaraba Profit not paid as a result of either a Non-Payment Event or (in the case of any Rab-al-Maal Mudaraba Profit only) a Non-Payment Election and any such non-payment in whole or in part, as applicable, in such circumstance will not constitute a Dissolution Event. If the Mudareb makes a Non-Payment Election or a Non-Payment Event occurs, then from the date of such Non-Payment Election or Non-Payment Event (the "**Dividend Stopper Date**"), the Mudareb shall be prohibited from declaring or paying certain distributions or dividends, paying profit or other distributions on, or in respect of, any of its securities issued directly or indirectly by the Mudareb, or redeeming, purchasing, cancelling, reducing or otherwise acquiring any of its share capital or securities, in each case unless or until: (i) the next following payment of Rab-al-Maal Mudaraba Profit; or (ii) as the case may be, payment of Rab-al-Maal Final Mudaraba Profit following the Divided Stopper Date, is made in full to the Rab-al-Maal following such Non-Payment Election or Non-Payment Event (or an amount equal to that amount has been duly set aside or provided for in full for the benefit of the Rab-al-Maal).

Subject to certain conditions as set out in the Mudaraba Agreement, the Bank (as Mudareb) may (in its sole and absolute discretion) liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

- (a) on the First Call Date or any Periodic Distribution Date thereafter by giving not less than 30 nor more than 60 days' prior notice to the Rab-al-Maal; or
- (b) on any date, on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 30 nor more than 60 days' prior notice to the Rab-al-Maal:
  - (i) if a Tax Event occurs; or

- (ii) if a Capital Event occurs and is continuing.

If the Mudareb were to exercise its option to liquidate in accordance with paragraph (a) or (b)(i) above and the amount of capital to be returned to the Trustee upon liquidation of the Mudaraba (the "**Dissolution Mudaraba Capital**") which would be generated upon such liquidation is less than the Mudaraba Capital, the Mudareb shall either continue investing the Dissolution Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall, if it were to proceed with such final constructive liquidation, indemnify the Rab-al-Maal in respect of such shortfall and shall pay an amount equal to the aggregate of the Dissolution Mudaraba Capital and such shortfall to the Rab-al-Maal in which case there shall be a final constructive liquidation of the Mudaraba.

If the Mudareb were to exercise its option to liquidate in accordance with paragraph (b)(ii) above and the Dissolution Mudaraba Capital which would be generated upon such liquidation is less than the aggregate of the Mudaraba Capital and the Capital Event Profit Amount, the Mudareb shall either continue investing the Dissolution Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall, if it were to proceed with such final constructive liquidation, indemnify Rab-al-Maal in respect of such shortfall and shall pay an amount equal to the aggregate of the Dissolution Mudaraba Capital, the Capital Event Profit Amount and such shortfall to the Rab-al-Maal in which case there shall be a final constructive liquidation of the Mudaraba.

Under the terms of the Mudaraba Agreement, the Mudaraba will mandatorily be liquidated in whole but not in part if a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 14.1 (*Bank Events*). The Mudareb acknowledges under the Mudaraba Agreement that the Rab-al-Maal shall in such case be entitled to claim for all amounts due (if any) in accordance with the terms of the Mudaraba Agreement in such winding-up, bankruptcy, dissolution or liquidation (or analogous event) subject to certain conditions being satisfied.

The Mudaraba Agreement also provides that if a Non-Viability Event occurs at any time, a Non-Viability Event Write-down (in whole or in part, as applicable) will take place on the Non-Viability Event Write-down Date. In such circumstances, in the case of a Non-Viability Event Write-down in whole only, the Mudaraba Agreement will be automatically terminated (and the Rab-al-Maal shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets), and in the case of a Non-Viability Event Write-down in part only, the Mudaraba Capital shall be reduced in proportion to the face amount of each Certificate that is to be written-down and the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital shall automatically be deemed to be irrevocably and unconditionally written-down in the same manner and in the same proportion as the Certificates.

Additionally, the Mudaraba Agreement provides that if a Trigger Event occurs at any time, a Trigger Event Write-down will take place at the Trigger Event Write-down Amount on the Trigger Event Write-down Date. In such circumstances, other than in the case of a Reinstatement (and then only to the extent of any Reinstatement, at the sole and absolute discretion of the Mudareb) the Mudaraba Capital shall be reduced in proportion to the face amount of each Certificate that is to be written-down and the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) and a corresponding portion of the Mudaraba Capital shall automatically be deemed to be irrevocably and unconditionally written-down in the same manner and in the same proportion as the Certificates and the Rab-al-Maal shall not be entitled to claim for any amounts in connection with the Mudaraba Assets that relate to the proportion of the Mudaraba Capital that has been reduced.

If positive Distributable Net Period Income (as defined in the Conditions) of the Bank is recorded at any time while the outstanding face amount of a Certificate is less than the Original Face Amount of such Certificate, the Bank may, at its sole and absolute discretion: (i) instruct the Trustee to reinstate and write-up the outstanding face amount of each Certificate in whole or in part; and (ii) reinstate and write-up the Mudaraba Capital, in each case in accordance with this Condition 12.3 (*Reinstatement*) (a "**Reinstatement**").

Upon the provision of such Reinstatement Notice, a Reinstatement will occur at the Reinstatement Amount (subject to the Maximum Reinstatement Amount) on the Reinstatement Date and, with effect from such date and subject to the prior consent of the Regulator (to the extent such consent is required by the Applicable Regulatory Capital Requirements): (i) the Bank shall instruct the Trustee to cause the outstanding face amount of each Certificate to be reinstated and written-up on a *pro rata* basis with each

Certificate and with each Loss Absorbing Instrument which is, or represents, a *Pari Passu* Obligation; and (ii) the Mudaraba Capital shall be written-up in proportion to the face amount of each Certificate that is to be reinstated and written-up, in each case, by an amount equal to the relevant Reinstatement Amount. With effect from the Reinstatement Date, Periodic Distribution Amounts shall accrue in respect of the reinstated outstanding face amount of each Certificate and, with effect from such date, references in the Conditions to "face amount" or "outstanding face amount" shall be construed accordingly.

A Reinstatement may occur on more than one occasion provided that the outstanding face amount of a Certificate may never exceed its Original Face Amount.

No Reinstatement may take place if: (i) a Trigger Event has occurred in respect of which the Trigger Event Write-down has not yet occurred; (ii) a Trigger Event has occurred in respect of which the Trigger Event Write-down has occurred but the CET 1 Capital Ratio of the Bank has not been restored to at least, or above, 5.125 per cent.; (iii) the Reinstatement (either alone or together with all simultaneous reinstatements of other Loss Absorbing Instruments that are, or that represent, *Pari Passu* Obligations) would cause a Trigger Event to occur; (iv) a Non-Viability Event has occurred at any time subsequent to a Trigger Event; or (v) a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 14.1 (*Bank Events*).

The Bank (as Mudareb) and the Rab-al-Maal undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by the Bank to be varied upon the occurrence of a Tax Event or the occurrence and continuation of a Capital Event pursuant to the Conditions, to seek to make such variations to the Mudaraba Agreement as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments.

The Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Rab-al-Maal except to the extent such losses are caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful default or fraud.

The Mudareb shall exercise its rights, powers and discretions under the Mudaraba Agreement and shall take such action as it deems appropriate, in each case, in accordance with material applicable laws, with the degree of skill and care that it would exercise in respect of its own assets and in a manner that is not repugnant to *Shari'a*.

Other than its share of profit from the Mudaraba and any incentive fee payable in accordance with the Mudaraba Agreement, the Mudareb shall not be entitled to receive any remuneration from the Mudaraba.

The Mudareb will agree in the Mudaraba Agreement that all payments by it under the Mudaraba Agreement will be made free and clear of, and without any withholding or deduction for, or on account of, taxes, unless such withholding or deduction is required by law and provide for the payment of Additional Amounts so that the net amounts received by the Certificateholders shall equal the respective amounts that would have been received in the absence of such withholding or deduction. Any taxes incurred in connection with the operation of the Mudaraba (including in connection with any transfer, sale or disposal of any Mudaraba Asset during the corresponding Mudaraba Profit Distribution Period (as defined in the Mudaraba Agreement)), but excluding the Mudareb's obligations (if any) to pay any taxes and/or Additional Amount, will be borne by the Mudaraba itself.

To the extent permitted by law, each of the Trustee and Kuvveyt Türk have agreed that it has accepted the *Shari'a* compliant nature of the Mudaraba Agreement and has agreed that (a) it shall not claim that any of its obligations under the Mudaraba Agreement (or any provision thereof) is *ultra vires* or not compliant with the principles of *Shari'a*; (b) it shall not take any steps or bring any proceedings in any forum to challenge the *Shari'a* compliance of the Mudaraba Agreement; and (c) to the extent permitted by law and/or consistent with any ruling of any competent court of tribunal, none of its obligations under the Mudaraba Agreement shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that the Mudaraba Agreement to which it is a party is not compliant with the principles of *Shari'a*.

#### **Agency Agreement**

The Agency Agreement will be entered into on the Issue Date between the Trustee, the Bank, the Delegate, the Principal Paying Agent, the Calculation Agent, the Registrar and the Transfer Agent.

Pursuant to the Agency Agreement, the Registrar has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to authenticate (or procure the authentication of) and deliver the Global Certificate and, if any, each Definitive Certificate; the Principal Paying Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to pay all sums due under such Global Certificate; the Calculation Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to calculate the Profit Rate in respect of each Reset Period commencing on the relevant Reset Date, subject to and in accordance with the Conditions; and the Transfer Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to effect requests to transfer all or part of the Definitive Certificate and issue Definitive Certificates in accordance with each request.

On the Issue Date, the Registrar will: (i) authenticate (or procure the authentication of) the Global Certificate in accordance with the terms of the Declaration of Trust; and (ii) deliver the Global Certificate to the Common Depositary.

The Bank shall cause to be deposited into the Transaction Account opened by the Trustee with the Principal Paying Agent, in same day freely transferable, cleared funds, any payment which may be due under the Certificates in accordance with the Conditions.

The Principal Paying Agent agrees that it shall, on each Periodic Distribution Date and on the date fixed for payment of the Dissolution Distribution Amount, or any earlier date specified for the liquidation of the Mudaraba, apply the monies standing to the credit of the Transaction Account in accordance with the order of priority set out in Condition 5 (*The Trust*).

To the extent permitted by law, each of the Trustee and Kuvveyt Türk have agreed that it has accepted the *Shari'a* compliant nature of the Agency Agreement and has agreed that (a) it shall not claim that any of its obligations under the Agency Agreement (or any provision thereof) is *ultra vires* or not compliant with the principles of *Shari'a*; (b) it shall not take any steps or bring any proceedings in any forum to challenge the *Shari'a* compliance of the Agency Agreement; and (c) to the extent permitted by law, none of its obligations under the Agency Agreement shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that the Agency Agreement to which it is a party is not compliant with the principles of *Shari'a*.

## TAXATION

*The following is a general description of certain Turkey, Cayman Islands, European Union and United States 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 jurisdictions 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 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 these Listing Particulars and is subject to any change in law that may take effect after such date.*

### **Turkey**

*The following summary of the anticipated tax treatment in Turkey in relation to the payments on the Certificates is based on the taxation law and practice in force at the date of these Listing Particulars, and does not constitute legal or tax advice and prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Certificates and the receipt of any payments in respect of any Periodic Distribution Amounts, the Dissolution Distribution Amount or any other amounts payable in respect of such Certificates under the laws of the jurisdictions in which they may be liable to taxation.*

### **Overview**

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile is in Turkey or its effective place of management is in Turkey. A resident legal entity is subject to Turkish taxes on its worldwide income (unlimited tax liability), whereas a non-resident legal entity is only liable to Turkish taxes for trading income made through a permanent establishment or a permanent representative, or only for income otherwise sourced in Turkey (limited tax liability).

A natural person is a resident of Turkey if it has established domicile in Turkey, or stays in Turkey more than six months in a calendar year. A resident individual is liable for Turkish taxes on world-wide income, while a non-resident individual is only liable for Turkish taxes on trading income made through a permanent establishment or permanent representative, or only for income otherwise sourced in Turkey.

### **Taxation of Interest and Capital Gains**

Turkish resident Certificateholders should treat Periodic Distribution Amounts paid in accordance with the terms and conditions of the Certificates as ordinary interest income and any gain realised on the disposal or redemption of Certificates as a capital gain to be declared for Turkish tax purposes and accordingly subject to income/corporate tax in Turkey.

Periodic Distribution Amounts received and capital gains realised in respect of the Certificates held by non-Turkish resident Certificateholders are not subject to any Turkish income/corporate tax provided that: (i) the Certificates are not held through a permanent establishment or a permanent representative in Turkey; (ii) the Certificates are not acquired through Turkish on-shore bank accounts or the proceeds from the sale of the Certificates are not received through Turkish on-shore bank accounts; and (iii) the purchase and sale of the Certificates are not carried out in Turkey (i.e. no Turkish intermediaries are involved in the transaction).

### **Withholding Tax**

Payments of Periodic Distributions Amounts or the Dissolution Distribution Amount under the terms and conditions of the Certificates made by the Trustee to the Certificateholders are not subject to withholding taxes under Turkish law as the Trustee is not a resident in Turkey.

According to the former Article 30.1 (ç) of the Corporation Tax Law a withholding tax, at a rate of 15 per cent., was to be calculated based on all interest payments and fees on loans obtained by borrowers resident in Turkey from non-resident corporations, except that the Council of Ministers' Decree No. 2009/14593 issued pursuant to Article 30 of the Corporation Tax Law reduces the Turkish withholding tax rate applicable on payments of interest on loans to one per cent. if such loans are: (i) obtained by banks and

qualify as Tier 2 capital; or (ii) obtained by banks or other corporations through securitisations that take place outside Turkey and are structured on a cash flow or an asset portfolio.

It has, however, been recognised in the private tax ruling obtained by Kuveyt Türk from the Large Taxpayers Office on 31 May 2019 that, for the purposes of the Corporation Tax Law and the Decree, no Turkish withholding tax would be applicable on deemed interest payments made under such “loans” (within the meaning of the Corporation Tax Law and the Decree), and Kuveyt Türk is therefore of the view that no Turkish withholding tax should be payable on certain of its payments under the Transaction Documents, provided that the relevant tax ruling is not revoked or otherwise changed (see "*Risk Factors*" - "*The Certificates may be subject to early redemption; redemption is conditional*").

If payments by Kuveyt Türk to the Trustee in respect of its obligations under the Transaction Documents are subject to any withholding tax, Kuveyt Türk will, in certain circumstances specified in the Transaction Documents, become obliged to pay such additional amounts as may be necessary so that the net payments received by the Trustee will not be less than the amount the Trustee would have received in the absence of such withholding.

### ***Stamp tax***

Article 30.5.3 of the General Communiqué' (Serial No. 1) on Corporate Tax issued by the Ministry of Finance on 3 April 2007 provides that special purpose vehicles incorporated by Turkish banks for the purpose of securitisations qualify as financial institutions. Article 23 of Part IV of Table 2 of the Stamp Tax Law (Law No. 488) (the "**Stamp Tax Law**") further provides that documents executed with banks, foreign credit institutions or international financial institutions in relation to the granting and/or repayment of and/or security for loans shall be exempt from stamp tax. In accordance with the foregoing, none of the Transaction Documents should be subject to stamp tax, if:

- (a) the transactions contemplated by the Transaction Documents qualify from the perspective of the tax authorities, in their entirety, as a loan transaction entered into with a bank, foreign credit institution or international financial institution; and
- (b) subject to (a) above, the Transaction Documents are deemed to be documents executed with a bank, foreign credit institution or international financial institution in relation to the granting and/or repayment and/or security for such loan transaction.

To the extent any of the Transaction Documents are subject to stamp tax, stamp tax will be levied as a percentage of what is considered to be the monetary value of each relevant Transaction Document at a rate of 0.948 per cent. of such monetary value. Pursuant to the Stamp Tax Law General Communiqué' (Serial No. 58), TL 2.135.949,30 is the highest amount payable for the 2018 year as stamp duty on each taxable document.

Parties to a taxable document are jointly liable for the payment of stamp tax and each and every signed copy of the taxable document is separately subject to stamp tax. Under the Transaction Documents, Kuveyt Türk will undertake to pay any stamp tax payable in respect of the Transaction Documents and to indemnify the relevant parties against any liabilities with respect to such stamp tax.

Stamp tax is not required to be paid under the laws of Turkey for the purpose any enforcement proceedings in respect of the Certificates or the Transaction Documents brought in the courts of Turkey. Certificateholders (who are not resident or incorporated or having a permanent establishment in Turkey) will not incur, or become liable for, stamp duty, registration, transfer or other similar taxes under the laws of Turkey by reason only of the acquisition, ownership or disposal of the Certificates.

### ***Other Taxes***

According to current Turkish tax laws and regulations, the sale, transfer or other disposition of Certificates is not subject to Turkish transfer taxes or value added tax provided that these transactions are performed outside Turkey.

### ***Cayman Islands***

*The following is a discussion on certain Cayman Islands income tax consequences of an investment in Certificates. The discussion is a general summary of present law, which is subject to prospective and*

*retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances and does not consider tax consequences other than those arising under Cayman Islands law.*

Under existing Cayman Islands laws, payments on Certificates will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of Certificates nor will gains derived from the disposal of Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

Subject as set out below, no capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Certificates. An instrument transferring title to any Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately U.S.\$854. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

### **The Proposed Financial Transactions Tax ("FTT")**

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The proposed FTT has very broad scope and could, if introduced, apply to certain dealings in the Certificates (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (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.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Certificates are advised to seek their own professional advice in relation to the FTT.

### **Foreign Account Tax Compliance Act Withholding**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "**FATCA**", a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Trustee may be a foreign financial institution for these purposes. A number of jurisdictions (including the Cayman Islands and Turkey) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Certificates, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. Certificateholders should consult their own tax advisers regarding how these rules may apply to their investment in the Certificates. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Certificates, no person will be required to pay additional amounts as a result of the withholding.

## SUBSCRIPTION AND SALE

The Sole Lead Manager has, in a placement agency agreement (the "**Placement Agency Agreement**") dated 25 September 2020, agreed with the Trustee and the Bank that the Sole Lead Manager shall use its reasonable endeavours to procure persons willing to purchase the Certificates at the Issue Price and otherwise on the terms and conditions of the Placement Agency Agreement.

In accordance with the terms of the Placement Agency Agreement, each of the Trustee and the Bank has agreed to reimburse the Sole Lead Manager for certain of its expenses in connection with the Certificates and to indemnify the Sole Lead Manager against certain liabilities incurred by it in connection therewith.

The Trustee and the Bank will pay the Sole Lead Manager a management and underwriting commission as agreed between them in respect of the Certificates. To the extent permitted by law, the Trustee, the Bank and the Sole Lead Manager may agree that commissions or fees may be paid to certain brokers, financial advisers and other intermediaries based upon the amount of investment in the Certificates by such intermediary and/or its customers. Any disclosure and other obligations in relation to the payment of such commission to such intermediary are solely the responsibility of the relevant intermediary and none of the Trustee, the Bank, the Sole Lead Manager or any of their affiliates, nor any person who controls or is a director, officer, employee or agent of any such person accepts any liability or responsibility whatsoever for compliance with such obligations. Each customer of any such intermediary is responsible for determining for itself whether an investment in the Certificates is consistent with its investment objectives.

In connection with the offering of the Certificates, any shareholder or related party of the Bank or the Sole Lead Manager may invest in and may take up Certificates in the offering and may retain, purchase or sell for its own account such Certificates. Accordingly, references herein to the Certificates being offered should be read as including any offering of the Certificates to any shareholder or related party of the Bank or the Sole Lead Manager. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

### **General**

The Sole Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it offers or sells any Certificates or possesses or distributes these Listing Particulars and neither the Trustee, the Bank nor the Sole Lead Manager shall have any responsibility therefor.

None of the Trustee, the Bank or the Sole Lead Manager represents that Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

### **United States**

The Certificates have not been and will not be registered under the Securities Act, as amended, 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. The Sole Lead Manager has agreed that, except as permitted by the Placement Agency Agreement, it will not offer, sell or deliver the Certificates: (i) as part of their distribution at any time; or (ii) within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer (whether or not participating in the offering) to which it sells Certificates a confirmation or other notice setting out 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. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Certificates are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

The Sole Lead Manager has represented and agreed that it has not entered into and will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of the Certificates, except with its affiliates or the prior written consent of the Trustee and the Bank.



### **Prohibition of Sales to EEA and UK Retail Investors**

The Sole Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Certificates to any retail investor in the European Economic Area or the United Kingdom. For the purposes of this provision:

- (a) the expression "**retail investor**" means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
  - (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; and
- (b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe the Certificates.

### **United Kingdom**

The Sole Lead Manager has represented and agreed that:

- (i) 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 Trustee or the Bank; and
- (ii) 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.

### **Cayman Islands**

The Sole Lead Manager has represented and agreed that no invitation or offer, whether directly or indirectly, to subscribe for the Certificates has been or will be made to the public in the Cayman Islands.

### **United Arab Emirates (excluding the Dubai International Financial Centre)**

The Sole Lead 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**

The Sole Lead 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:

- (i) an "**Exempt Offer**" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the "**DFSA**") rulebook; and
- (ii) made only to persons who meet the "**Professional Client**" criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook.

### **Kingdom of Bahrain**

The Sole Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Certificates except on a private placement basis to persons in Bahrain who are "accredited investors".

For this purpose, an "**accredited investor**" means:

- (i) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more excluding that person's principal place of residence;

- (ii) 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
- (iii) 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).

### **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 9 or Article 10 of the "Rules on the Offer of Securities and Continuing Obligations" as issued by the Board of the Capital Market Authority (the "**Saudi CMA**") resolution number 3-123-2017 dated 27 December 2017, as amended by Saudi CMA resolution number 1-104-2019 dated 30 September 2019 (the "**KSA Regulations**"), made through an authorised person licensed to carry out arranging activities by the Saudi CMA and following a notification to the Saudi CMA under Article 11 of the KSA Regulations.

The Certificates may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "Sophisticated Investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 of the KSA Regulations. The Sole Lead Manager has represented and agreed that any offer of Certificates made by it to a Saudi Investor will be made in compliance with Article 9 or Article 10 of the KSA Regulations.

Each offer of Certificates shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 15 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 9 or Article 10 of the KSA Regulations may not offer or sell Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi CMA and: (a) the Certificates are offered or sold to a Sophisticated Investor (as defined in Article 9 of the KSA Regulations); (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 15 of the KSA Regulations.

### **State of Qatar**

The Sole Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Certificates in Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of Qatar; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

### **Qatar Financial Centre**

The Sole Lead Manager has represented and agreed that these Listing Particulars: (i) have 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; (ii) are intended for the original recipient only and must not be provided to any other person; and (iii) are not for general circulation in the Qatar Financial Centre and may not be reproduced or used for any other purpose.

### **State of Kuwait**

The Sole Lead Manager has represented and agreed that no Certificates will be offered in Kuwait unless all necessary approvals from the CMA pursuant to Law No. 7 of 2010 and its executive bylaws, each as amended, together with the various resolutions, regulations, guidance principles and instructions issued pursuant thereto, or in connection therewith (regardless of nomenclature) or any other applicable law or regulation in Kuwait, have been given in respect of the offering, marketing, and sale of the Certificates. For the avoidance of doubt, no Certificates shall be offered, marketed and/or sold in Kuwait except on a private

placement basis to Professional Clients (as defined in Module 1 of the executive by laws of Law No. 7 of 2010 (each as amended)).

## **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, the Sole Lead Manager has represented and agreed that it has not, directly or indirectly offered or sold and will not offer or sell any Certificates, directly or indirectly, 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 of 1949 (Act No. 228 of 1949, as amended)), or to others for re-offering 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.

## **Hong Kong**

The Sole Lead Manager has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than: (a) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (b) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**Securities and Futures Ordinance**") and any rules made under that Ordinance; or (c) 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
- (ii) 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.

## **Malaysia**

The Sole Lead Manager has represented and agreed that:

- (i) these Listing Particulars have not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the "**CMSA**"); and
- (ii) accordingly, the Certificates have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Sole Lead Manager is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

## **Singapore**

The Sole Lead Manager has acknowledged that these Listing Particulars have not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Sole Lead Manager has

represented, warranted and agreed, that it has not offered or sold any Certificates or caused the Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell any Certificates or cause the Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, these Listing Particulars or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Certificates, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(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 securities pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

## **Turkey**

The Certificates (or beneficial interests therein) shall not be sold in Turkey in any circumstances which would constitute a sale or a public offering within the meaning of the Capital Markets Law without the approval of the Capital Markets Board of Turkey ("CMB"). No transaction that may be deemed as a sale of the Certificates (or beneficial interests therein) in Turkey by way of private placement or a public offering may be engaged in without the approval of the CMB. Additionally, no prospectus and other offering material related to the offering may be utilised in connection with any general offering to the public within Turkey for the purpose of the offer or sale of the Certificates without the prior approval of the CMB. However, pursuant to Article 15(d) (ii) of the Decree No. 32 on the Protection of the Value of the Turkish Currency published in the Official Gazette dated 11 August 1989 and numbered 20249 (as amended from time to time) ("**Decree No. 32**"), there is no restriction on the purchase or sale of the Certificates (or beneficial interests therein) in secondary markets by residents of Turkey; provided that they purchase or sell such Certificates (or beneficial interests) in the financial markets outside of Turkey and such sale and purchase is made through licensed banks and/or licensed brokerage institutions authorised pursuant to the CMB regulations and the consideration of the purchase of such Certificates has been or will be transferred through banks operating in Turkey.

## GENERAL INFORMATION

### Authorisation

The issue of the Certificates has been duly authorised by resolutions of the Board of Directors of the Trustee dated 10 September 2020 and 21 September 2020. The Trustee 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 Kuveyt Türk on 22 July 2020.

### Listing

Application has been made to Euronext Dublin for the approval of this document as Listing Particulars and for the Certificates to be admitted to the Official List and to trading on the Global Exchange Market. The Global Exchange Market is not a regulated market for the purposes of MiFID II. It is expected that the listing of the Certificates on the Official List and admission of the Certificates to trading on the Global Exchange Market will be granted on or around 28 September 2020. The total expenses related to the admission to trading are estimated at €17,540.

Walkers Listing Services Limited is acting solely in its capacity as listing agent for the Trustee in relation to the Certificates and is not itself seeking admission of the Certificates to the Official List or to trading on the Global Exchange Market.

### Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records) under ISIN XS2227803819 and common code 222780381. The Financial Instrument Short Name (FISN) and the Classification of Financial Instruments (CFI) Code in respect of the Certificates are as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the National Numbering Agency that assigned the ISIN, in each case, as may be updated.

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, LI 855 Luxembourg.

### Significant or Material Change

There has been no significant change in the financial position or trading position of the Bank or the Group since 30 June 2020 and there has been no material adverse change in the prospects of the Bank or the Group since 31 December 2019.

There has been no significant change in the financial position or trading position of the Trustee and no material adverse change in the prospects of the Trustee, in each case since the date of its incorporation.

### Litigation and Arbitration Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Trustee or Kuveyt Türk is aware) which may have, or have had during the 12 months prior to the date of these Listing Particulars, a significant effect on the financial position or profitability of the Trustee, Kuveyt Türk, or the Group.

### Auditors

E&Y were appointed auditors of the Bank on 29 March 2019. The BRSA Accounts as of 31 December 2019 were audited, without qualification, by E&Y. E&Y is a member of the Independent Auditors' Association of Turkey and an institution authorised by the BRSA to conduct independent audits of banks in Turkey. E&Y have no material interest in Kuveyt Türk.

The BRSA Accounts as of 31 December 2018 were audited, without qualification, by Deloitte. Deloitte is a member of the Independent Auditors' Association of Turkey and an institution authorised by the BRSA to conduct independent audits of banks in Turkey.

Since the date of its incorporation, no financial statements of the Trustee have been prepared. The Trustee is a special purpose vehicle and is not required under the law of the Cayman Islands, and has no intention to prepare its own financial statements.

#### ***Documents Available***

For as long as any Certificates remain outstanding, copies of the following documents will be available in electronic and physical format and in English to be inspected and/or collected during normal business hours on any weekday at the specified office for the time being of the Principal Paying Agent and, in the case of the documents listed in paragraphs (a) to (d) below, at <https://www.kuveytturk.com.tr/en/investor-relations/capital-market-issuances/international-issuances>:

- (a) the Memorandum and Articles of Association of the Trustee and the constitutional documents (with an English translation thereof) of the Bank (as the same may be updated from time to time);
- (b) the BRSA Accounts and the Interim BRSA Accounts;
- (c) a copy of these Listing Particulars together with any supplement to these Listing Particulars; and
- (d) the Declaration of Trust; and
- (e) the Agency Agreement and the Mudaraba Agreement.

For the avoidance of doubt, unless specifically incorporated by reference into these Listing Particulars, information contained on the website does not form part of these Listing Particulars.

#### ***Shari'a Advisory Boards***

The transaction structure relating to the Certificates (as described in these Listing Particulars) has been approved by the Bank's Sharia board and the KFH Capital Sharia 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 is in compliance with their individual standards of compliance with *Shari'a* principles.

#### ***Sole Lead Manager Transacting with Kuveyt Türk***

The Sole Lead Manager and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, Kuveyt Türk and its affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Sole Lead Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of Kuveyt Türk or Kuveyt Türk's affiliates (including the Certificates). The Sole Lead Manager or its affiliates that have a lending relationship with Kuveyt Türk routinely hedge their credit exposure to Kuveyt Türk consistent with their customary risk management policies.

Typically, the Sole Lead Manager and its affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Certificates. Any such short positions could adversely affect future trading prices of the Certificates. The Sole Lead Manager and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

#### ***Legal Entity Identifier (LEI)***

The Legal Entity Identifier ("**LEI**") of the Trustee is 5493004EX0X4TVGE3E11. The LEI of the Bank is 549300TB3JMG64GK6X59.

**THE TRUSTEE**

**KT AT One Company Limited**

c/o MaplesFS Limited  
P.O. Box 1093  
Queensgate House  
Grand Cayman KY1-1102  
Cayman Islands

**THE BANK**

**Kuveyt Türk Katılım Bankası A.Ş.**

Büyüdere Cad. No 129/1, 34394  
Esentepe Şişli  
Istanbul  
Turkey

**THE DELEGATE**

**HSBC Corporate Trustee Company (UK) Limited**

8 Canada Square  
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United Kingdom

**REGISTRAR AND TRANSFER AGENT**

**HSBC Bank plc**  
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London E14 5HQ  
United Kingdom

**PRINCIPAL PAYING AGENT AND  
CALCULATION AGENT**

**HSBC Bank plc**  
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United Kingdom

**LEGAL ADVISERS**

*To the Bank  
as to English law*

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*To the Bank  
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**Mutlu Avukatlık Ortaklığı**

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*To the Trustee  
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*To the Sole Lead Manager  
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**CIFTCI Law Firm**

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*To the Delegate  
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**IRISH LISTING AGENT**  
**Walkers Listing Services Limited**  
5<sup>th</sup> Floor, The Exchange  
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Dublin 1, D01 W3P9  
Ireland

**AUDITORS**  
*To the Bank*

*Prior to 1 January 2019*  
**DRT Bağımsız Denetim ve Serbest Muhasebeci  
Mali Müşavirlik A.Ş.**  
**Member of Deloitte Touche Tohmatsu Limited**  
Deloitte Values House  
Maslak No:1 34398  
Istanbul  
Turkey

*From 29 March 2019*  
**Güney Bağımsız Denetim ve Serbest  
Muhasebeci Mali Müşavirlik A.Ş., a member  
firm of Ernst & Young Global Limited**  
Maslak Mah  
Eski Büyükdere Cad.  
Orjin Maslak İş Merkezi No: 27  
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Istanbul  
Turkey

**SOLE LEAD MANAGER**

**KFH Capital Investment Company KSCC**  
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Kuwait City  
P.O. Box: 3946, Safat 13040  
Kuwait